

The Great Medicaid Hospital Scam

Republicans can fix the ‘provider tax’ scheme that fleeces taxpayers.

By [The Editorial Board](#)

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No industry other than perhaps higher education feasts more on government than hospitals. So, it’s no surprise that hospitals are blaring their sirens over the GOP’s effort to clamp down on the scheme they use to grab more federal Medicaid money.

It’s hard to think of a bigger government-sanctioned racket than Medicaid provider taxes. States pioneered these during the 1980s to obtain more federal Medicaid matching funds and reduce spending on the program from their general tax revenue. The free lunch has enabled states to expand benefits and greatly diminished the incentive to operate the program efficiently.

Here’s how it works: States assess taxes on health providers—namely hospitals. They then channel the revenue back into their Medicaid programs to draw more federal money. For every dollar that states spend on Medicaid, they get one to three dollars more from the feds—and nine for able-bodied individuals covered under Obamacare. Hospitals then receive more in Medicaid payments than they pay in the provider taxes.

In 1991 George H.W. Bush signed bipartisan legislation to crack down on this scheme, which even [Nancy Pelosi](#) and Chuck Schumer voted for. The law forbids Medicaid taxes that have the effect of holding providers harmless—as nearly every state tax today does.

Even the Biden Centers for Medicare and Medicaid Services in 2023 noted that providers have struck agreements to redistribute their Medicaid payments to other providers to ensure they all recoup their tax payments—including those that don’t treat Medicaid patients. Is this political collusion in plain sight? Yes.

As CMS explained, “the redistribution enables broad support for the tax program from all hospitals.” Such arrangements are illegal under the 1991 law, but the Clinton Administration created a regulatory safe harbor that sanctions provider taxes as long as they are assessed at a rate of less than 6% on net patient revenue.

Enter Republicans, who are seeking to crack down on the scam. The House tax bill freezes provider taxes at current rates. The Senate Finance draft would go further by reducing the

safe harbor tax rate by 0.5% annually starting in 2027 to 3.5% in states that have expanded Medicaid under Obamacare. Taxes would be frozen in non-expansion states.

Cue the howls from the hospital lobby. Since when does an industry protest a tax cut for itself? Hospitals claim any restrictions on the taxes will cause rural hospitals to close, but they say the same about all Medicaid reforms, including work requirements. Congress can appropriate money specifically for rural hospitals if Members are worried about their vitality.

Medicaid often pays below the cost of care, but supplemental state payments funded by provider taxes more than compensate. Such payments made up a large share of earnings last year of for-profit hospitals such as [Universal Health Services](#) (45%), Tenet (25%) and HCA (18%). Most hospitals are prospering.

One reason is that government regulations have encouraged hospitals to merge and buy physician practices, which increases their leverage with insurers. Since 2010, prices charged by hospitals have increased 97%, compared to 31% for physicians, 42% for prescription drugs, while overall inflation has been 48%, according to the Bureau of Labor Statistics.

Medicare also pays hospitals higher rates than independent physicians for the same treatments. The federal 340B program lets hospitals buy medicines at steep discounts and charge markups to private insurers. Republicans have shrunk from targeting these undeserved hospital perks, so the least they could do is stop hospitals from their dishonest Medicaid scheme.