

## Managed Care Tax Not Permissible By Feds, Creates \$1.1 Billion Tax Loss For Ohio

July 5, 2016



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In 2009, under the Strickland Administration, Ohio repealed the Medicaid Managed Care Organization tax and replaced it by applying the 5.5 percent state sales tax to services purchased from Medicaid MCO's. In July 2014, the Centers for Medicare and Medicaid (CMS) advised state Medicaid Directors that "taxing a subset of health care providers at the same rate as a statewide sales tax is subject to the definition of a health care related tax and not permissible. CMS gave states until the end of next legislative session to comply, which would be June 30, 2017 for Ohio to comply. According to the Ohio Office of Budget and Management (OBM) the tax is projected to be \$558 million in state fiscal year (SFY) 2018 and \$578 million in SFY 2019. Through piggyback taxes, the county share of the sales tax related to MCOs is projected to be \$195 million in SFY 2018 and \$202 million in SFY 2019. This is of great concern for counties, who have relied on sales tax revenues since the recession in 2008. This could be a 7.5-10 percent loss on average for some counties. Ohio currently applies a 2.7 percent hospital franchise fee, 5.5 percent nursing facility franchise fee, and a 1 percent health insuring corporation (HIC) premium tax, which are all permissible by the federal government. These taxes do not impact the state's federal Medicaid matching fund (FMAP). During the previous budget deliberations, the Administration had proposed an increase in the hospital franchise fee from the current 2.66 percent to 3 percent, and the House increased it to 4 percent, which would have provided \$1 billion over the two year period. The Senate removed the increase and kept the current rate in place. The state is still reviewing all of its options, including an increase in the hospital franchise fee, a possible increase in the HIC, among other solutions. Adding to the complexity of the issue is the need to redistribute the local share back to 88 counties.

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