

**PROVIDER TAXES & STATE MEDICAID ABUSE**

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**TOPLINE:** The One Big Beautiful Bill (OB BB) reins in provider tax schemes, in which states exploit a loophole in the Federal Medical Assistance Percentage (FMAP) to funnel in extra federal tax dollars.

**BACKGROUND:** Medicaid requires states to pay for a portion of total program costs with the remainder being paid for with federal tax dollars. The federal share is the FMAP. The FMAP is higher for states with higher poverty levels and differs for different covered populations. Currently, these rates are between [50%](#) and [77%](#), meaning that the federal government will generally give states an extra \$1 to \$3.35, respectively, for each \$1 a state contributes. This creates a loophole whereby states could tax healthcare providers, contribute that money to Medicaid spending, and then receive extra money from the federal government to ultimately pay healthcare providers more than what they just paid in provider taxes. States began taking advantage of this scheme in the [mid-1980s](#) and then Congress moved to limit this abuse. This loophole became even more [lucrative](#) for providers to the [Affordable Care Act](#) (ACA) expansion population (able-bodied adults without dependents), for whom the FMAP is [90%](#) (meaning that the federal government will contribute \$9 for every \$1 spent by states).

**What OB BB Did:**

- [Prevents](#) states and localities from taking additional federal matching funds if they impose new or increased provider taxes only to return the funds back to the providers through higher Medicaid contributions.
- [Reduces](#) the maximum provider tax for states with existing provider taxes from 6% of net patient revenue to 3.5%, by 0.5% increments between 2028 and 2032.

**Why It Matters?**

- Many state governments have used this loophole to game the FMAP and inappropriately rake in tens of billions of taxpayer dollars. Limiting provider taxes undoes this loophole and protects taxpayers.
- Recently, the provider tax loophole has been used mostly to increase federal taxpayer dollars going to able-bodied adults without dependents, as opposed to focusing on the vulnerable populations Medicaid was created to service.

**Where Can I Find the Changes?** OB BB Section [71115](#); [42 U.S.C. § 1396b\(w\)\(4\)](#).

**BOTTOMLINE:** When states can push off all the cost of Medicaid expansions onto federal taxpayers, they have little incentive to contain waste, fraud, and abuse.

