Provider Taxes Support State Medicaid Programs

Provider Taxes Are Permissible Health Care-Related Taxes

State taxes on providers are federally permissible health care-related taxes that are vetted through federal statute and regulation, allowed only under specific conditions, and serve as a crucial source of Medicaid funding for states. Health care-related taxes are licensing fees, assessments, or other mandatory payments related to the provision or payment health care items or services in which at least 85 percent of the burden of the tax revenue falls on health care providers. A health care-related tax does not include payment of criminal or civil fines or penalties, unless it was imposed in lieu of a tax.

Every state, with the exception of Alaska, utilizes at least one provider tax for services to support beneficiaries of the Medicaid program, including people with disabilities. Thirty-nine states have at least three provider taxes.[1]

Provider Taxes Are Crucial to Medicaid & State Budgets

States are permitted to utilize limited provider taxes without a reduction in the federal Medicaid funding. In 2018, the most recent year for which data is available, provider taxes accounted for an average of 17% of the state share of the cost of Medicaid.[2] Reducing or prohibiting the use of provider taxes would have a significant impact on Medicaid funding. Even if provider taxes are not included in community-based services, the resulting reduction in federal Medicaid funding runs the risk that states will face extreme budget shortfalls that could impact the delivery of community-based services.

Provider taxes are limited to only certain types of Medicaid-funded services.[3] The most common providers subject to provider taxes are nursing facilities, hospitals, and intermediate care facilities for individuals with intellectual disabilities (ICF/IIDs).[4]

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[1] Cuello, Leonardo; Medicaid Provider Taxes: A Critical Source of Medicaid Funding for States; February 2025.

[2] Alice Burns, Elizabeth Hinton, Elizabeth Williams, and Robin Rudowitz; 5 Key Facts About Medicaid and Provider Taxes; March 2025.

[3] 42 C.F.R. 433.56

[4] Congressional Research Service; Medicaid Provider Taxes; December 2024.

Reducing or Eliminating Provider Taxes May Reduce Coverage of Community-Based Services for People with I/DD

Provider taxes represent a critical financing mechanism that states rely upon to meet their obligations to fund Medicaid services. Reducing or eliminating the flexibility to use provider taxes would result in devastating financial losses for states, deep damage to state health care infrastructure, and most importantly, harmful impacts on access to health care for children, families, seniors, and people with disabilities.[5]

Home and community-based services (HCBS), Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IIDs), and other community-based services that people with I/DD rely on are optional Medicaid benefits. As a result, states may choose to eliminate such programs if the federal matching rate for provider taxes is reduced or ended and no other funding source is available in those states. The closures of these programs significantly increase the rate of more costly and restrictive settings, including institutions, hospitals, undermining person-centered care and community inclusion for individuals with intellectual and developmental disabilities.

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[5] Cuello, Leonardo; Medicaid Provider Taxes: A Critical Source of Medicaid Funding for States; February 2025.