Minnesota Medical Association

ISSUE BRIEF

ISSUE

Replacing the provider tax and ensuring stable, ongoing financing for access and safety net programs

MMA Position

Minnesota's provider tax is scheduled to be repealed at the end of 2019. However, replacement funding for the safety net programs that the provider tax has funded for nearly 30 years has yet to be identified. The MMA recommends adopting a claims expenditure assessment (CEA) — a fairer funding source for our health care programs.

Background

Passed into law in 1992, the provider tax is a 2 percent gross revenues tax on medical services provided by physicians, hospitals, dentists, chiropractors and other health care providers. Funds from the tax are deposited in the Health Care Access Fund (HCAF), along with revenues from a 1 percent HMO gross premium tax, premiums from enrollees, and federal matching dollars. These funds are used to provide much needed care to low-income Minnesotans.

Legislators and Gov. Mark Dayton approved the repeal of the tax as part of the 2011 budget agreement. Under current law the provider tax will be permanently repealed on Dec. 31, 2019.

It is time to adopt a fairer, modernized funding source for: Medical Assistance (MA), which covers all Minnesotans earning up to 138 percent of the federal poverty level (FPL); MinnesotaCare, which covers Minnesotans earning up to 200 percent of the FPL; and for the other health care access related programs funded by the Health Care Access Fund such as the Office of Rural Health, the Statewide Health Improvement Partnership, workforce loan forgiveness programs, and more.

The CEA moves the assessment and collection of the tax "upstream" from the provider to the payer. It is still based on health care spending but is assessed at the health plan and third-party administrator level and based on paid claims for Minnesota residents. It is allowed under ERISA so it will apply to both regulated health plans and self-insured employer plans. By adopting the CEA, patients who are paying out-of-pocket for health services will no longer be taxed. Also, those receiving services that are not covered by their insurance will no longer be taxed. The CEA is as broad-based as the provider tax but will be much easier for the state of Minnesota to administer.

Talking Points

- Health care programs for low-income Minnesotans are critical and must be funded with a funding source that does not add new burdens to the cost of health care.
- The CEA raises enough money to fund the ongoing access and safety net programs currently funded by the HCAF.
- The CEA will not raise excess funds, which in the past, have been raided for non-health care projects.
- The CEA is less regressive because those paying cash for medical services are not taxed.
- This removes administrative costs to providers of all sizes to assess, collect, and pay the tax to the state.
- A CEA is easier for the Department of Revenue to administer with significantly fewer entities paying the tax, which means fewer payers to oversee and audit.
- Now is the time to allow the scheduled provider tax to be repealed and replaced with a CEA to keep important access and safety net programs funded.