

Insights, News & Events

# SENATE GATEKEEPER ALLOWS CONGRESS TO PURSUE STATE AI LAW PAUSE, BUT ROADBLOCKS REMAIN

Insights  
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A controversial federal effort to dissuade states from regulating artificial intelligence just cleared a major procedural hurdle, potentially reshaping the AI regulatory landscape for years to come. Senate leaders announced over the weekend that the Senate parliamentarian is allowing the proposed 10-year freeze on state AI laws to remain in the massive tax and spending package now advancing in Congress. If ultimately enacted, this provision would mark one of the most sweeping moves ever attempted in technology policy. But serious roadblocks still remain, and the fate of this provision is up in the air. What does this latest development mean for employers? And what should you do now to stay prepared?

[Ed. Note: The Senate killed the state AI law pause proposal on July 1, clearing the way for state regulation of AI use in the workplace. [Read more here.](#)]

## Hear Directly From Hill Leaders!

Two of the most influential House members when it comes Rep. Jay Obernolte (R-CA) and Rep. Suzanne Bonamici (D-O) speak at FP's AI Conference next month. [Register now](#) to hear hand about AI regulation and much more!

## The Latest Twist in the 10-Year State AI Pause

- **House Fires First Shot:** Back in May, House Republicans passed sweeping legislation that would impose a **10-year moratorium on state AI regulation**. Under that proposal,

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states would be prohibited from enforcing any new law or regulation addressing AI or automated decision systems (ADS) for the next decade, effectively banning state-level activity and centralizing authority at the federal level. [You can read our full analysis of the House bill here.](#)

- **Senate Waters Down Proposal:** When the Senate took up the bill, leaders softened the approach, **replacing the outright ban with a financial penalty.** The Senate version would deny billions in federal broadband funding to any state that enacts or enforces new AI laws during the moratorium period. As we previously explained, this shift aimed to preserve some state autonomy while still creating a strong incentive against new state AI regulation. [You can read our Senate analysis here.](#)
- **Procedural Threat Loomed:** But despite the progress, Congressional observers had serious doubts about whether the bill could survive a key procedural hurdle. The proposal is moving under the budget reconciliation process, but that means it **must comply with the strict “Byrd Rule.”** And that only permits provisions in reconciliation bills that are directly tied to federal spending.

### The Latest Twist

Now, after weeks of behind-the-scenes negotiations, [Senate leaders announced on June 21](#) that Parliamentarian Elizabeth MacDonough ruled that the AI-related language fits within the special budgetary process Republicans are using to advance the broader tax and spending package. This decision allows the provision to remain in the bill as Republicans race to secure final passage before their self-imposed July 4 deadline.

### Key Implications for Employers

If enacted, this provision could have **massive implications for employers** operating across multiple states:

- **Decrease in New State AI Rules:** Employers could operate for the next decade with minimal worries about divergent new state-level AI compliance mandates. This would provide a more stable regulatory environment at the federal level (at least for newly enacted laws).



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- **Legal Uncertainty Likely:** The financial-penalty approach creates a new dynamic. States could still choose to enact AI laws and forfeit broadband funds, leading to political battles at the state level. This means employers may still face a patchwork of state requirements if certain states are willing to sacrifice federal funds.
- **Federal Standards Still TBD:** Critically, Congress has not yet passed a comprehensive federal AI regulatory framework. Employers would still face uncertainty about what substantive federal rules might eventually emerge – if any.

## The Bigger Political Picture

This provision remains deeply controversial.

- The provision has **full backing from the White House**, including AI and crypto czar David Sacks.
- More than **200 state lawmakers from both parties** have urged Congress to remove the measure, warning it could nullify dozens of consumer protection laws tied to AI, including those covering data privacy, copyright, children's online safety, algorithmic bias, and government AI adoption.
- Key tech industry groups have **lobbied aggressively** for federal intervention, arguing that a state-by-state patchwork would stifle innovation and create impossible compliance burdens for companies developing and deploying AI.
- Some **Republican senators have broken ranks** to oppose the moratorium as an unnecessary federal overreach into state sovereignty. Rick Scott (R-FL), Josh Hawley (R-MO), John Cornyn (R-TX), Marsha Blackburn (R-TN), and Ron Johnson (R-WI) have each publicly expressed concerns.

## What Happens Next?

- The broader tax and spending package is scheduled for Senate floor debate this week.
- The AI provision could still be challenged and removed via simple majority vote during the floor process.
- If it survives, it will move to reconciliation with the House version.

- The outcome may depend on last-minute negotiations over other hot-button provisions in the bill.

## What Should Employers Do Now?

While the legislative outcome remains uncertain, employers should take proactive steps now:

**1. Monitor Federal Developments Closely:** Stay updated on whether the moratorium survives final passage. This will heavily influence compliance planning for 2025 and beyond. Sign up for [Fisher Phillips' Insight system](#) to receive the latest developments straight to your inbox.

**2. Track Existing State AI Laws:** Regardless of the moratorium, current state laws remain enforceable. Build compliance systems now for jurisdictions where laws are already in effect.

**3. Prepare for Dual-Track Compliance:** Consider scenarios where some states may still enact new AI rules at the cost of broadband funds. Companies with multistate operations should assess which locations may pose unique compliance risks.

**4. Evaluate AI Governance Programs:** Regardless of legal mandates, investors, business partners, and employees are increasingly scrutinizing AI governance practices. Build internal AI risk management protocols that demonstrate responsible and ethical use of AI technologies. Read our [AI Governance 101: The First 10 Steps Your Business Should Take](#) in order to put your organization in the best position.

### Further Reading:

- [The Hill: Senate Parliamentarian Greenlights AI Regulation Proposal](#)
- [Politico: Senate Parliamentarian Greenlights State AI Law Freeze in GOP Megabill](#)
- [Deadline: AI Provision Remains in Trump Big Beautiful Bill](#)
- [Tech Policy Press: Federal Moratorium on State AI Laws Clears Senate Hurdle](#)
- [Mashable: Senate Confirms Ban of State Regulation of AI](#)

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## Conclusion

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