PROVIDER TAXES
Overview

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What are Provider Taxes?

- Health care-related taxes (referred to as "Provider taxes") are state assessments on health care providers (see *Provider Tax Classes* Slide)
- Medicaid is financed through a federal-state partnership. Provider taxes can be used to help generate revenues to fund the States share of Medicaid expenditures (see FMAP slide)
- Provider taxes must comply with Federal Law (see *Federal Parameters* slide).

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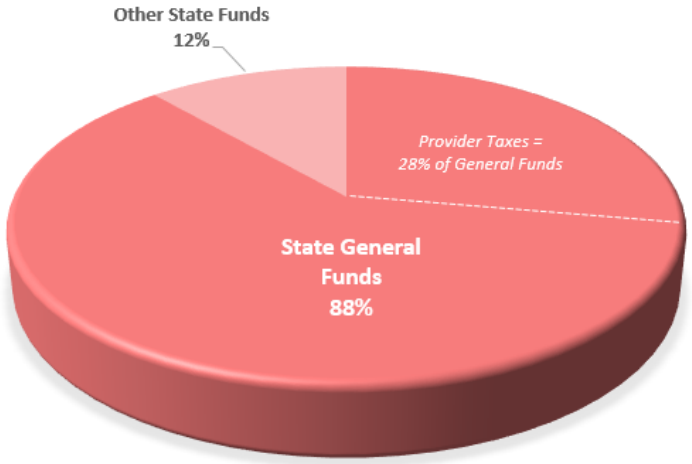
Provider Taxes
Context

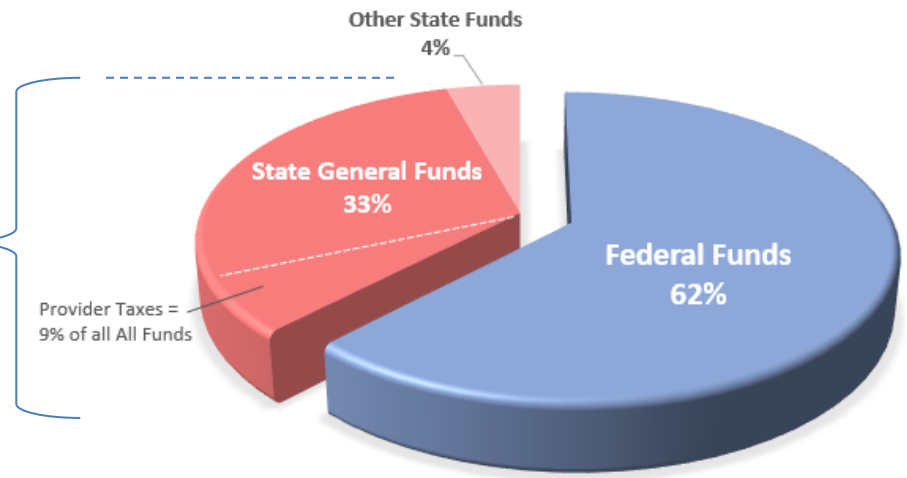
- Provider taxes are deposited into the **General Fund (GF)**.
- In FY'25, GF accounted for approx.:
  - 88% of the **STATE FUNDS** used to fund Vermont's Medicaid Program (including funds used to draw federal match) – PIE CHART 1
- 1/3 of **ALL FUNDS** used to fund the Medicaid Program (including federal $)
  - PIE CHART 2
- Revenues from Provider Taxes are equivalent to 28% of the **STATE FUNDS** and 9% of all **ALL FUNDS** spent for Vermont's Medicaid program
  - *Federal Match Rates can be found on the next slide (FMAP)*

MEDICAID STATE FUNDS ONLY



PIE CHART 1

MEDICAID ALL FUNDS



PIE CHART 2

Federal Medical Assistance Percentage (FMAP)

SFY 2026 RATES (current fiscal year)

	STATE SHARE		GROSS
Federal Medical Assistance Percentage (FMAP) ○ 58.81% Federal / 41.20% State ○ *Applied to the majority Medicaid expenditures*	$1.00	=	$2.43
Enhanced FMAPs			
Children's Health Insurance Program (CHIP) ○ 71.17% Federal / 28.84% State ○ *Applied to Medicaid expenditures for approx. 4,400 low-income children*	$1.00	=	$3.47
Childless New Adults ○ 90% Federal / 10% State ○ *Applied to the Medicaid expenditures for approx.41,000 childless adults* ○ *Enacted as part of the Affordable Care Act*	$1.00	=	$10.00

** The State fiscal year is different than the federal fiscal year. As such, the state uses a blended match rate to calculate SFY FMAP rates.*

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Federal Medical Assistance Percentage (FMAP)

SFY 2027 RATES

	STATE SHARE		GROSS
Federal Medical Assistance Percentage (FMAP) ○ 58.07% Federal / 41.93% State ○ *Applied to the majority Medicaid expenditures*	$1.00	=	$2.38
Enhanced FMAPs			
Children's Health Insurance Program (CHIP) ○ 70.65% Federal / 29.35% State ○ *Applied to Medicaid expenditures for approx. 4,400 low-income children*	$1.00	=	$3.41
Childless New Adults ○ 90% Federal / 10% State ○ *Applied to the Medicaid expenditures for approx.41,000 childless adults* ○ *Enacted as part of the Affordable Care Act*	$1.00	=	$10.00

NOTE: FY 2027 reduction in FMAP = roughly ***less for every state*** ***spent.***

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** The State fiscal year is different than the federal fiscal year. As such, the state uses a blended match rate to calculate SFY FMAP rates.*

Provider Taxes:
Federal Parameters

- Provider taxes:
  - Must be **broad based** – must apply across class of health care items/services/providers
  - Must be **uniformly applied** – e.g., same licensing fee across class, same per-bed licensing fee across class, same assessment rate on gross or net receipts
  - Must **not hold providers harmless** – cannot guarantee, directly or indirectly, that tax paid will be returned to providers to make them whole
    - Safe harbor: presumption that this requirement is met if tax is ≤ 6% of net patient revenue
    - ***This provision will change beginning FY 2028 as a result of the 2025 Federal Reconciliation Act (as passed on July 4, 2025) – See Slide 11***

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Provider Tax Classes

19 Federal Classes of Health Care Services		
Inpatient hospital services*	Services of managed care organizations	Therapist services
Outpatient hospital services*	Ambulatory service centers	Nursing services
Nursing facility services*	Dental services	Laboratory and x-ray services
Services of intermediate care facilities**	Podiatric services	Emergency ambulance services*
Physicians' services	Chiropractic services	Other health care items or services for which the state has enacted a licensing or certification fee
Home health care services	Optometric services	
Outpatient prescription drugs*	Psychological services	

** Class currently assessed in Vermont*

*** While this provider tax still exists in Vermont statute, there are no more of these facilities operating in Vermont.*

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Current Vermont Provider Tax

Vermont Provider Taxes

Class of Provider	Rate (% of Net Patient Revenue)	FY'25 Actual (x million)	FY'26 Forecast (x million)
Hospitals	6%	$212.3	$225.1
Nursing Homes[1]	$4,919.53 per bed[1]	$14.4	$14.4
Ambulance	3.30%	$1.4	$1.4
Intermediate Care Facilites[2]	5.90%	-----	-----
Pharmacy	$0.10/script	$0.9	$0.9
~~Home Health~~	Sunset in 2023		
TOTAL PROVIDER TAX REVENUE		**$229.0**	**$241.8**

[1] Nursing Home rate intended to equal roughly 6% of net patient revenues.

[2] The last facility (Westview Court) closed October 2020. Assessment still in statute.

- Hospital provider taxes accounted for 93% of all provider tax revenues collected in FY 2025.

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Provider Taxes
Context

Provider Taxes have long been associated with funding for State Medicaid programs

According to KFF:*

- 2004: 35 states had at least one provider tax
- 2024: 49 states and the DC had at least one health care provider tax
- The most common type of provider tax used by states (2024):
  - Nursing Homes (46 states)
  - Hospitals (45 states)
    - Approx. 13 states, including VT, had a provider tax rate >5.5%
    - Approx. 20 states had a provider tax rate ≤3.5%
  - Intermediate Care Facilities (32 states)

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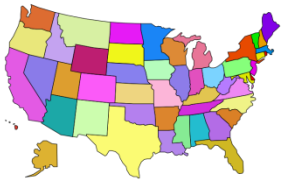
* *5 Key Facts about Medicaid and Provider Taxes, March 2025, KFF*

Impacts of the 2025 Federal Reconciliation Act (H.R.1)



- Phase down of the provider tax rate that expansion states can charge from 6% to 3.5% by 2032
  - **In Vermont, this only impacts the Hospital Provider Tax**
  - Nursing Home and intermediate care facilities provider taxes are excluded from phase down
  - Vermont's Ambulance and Pharmacy provider tax rates are already below 3.5%

Current Vermont Provider Taxes

Class of Provider	Current Rate (% of Net Patient Revenue)	H.R.1 Impact	
Hospitals	**6%**	**Yes**	**Rate will decrease from 6% to 3.5%**
Nursing Homes[1]	$4,919.53 per bed[1]	No	Excluded in Federal Reconciliation Act
Ambulance	3.30%	No	Current rate lower than 3.5%
Intermediate Care Facilites[2]	5.90%	No	Excluded in Federal Reconciliation Act
Pharmacy	$0.10/script	No	Current rate lower than 3.5%

[1] *Nursing Home rate intended to equal roughly 6% of net patient revenues.*

[2] *The last facility (Westview Court) closed October 2020. Assessment still in statute.*

- Begins 10/1/27 (fiscal year 2028)
- Law also prohibits states from enacting any new provider taxes

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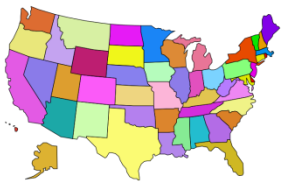
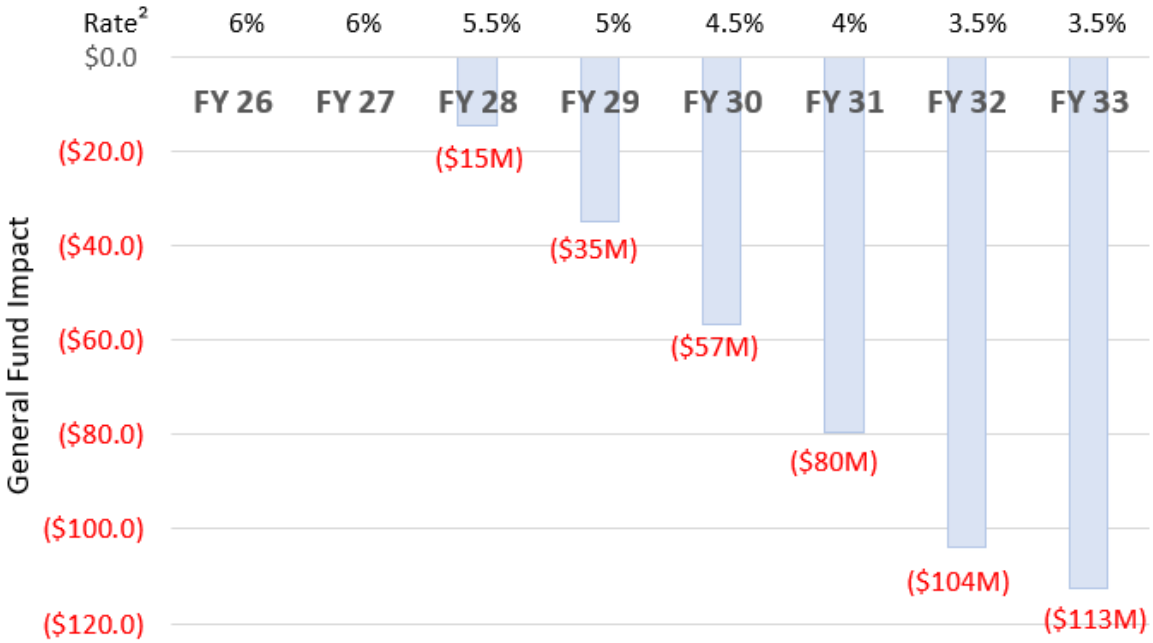
Impacts of the 2025 Federal Reconciliation Act (H.R.1)



Preliminary JFO Estimate: $15 million (FY 2028) to $113 million (FY 2033) reduction in General Fund revenues

- Reductions will depend on the FMAP rates and any state budget and/or policy decisions

PRELIMINARY JFO ESTIMATES: PROVIDER TAX RATE CHANGE AS OUTLINED IN THE 2025 FEDERAL RECONCILIATION ACT, State Fiscal Years 2026 to 2032[1]



[1] Estimates are preliminary and subject to change.

[2] Rate is based on Federal Fiscal Year. General Fund Impacts are based on State Fiscal Year.

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