Report in Brief
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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

Although Hospital Tax Programs in Seven States Complied With Hold-Harmless Requirements, the Tax Burden on Hospitals Was Significantly Mitigated

Why OIG Did This Review

Since 2003, the United States Government Accountability Office has identified Medicaid as a high-risk program. Between Federal fiscal years (FYs) 2011 and 2017, Medicaid expenditures rose 42 percent from $430 billion to $610 billion. By FY 2025, Medicaid is projected to have annual expenditures of $958 billion. The Social Security Act requires States to provide at least 40 percent of the non-Federal share of Medicaid expenditures, while up to 60 percent may be derived by local sources, including health-care-related taxes, as long as the taxpayer is not held harmless for the tax payment. However, this cost sharing requirement only applies to the aggregate of annual Medicaid program expenditures, not on a service-specific basis.

Our objectives were (1) to determine if hospital tax programs in seven States were in compliance with hold-harmless requirements and (2) to assess the financial impact of these programs on the States, the Federal Government, and the hospitals in the tax programs we reviewed.

How OIG Did This Review

We reviewed the hospital tax programs of seven States with the largest health-care-related tax programs: California, Illinois, Indiana, Michigan, Missouri, Ohio, and Pennsylvania. For each State, we reviewed hospital tax program documentation to determine compliance with hold-harmless requirements, the level of taxes collected, and the financial impact on the State, Federal Government, and hospitals.

What OIG Found

The health-care-related hospital tax programs in the seven States we reviewed complied with hold-harmless requirements.

The seven States in our review collected $38.4 billion in tax revenue from their hospitals during State FYs 2011 through 2015. The $38.4 billion was used as the State share of Medicaid payments and resulted in a draw-down of $54.6 billion in Federal matching funds for a total of $93 billion. From the $93 billion, $60.2 billion was used for supplemental payments for non-disproportionate share hospitals (non-DSHs) to mitigate most of the hospital tax payments and $32.7 billion was used mostly for additional hospital services.

In the States reviewed, we found that non-DSH supplemental payments exceeded 75 percent of hospital tax payments in each year for all States, except for 2 years in Pennsylvania and 1 year for Ohio. However, since the tax rate was less than the 6 percent safe-harbor threshold, the tax programs could return more than 75 percent of the tax payments to more than 75 percent of the taxpayers without violating the hold-harmless requirement (75/75 requirement). Had the tax rates exceeded 6 percent, CMS could have deemed those hospital tax programs as impermissible, which would disqualify the use of the tax revenue for drawing down Federal matching funds.

What OIG Recommends and CMS Comments

We recommend that CMS re-evaluate the effects of the health-care-related tax safe-harbor threshold and the associated 75/75 requirement to determine if modifications are needed, such as the reduction or elimination of the safe harbor threshold or adjusting the 75/75 requirement, and take appropriate action.

CMS concurred with our recommendation and stated that it will evaluate the effects of the health-care-related-tax threshold and the associated 75/75 requirement to determine if modifications are needed.