National Association for Behavioral Healthcare
Access. Care. Recovery.

H.R. 1: Provider Taxes

The Issue: Provider Taxes

The budget reconciliation package H.R. 1 (*One Big Beautiful Bill Act)* prohibits states from implementing new provider taxes. The new law reduces existing provider taxes to 3.5% from for states that expanded Medicaid under the *Affordable Care Act* (40 states and Washington D.C.) by 2028. This change would be phased in by lowering the limit by 0.5% each year between 2027 and 2031 and would not apply to taxes imposed on nursing or intermediate care facilities, and non-expansion states would still be held at the 6% threshold.

Medicaid is the largest payer of behavioral healthcare, and this bill imposes significant barriers to critically needed care. The Congressional Budget Office estimates this change, limits to state-directed payments, and new work requirements will result in 8 million Americans losing their healthcare coverage.

Background

According to the Kaiser Family Foundation, provider taxes are an important mechanism for states to finance often limited Medicaid programs; "almost all states use provider taxes to help finance the state share of Medicaid spending."

Federal rules now specify that provider taxes must be:

- Broad-based, which means the tax is imposed on all providers within a specified class of providers (i.e., the tax cannot be imposed only on providers that see primarily Medicaid patients);
- Uniform, which means the tax must apply equally to all providers within the specified class (i.e., the tax rate cannot be higher on Medicaid revenue than non-Medicaid revenue); and
- Not hold taxpayers (providers) "harmless," which means states are prohibited from directly or indirectly guaranteeing that providers will receive their tax revenues back (i.e., be "held harmless").

Legislative Request

Return the provider taxes to the previous rate of 6%.