Methodology Appendix: How Would Potential Federal Budget Cuts Impact State Budgets?

1. Data Sources

a. Medicaid: Proportional reduction in Medicaid funding

The Federal Medical Assistance Percentage (FMAP) determines the federal matching rate for state Medicaid expenditures. Regular FMAP rates are calculated using each state's per capita income relative to the national average, ensuring that states with lower average incomes receive higher federal reimbursement. By law, FMAP rates range from 50 to 83 percent. For fiscal year 2026, the highest FMAP rate was 76.9 percent in Mississippi. For fiscal year 2026, there are 10 states with an FMAP of 50 percent: California, Colorado, Connecticut, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Washington, and Wyoming.[1] Under the ACA, states that decided to expand Medicaid have higher FMAPs (90 percent since 2020) for the Medicaid costs of expansion enrollees.

In this analysis, we focus on the illustrative impact of an $88 billion cut in Medicaid in 2026. We allocate the impact across states using data from the Kaiser Family Foundation.[2]

b. SNAP: Proportional reduction in SNAP funding

We illustrate the impact of a $23 billion cut in Supplemental Nutrition Assistance Program (SNAP) federal funding across states in calendar year 2026. This assumes a yearly cut of equal proportion over the 10-year window, but a cut in federal funding may be structured differently.

SNAP benefits are administered at the state level, with the maximum benefit per meal being consistent across the 48 contiguous states and the District of Columbia. To estimate the distribution of the $23 billion in annual reduction, we use SNAP expenditure data by state for federal fiscal year 2024—the latest year available—and estimate the budget cut based on the share of total federal SNAP spending in 2024. For example, since California received about 13.2 percent of total federal SNAP funding in fiscal year 2024, it would face an estimated cut of about $3 billion in 2026 (13.2 percent of $23 billion).

c. State GDP levels

We obtained nominal Gross Domestic Product (GDP) data for each state for calendar year 2024 from the U.S. Bureau of Economic Analysis (BEA). To project GDP levels for 2026, we applied the CBO's forecasted nominal GDP growth rate for the United States.

According to the CBO's projections, U.S. nominal GDP is expected to grow at an average annual rate of approximately 3.9 percent over the 2025–2034 period. Assuming this growth rate applies uniformly across states, we estimated each state's 2026 GDP by compounding their 2024 GDP figures over two years at this rate.

d. State Expenditures

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[1] See: https://www.congress.gov/crs-product/R43847

[2] See: https://www.kff.org/medicaid/issue-brief/putting-880-billion-in-potential-federal-medicaid-cuts-in-context-of-state-budgets-and-coverage/).

We use 2023 data (the latest available) on total state expenditures from the U.S. Census Bureau's *Annual Survey of State Government Finances*.

Given that state spending can fluctuate significantly from year to year, we adjust 2023 total expenditures using the CBO's projected growth in core inflation between 2023 and 2026. According to CBO estimates, cumulative core inflation over that period is projected to be approximately 7.4 percent. Accordingly, we calculate that $1,000 in 2023 expenditures would be equivalent to $1,074 in 2026.

e. State Tax Revenues

We obtain 2024 total tax revenue data (the latest available) from the U.S. Census Bureau's Quarterly Summary of State and Local Tax Revenue, summing the tax collections across all four quarters for calendar year 2024. Similar to expenditures, tax revenues can fluctuate annually due to changes in economic conditions and policy changes.

To estimate 2026 tax revenues, we adjust the 2024 total tax revenue amounts using the CBO's projected growth in core inflation. According to CBO projections, core inflation between 2024 and 2026 is expected to total approximately 4.4 percent. Based on this, we calculate that $1,000 in 2024 tax revenue would be equivalent to $1,044 in 2026.

We also use state-level data on general sales taxes and personal income taxes for calendar year 2024, applying the same inflation adjustment to estimate corresponding figures for 2026.

f. State Sales Tax Rates

We use 2025 general sales tax rates data from Avalara. When a state imposes a mandatory minimum local tax rate, we include it in the base sales tax rate. For example, although California's statewide sales tax rate is 6 percent, it requires all jurisdictions to levy an additional local rate of at least 1.25 percent. As a result, the minimum combined rate effectively imposed by the state is 7.25 percent.

g. State Income Tax Rates

Our objective is to identify, for each state, the personal income tax rate that best reflects the marginal tax rate faced by the majority of taxpayers. In states with a flat rate system, or mostly flat (see below for the definition), we use the highest marginal income tax rate as our baseline. In states with a progressive income tax system, we estimate a representative effective marginal tax rate as described below (see table 1).

We use the 2025 tax rates published by the Federation of Tax Administrators. As of 2025, the following states have adopted a flat personal income tax rate: Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Mississippi, North Carolina, Pennsylvania, and Utah.

In states where the top marginal income tax rate applies to incomes well below the state's median — defined here as less than 30 percent of the state median income, based on BEA's data— we use the top rate for illustrative purposes. For example, Alabama has a progressive income tax structure with marginal rates ranging from 2 and 5 percent, but the top rate applies to incomes over just $3,000 for individuals and $6,000 for families. In such cases, the top rate effectively functions as the marginal rate for most taxpayers. Based on this criterion, we use the top marginal income tax rate in Alabama, Arkansas, Missouri, Oklahoma, and Virginia.

For the District of Columbia, we rely on data from the Office of Revenue Analysis's *Statistics of Income* report. According to the most recent year available (2022), we estimate the average personal income tax rate to be approximately 7.3 percent.

In Massachusetts, we exclude the 4 percent surtax on income over $1 million and instead use the 5 percent marginal rate, which applies to most taxpayers.

For New York, we use data from the state's *Statistics of Income* reports. Based on the most recent available data from 2022, we estimate the average personal income tax rate to be approximately 5.5 percent.

In North Dakota, we apply the 2025 marginal tax rate of 1.95 percent, which applies to most taxpayers. The state imposes a higher marginal rate of 2.5 percent only on incomes above $244,825 for single filers and $298,075 for married filing jointly.

For all other states, we estimate the average effective marginal income tax rate by dividing total personal income tax collections in 2024 by total wages and salaries reported for that state in 2024 by the BEA. This approach provides a rough approximation of the tax rate applied to labor income.

Discrepancies may arise due to differences between where income is earned and where it is taxed – particularly in states with large commuter populations. Our estimates may overstate the marginal rate on wages in states that tax capital gains as ordinary income.

As a check, we compare our estimated rate to each state's top marginal income tax rate. If the estimate exceeds the statutory top rate, we instead use the top marginal tax rate. The only exception is Maryland, where our estimated rate (5.89 percent) slightly exceeds the top statutory rate (5.75 percent). This likely reflects the fact that many Maryland residents earn wages in neighboring jurisdictions like the District of Columbia or Virginia, while being taxed in Maryland.

TABLE 1

Summary of State Tax Rates

State	Representative Marginal Personal Income Tax Rate	General Sales Tax Rate
Alabama	5.0%	4.0%
Alaska	0.0%	0.0%
Arizona	3.0%	5.6%
Arkansas	4.0%	6.5%
California	6.8%	7.3%
Colorado	4.0%	2.9%
Connecticut	6.8%	6.4%
Delaware	6.3%	0.0%
District of Columbia	7.3%	6.0%
Florida	0.0%	6.0%
Georgia	5.0%	4.0%
Hawaii	7.1%	4.0%
Idaho	5.8%	6.0%
Illinois	5.0%	6.3%
Indiana	3.1%	7.0%
Iowa	3.8%	6.0%
Kansas	5.0%	6.5%
Kentucky	4.0%	6.0%
Louisiana	3.0%	5.0%
Maine	6.0%	5.5%
Maryland	5.8%	6.0%
Massachusetts	5.0%	6.3%
Michigan	4.3%	6.0%
Minnesota	7.3%	6.9%
Mississippi	5.0%	7.0%
Missouri	4.2%	4.2%
Montana	5.9%	0.0%
Nebraska	5.2%	5.5%
Nevada	0.0%	6.9%
New Hampshire	0.0%	0.0%
New Jersey	5.4%	6.6%
New Mexico	4.1%	4.9%
New York	4.5%	4.0%
North Carolina	4.5%	4.8%
North Dakota	2.0%	5.0%
Ohio	2.6%	5.8%
Oklahoma	4.8%	4.5%
Oregon	5.8%	0.0%
Pennsylvania	3.1%	6.0%
Rhode Island	5.1%	7.0%
South Carolina	6.2%	6.0%
South Dakota	0.0%	4.2%
Tennessee	0.0%	7.0%
Texas	0.0%	6.3%
Utah	4.7%	6.1%
Vermont	6.4%	6.0%
Virginia	5.8%	5.3%
Washington	0.0%	6.5%
West Virginia	4.8%	6.0%
Wisconsin	5.0%	5.0%
Wyoming	0.0%	4.0%

Source: See text details for how we selected the representative marginal tax rate on personal income across states.

2. Assumptions and Methodology for Estimating Tax Increases

Our analysis begins by identifying the amount of revenue each state would need to raise to offset federal funding cuts. For each program, we estimate the required increase in state tax revenues. For example, if a state faces a $100 reduction in federal transfers per taxpayer and collects $1,000 in tax revenue, we estimate that taxes would need to increase by 10 percent to fully offset the loss.

We then apply this proportional adjustment to our estimated state tax rates, *assuming that all marginal tax rates will rise uniformly.* Under this assumption, a 10 percent increase in all marginal tax rates would lead to a 10 percent increase in total tax revenues.

This approach simplifies the analysis by abstracting from tax credits, deductions, and other specific tax adjustments that might alter the relationship between tax rates and revenue. It also does not account for behavioral responses, such as changes in labor supply, migration, or consumption decisions, which could be significant depending on the magnitude of the tax changes.

We apply this method separately to general sales taxes and personal income taxes to estimate the required increase in each rate. For example, we estimate that Alabama could face SNAP cuts of about $380 million and is projected to raise approximately $6.3 billion in personal income tax revenues in 2026. Increasing personal income tax revenues by roughly 6.1 percent would generate the $380 million needed. To achieve this, Alabama would need to increase its personal income tax rate by 6.1 percent – equivalent to an increase of 0.3 percentage points on the marginal tax rate that applies to most income (currently 5 percent).

We also estimate how much each tax rate would need to increase if the state chose to split the additional revenue burden proportionally between sales and income taxes, based on their share of total revenue. In Alabama, general sales taxes account for 39 percent of combined general sales and income tax revenues, while personal income tax revenues account for 61 percent. If Alabama needs to raise an additional $1,000 in revenue, we assume $390 would be raised through higher sales taxes and $610 through higher income taxes. We than apply the same methodology described above to estimate the necessary rate increases in sales and income tax rates.

TABLE 2

Summary of State Data

Millions USD

State	GDP (estimated 2026)	Total expenditures (estimated 2026)	Total taxes (estimated 2026)	Personal income taxes (estimated 2026)	General sales taxes (estimated 2026)	Illustrative Medicaid cuts	Illustrative SNAP cuts
United States	31,660,876	3,381,213	1,563,960	539,990	483,092	88,000	23,000
Alabama	348,491	45,673	16,739	6,265	3,950	824	426
Alaska	75,905	10,477	2,009	0	0	258	62
Arizona	599,012	69,625	24,536	5,401	12,322	2,210	495
Arkansas	204,734	29,743	13,211	2,907	5,347	877	135
California	4,451,224	588,644	279,656	127,340	55,597	12,507	3,040
Colorado	600,265	47,299	23,286	11,214	4,832	1,300	320
Connecticut	396,750	36,782	25,007	10,733	6,609	1,032	219
Delaware	112,013	14,471	6,549	2,363	0	336	63
District of Columbia	201,959	23,286	10,855	3,313	2,122	406	78
Florida	1,850,262	145,947	67,019	0	42,607	3,719	1,622
Georgia	957,407	73,415	35,452	16,534	9,559	1,631	803
Hawaii	125,437	19,605	11,339	3,595	4,679	308	180
Idaho	139,003	16,147	8,163	2,459	3,287	364	69
Illinois	1,233,725	125,138	72,057	29,717	16,792	3,100	1,098
Indiana	572,123	56,049	29,397	13,174	11,553	1,790	352
Iowa	278,826	29,118	11,381	4,107	4,991	713	130
Kansas	254,582	27,808	13,798	4,926	4,465	533	100
Kentucky	317,880	48,899	18,158	5,668	6,076	1,632	283
Louisiana	355,590	47,636	17,028	5,145	5,085	1,488	467
Maine	106,972	14,819	7,061	2,703	2,486	437	89
Maryland	588,813	65,712	32,929	14,662	6,332	1,664	368
Massachusetts	846,896	95,199	46,522	26,428	10,071	2,440	643
Michigan	766,564	99,351	42,436	12,153	14,283	2,221	752
Minnesota	543,343	64,668	37,843	17,308	8,475	1,922	210
Mississippi	170,852	26,786	10,895	2,463	5,395	564	207
Missouri	489,480	48,447	18,491	8,697	5,491	1,526	371
Montana	82,447	9,497	4,963	2,247	0	237	42
Nebraska	201,141	14,645	7,682	1,932	3,134	393	81
Nevada	282,848	26,211	15,093	0	8,026	520	247
New Hampshire	131,471	11,477	3,583	0	0	224	38
New Jersey	918,410	102,540	54,446	20,697	14,102	2,264	473
New Mexico	152,465	33,360	14,121	2,420	4,322	823	252
New York	2,491,903	283,257	132,610	60,811	21,200	9,526	1,806
North Carolina	910,312	87,928	41,587	17,672	12,638	2,529	722
North Dakota	81,796	9,704	5,878	334	1,424	163	27
Ohio	1,006,448	106,018	39,267	10,587	16,928	3,100	780
Oklahoma	288,327	32,191	13,337	4,911	3,819	939	370
Oregon	359,112	42,230	16,202	8,984	0	1,468	392
Pennsylvania	1,111,098	135,478	57,939	17,967	16,481	4,302	1,048
Rhode Island	89,491	12,363	5,627	1,962	1,741	353	84
South Carolina	379,656	56,116	18,462	6,794	5,433	863	318
South Dakota	81,558	7,195	2,803	0	1,732	145	44
Tennessee	596,345	49,545	25,502	0	15,084	1,257	399
Texas	2,939,252	214,033	91,779	0	56,644	5,689	1,771
Utah	326,432	32,822	13,242	6,658	3,824	468	94
Vermont	49,585	10,583	5,052	1,364	622	208	36
Virginia	829,331	88,688	36,927	22,107	7,756	2,118	434
Washington	927,193	81,441	40,131	0	23,400	2,777	472
West Virginia	116,794	17,981	7,099	2,242	1,917	531	139
Wisconsin	489,571	57,606	26,164	10,531	8,015	1,226	335
Wyoming	57,438	5,744	2,647	0	1,000	78	14

Source: Totals by states are in million US dollars. All numbers are estimated for calendar year 2026 in nominal terms. See text for details on sources and methods to forecast 2026 figures.