PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

END STATE MEDICAID MONEY LAUNDERING SCHEMES

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TOPLINE: Lawmakers should eliminate Medicaid provider taxes, which amount to legal money laundering of tens of billions of dollars annually by states at the expense of federal taxpayers.

BACKGROUND: Medicaid's so-called provider tax is a gimmick: states charge Medicaid providers like hospitals, HMOs, and nursing homes an artificial tax, keep a portion of it for their own budgets, and return the rest to providers as "payments" that largely replace the "taxes" they paid. By converting a portion of the "tax" to a provider payment, the federal government covers up to 90% of the cost of the payment. Some states like California and New York have used this scheme to shuffle federal Medicaid funds to illegal immigrants or to cover multibillion-dollar holes in their budgets. Rather than rewarding states for efficiently serving Medicaid beneficiaries, the provider tax incentivizes states to maximize federal reimbursements to make up for inefficient Medicaid spending and even to help cover their bloated non-Medicaid budgets.

H.R. 1 prohibited any expansions in the provider tax and phases it down from a 6% maximum tax rate (the rate is a percentage of the provider's revenue) for expansion states by 0.5% per year beginning in 2028 and concluding in 2032 at a 3.5% maximum (with exemptions for nursing homes and certain long-term care providers). The Congressional Budget Office (CBO) estimated that H.R. 1's restrictions will save $183 billion over 10 years, compared to $612 billion for eliminating the provider tax entirely. This leaves roughly $430 billion that could be saved over 10 years by eliminating the provider tax.

Action Items (Congress):

- **Eliminate or at least phase out Medicaid's provider tax scheme**.

How It Would Make Life More Affordable:

- Eliminating the provider tax would reduce unintended federal spending that serves to pad state budgets, prop up insurers' and providers' profits, and inflate costs.
- Requiring states to finance the intended share of their Medicaid costs would curb excessive Medicaid spending and improve taxpayers' bang for their buck.

BOTTOMLINE: Medicaid's provider tax scheme is the antithesis of accountability and efficiency—inflating taxpayer costs and detracting from patient care—and it should be eliminated.