Provider Taxes are Critical for Medicaid

The Medicaid program is jointly financed by the federal and state governments. States finance the non-federal share of the Medicaid program through various sources, including general fund revenue and taxes on health care providers.

Congress is considering restricting how states use provider taxes to reduce federal Medicaid expenditures. With children making up close to 50% of total Medicaid and CHIP enrollees, even small adjustments in the use of provider taxes would result in negative consequences for children covered by Medicaid, as well as the providers who care for them, including children's hospitals. CHA urges Congress to reject policies that would restrict states' use of provider taxes, to ensure states can continue to fund their Medicaid programs.

What is a Provider Tax?

- Provider taxes are health care-related fees, assessments, or other mandatory payments states place on health care providers to help finance the state's share of Medicaid expenditures. **Almost every state uses at least one provider tax to help finance Medicaid**.[1] In state fiscal year 2018, 68% of state funds came from state general revenues, 17% from health care-related taxes, 12% from local governments, and 4% from other sources.[2] Provider taxes support state Medicaid programs and the care they provide for beneficiaries.
- **Provider taxes are often used to fund supplemental payments that are critical tools for offsetting low provider reimbursement levels and ensuring access to care.** States also use these supplemental payments funded by provider taxes for a range of investments, such as improving behavioral health access and providing home and community-based services for children, among other services.
- **Provider taxes are already subject to federal requirements and oversight.** Congress and the Centers for Medicare and Medicaid Services (CMS) have instituted federal requirements for provider taxes to be broad-based and uniform, applying consistently to all providers in a certain category and not limited to providers who participate in Medicaid. Providers cannot be guaranteed to receive Medicaid payments equal to the amount of taxes they pay. These taxes are not waste, fraud, or abuse.

Potential Impacts of Restricting States' Use of Provider Taxes

- **States would need to make significant cuts to Medicaid to close the financing gap and balance their budgets.** Medicaid cuts could include reducing eligibility and enrollment, eliminating or limiting benefits, and reducing already low payment rates for providers.
- **Some states might raise taxes on their residents to close financing gaps.** States can use various sources to finance the non-federal share and would look to other sources if Congress limited their ability to use provider taxes. This means that some states would have to consider increasing other forms of taxes, including income and sales taxes levied on all state residents.
- **Loss of health care services would be widespread across communities**. Restricting or prohibiting states' use of provider taxes would cut federal Medicaid funds states receive. This would pull resources away from essential services, including emergency, trauma, maternal, and behavioral health care services. As a result, hospitals, health systems, and other providers would likely be unable to continue offering the full range of services, which would impact care for everyone in a community, including children and families.

The Bottom Line

- Restricting states' ability to use provider taxes to finance their non-federal share of the Medicaid program would force states to make cuts that would impede access to care for children and their families.

[1] "Medicaid Provider Taxes," Congressional Research Service. December 2024.
[2] "CMS Needs More Information on States' Financing and Payment Arrangements to Improve Oversight," Government Accountability Office. December 2020