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House Passes 10-Year Federal Moratorium on State AI Regulation: Key Implications for Businesses

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On May 22, 2025, the House of Representatives narrowly passed the "One Big Beautiful Bill Act," a budget reconciliation package setting forth President Trump's domestic agenda, including a sweeping 10-year federal moratorium on state regulation of AI systems, AI models, and automated decision systems. If enacted, the moratorium would preempt existing state AI laws in California, Colorado, New York, Illinois, and Utah, as well as more than 1,000 pending AI bills across state legislatures. The bill's broad definition of "automated decision systems" would likely impact regulatory oversight across finance, insurance, education, healthcare, and other sectors, fundamentally reshaping the AI regulatory landscape, at a time when AI technology is surging with dazzling speed and presents formidable policy challenges on issues ranging from climate change, chip infrastructure and labor market displacement to content moderation, intellectual property and privacy.

The moratorium would exempt any "requirement imposed under a generally applicable law, [that] is imposed in the same manner on models and systems, other than artificial intelligence models, artificial intelligence systems, and automated decision systems, that provide comparable functions to artificial intelligence models, artificial intelligence systems, or automated decision systems". This exemption would obviously open a wide front of interpretative discussions, and likely litigation, about a plethora of state laws.

As part of the budget reconciliation process, the measure is filibuster-proof in the Senate, meaning it could advance without Democratic support. If passed, the AI moratorium will likely be challenged in courts. It has already drawn opposition from a bi-partisan group of attorneys general from 40 states. Senior Republican senators and conservative think tanks have similarly expressed concerns about federal overreach.

The provision also faces potential challenge under the Byrd Rule, which requires budget reconciliation measures to have a direct budgetary impact. Critics may argue the AI moratorium is primarily regulatory rather than fiscal, and should therefore spin off from the bill.

If enacted, the moratorium will likely face Tenth Amendment challenges based on the anti-commandeering principle, particularly given the broad bipartisan state opposition.

What companies should do now:

Compliance Planning: Companies should continue to assess their current AI systems against existing state requirements, as

well as ones that will imminently come into force, such as California's generative AI training data transparency measure (AB 2013) or regulations on automated decision making technologies, while at the same time monitoring potential federal preemption. The moratorium's broad scope may affect compliance strategies across multiple business lines.

Regulatory Uncertainty: The exception for "generally applicable laws" creates interpretive ambiguity that could lead to enforcement disputes and varying state approaches to implementation.

Strategic Considerations: Businesses may need to evaluate whether to maintain existing compliance frameworks or scale back state-specific AI governance measures pending final resolution.

We are closely monitoring the Senate's consideration of this legislation and will provide updates as the situation develops. Companies with AI systems subject to existing state regulation should consult with counsel regarding potential implications for their compliance strategies.

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