Proposed State AI Rule Ban Could Alter Employer Compliance

By **Amanda Blair, Benjamin Ebbink and Braden Lawes** (June 6, 2025)

The U.S. House of Representatives recently passed a sweeping proposal to impose a 10-year moratorium on state-level regulation of artificial intelligence — a move that could dramatically reshape the regulatory landscape for employers across the country.

If enacted, the provision would halt new or existing state laws targeting AI systems, models and automated decision-making tools, effectively pausing local efforts to address AI risks.

While the proposal released on May 11 and approved by committee on May 14 is buried within a broader tax and budget bill known as the One Big Beautiful Bill Act and faces steep procedural hurdles, its inclusion is a clear signal that congressional Republicans are serious about curbing state authority on AI.

The budget bill passed by the House on May 22 included the 10-year ban on state and local governments enforcing laws or regulations that govern AI. It now moves to the U.S. Senate for further debate.

In the meantime, what do employers need to know about this intriguing development?

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What's in the Proposal?

The draft legislation from the House Energy and Commerce Committee would prohibit states from enacting or enforcing "any law or regulation regulating artificial intelligence models, artificial intelligence systems, or automated decision systems" for a full 10 years.[1]

That time frame is raising eyebrows across the political spectrum. While some lawmakers and business leaders argue that a federal moratorium would create much-needed breathing room to craft national standards, others see it as a blanket shield that would benefit Big Tech at the expense of state autonomy.

Why Now?

This push comes at a time when the federal government has yet to pass comprehensive AI legislation, leaving a vacuum that states have rushed to fill. According to the National Conference of State Legislatures, over 550 AI-related bills have been introduced by at least 45 states in 2025 alone, covering everything from workplace bias and privacy rights to deepfakes and content labeling.[2]

- Colorado Gov. Jared Polis signed off on a first-in-the-nation law in May 2024, known as the Colorado Artificial Intelligence Act, which targets algorithmic bias in employment and other key sectors and is set to take effect Feb. 1, 2026.[3] A recent attempt to soften the law failed to pass, setting the stage for the nation's first comprehensive AI state law affecting employers.

- California has led the way with aggressive proposals like S.B. 1047, known as the Safe and Secure Innovation for Frontier Artificial Intelligence Models Act, which is a sweeping AI safety bill that Gov. Gavin Newsom vetoed last year after intense tech industry lobbying. This year, we're monitoring the No Robo Bosses Act, S.B. 7,[4] as well as A.B. 1018, which are proposed bills aimed at regulating AI decision-making tools in employment and other key areas.[5]

- Illinois' AI Video Interview Act regulates AI-driven hiring assessments — but it is much narrower in scope than Colorado's law and other proposals.[6] Gov. J.B. Pritzker signed the legislation last August, and it is scheduled to take effect on Jan. 1, 2026.

- New York, Connecticut and Vermont are among the other states pursuing AI oversight tailored to local priorities, including transparency, discrimination prevention and protection from addictive AI systems.[7] Specifically, New York Gov. Kathy Hochul announced in her January State of the State address that she would direct the New York State Department of Labor to amend the New York Worker Adjustment and Retraining Notification Act to require businesses with 50 or more employees to report AI-driven layoffs, while the Connecticut General Assembly is hoping to strike a deal in the coming weeks with Gov. Ned Lamont to enact comprehensive AI privacy legislation, S.B. 2, in the state. Meanwhile, lawmakers in Vermont introduced H. 262 in February, which aims to restrict electronic monitoring of employees and the use of employment-related automated decision systems.

- Virginia passed the High-Risk Artificial Intelligence Developer and Deployer Act in February, which was a detailed AI law that would have affected employers, but it was **vetoed** by Gov. Glenn Youngkin in March before it could take effect.[8] Del. Michelle Maldonado, D.-Va., vowed to reintroduce it in a future legislative session.

The House proposal would effectively wipe out these initiatives, locking the door on state enforcement before many laws even take effect.

Big Tech Pushing for Unified Approach

Major tech firms have lobbied hard for a unified federal approach to AI.[9] They don't want a chaotic 50-state patchwork of rules that could stifle innovation, drive up compliance costs and cause administrative headaches — especially in the human resources space. Venture capital firms, particularly those tied to Silicon Valley, are also backing federal preemption to protect emerging startups from what they describe as burdensome state laws.

This is a notable shift from past fights over privacy law, where tech firms generally opposed federal regulation. In the AI arena, they're embracing it — as long as it neutralizes tougher state standards.

Some federal officials are echoing those concerns. Rep. Jay Obernolte, R-Calif., a member of the Energy and Commerce Committee and chair of the House Bipartisan Task Force on AI, has argued that Congress needs to act fast "before the states get too far ahead."[10]

Many States Not on Board With Aggressive Approach

While industry groups are eager for national uniformity, state lawmakers and consumer

advocates are sounding the alarm. Critics say the proposal is less about consistency and more about delay — a preemption without protection strategy that removes guardrails without offering anything in their place.

Democratic leaders in multiple states — including Rep. Brianna Titone, D-Colo., and Rep. Monique Priestley, D-Vt., — have criticized the proposal as reckless and dangerous, warning it would strip states of their ability to respond to real harms already emerging from AI systems.[11] "This is a free-for-all on AI," said Titone, one of the architects of Colorado's impending law.[12] "People want to see regulation, not have it be stripped away in this reckless way."

Even within Colorado, the debate is splitting Democrats. Gov. Jared Polis, a Democrat, has voiced support for a temporary federal pause, while suggesting a shorter two-to four-year moratorium might make more sense and allow Congress time to act in a more thoughtful way.[13] This comes in the wake of Polis expressing frustration with his state legislature's inability to refine the impending Colorado AI law before next year's effective date.

Will It Survive?

Ultimately, the proposed moratorium may not make it into law. Because it's part of a tax bill moving under budget reconciliation, it must comply with strict Senate rules that limit provisions to those directly tied to federal spending. Legal experts and even Senate aides have questioned whether a state preemption clause like this one can survive a challenge under the Byrd Rule, which prohibits including provisions in reconciliation bills that are extraneous to the federal budget, such as those with no direct impact on government spending or revenue.

But even if this version fails, insiders expect the preemption fight to return in the next year.

What's Next?

The Energy and Commerce Committee began debating the measure on May 13 as part of the larger budget negotiations. The next day, the committee voted 29-24 along party lines to advance the package. It still faces further mark-ups and procedural hurdles before officially becoming a part of the budgetary mega-bill requested by President Donald Trump. We will have a better sense of the AI preemption's chances of the survival in the coming weeks.

What Employers Need to Know

So, what does this mean for your business? Whether you're currently using AI or just evaluating it, this proposal could have major implications for your compliance strategy. Here's what to watch and do.

1. Expect a moratorium to offer temporary uniformity, but long-term uncertainty.

A moratorium might offer near-term clarity by halting conflicting state rules. But with no federal AI law in place, it would also extend the current vacuum. That makes long-term planning difficult for employers seeking safe, lawful AI deployment strategies.

2. Don't confuse preemption with protection.

Even without state AI laws, AI-driven decisions are still subject to anti-discrimination laws,

such as the Americans with Disabilities Act, Title VII and other existing state-level workplace statutes. Liability wouldn't disappear, it would just shift arenas.

3. Audit now, not later.

Employers should audit AI tools for explainability, bias and disparate impact, regardless of the April Executive Order No. 14281 taking on that legal theory, and not wait for regulators to catch up.[14] If your vendor can't explain how their system works or prove that it's compliant with civil rights laws, it's time to rethink that partnership.

4. Exercise AI governance.

Risk assessments, transparency and human oversight remain essential tools for preventing AI-based discrimination,[15] and they should each be taken into account when plotting out the best course for your organization.

5. Prepare for whiplash.

If the moratorium passes and then is later repealed or overturned on procedural grounds — or if federal rules conflict with emerging international standards — businesses may face another rapid pivot. Design your compliance systems with flexibility in mind.

Conclusion

In summary, Congress' efforts to halt enforcement of state-level AI legislation are very much in flux. The potential moratorium's compliance with the Byrd Rule remains in question, and even if the provision is removed from the pending reconciliation bill, fights over AI regulation are expected to continue. As states from California to Connecticut are seeking to enact their own provisions, keeping up to speed on the latest developments is critical.

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