



Cutting Medicaid Funding Through Restrictive State Financing Rules

The proposed policies included in the House reconciliation package – *One Big Beautiful Bill Act (H.R. 1)* – will destabilize providers and hospitals serving local communities, burden states and **lead to more than 7.8 million Americans losing their Medicaid coverage and benefits.**¹

What's In The Bill

The House reconciliation bill will limit how states can generate their share of Medicaid funding. It specifically targets two long-standing financing tools:

- **Provider Taxes**²
- **State Directed Payments (SDPs)**³

If passed, these provisions would impose unclear and overlapping restrictions that would threaten states' ability to maintain services for Medicaid enrollees.

How States Use These Tools Today

Provider Taxes

- Provider taxes have been used by states to help finance Medicaid since the inception of the program.⁴ These taxes provide funding needed to support a wide range of essential health care services and providers covered by Medicaid, including hospitals, long term care facilities, psychiatric care, pregnancy and postpartum services, as well as rural health.
- 49 states and the District of Columbia utilize at least one provider tax to help fund their Medicaid program. These taxes have been implemented on a bipartisan basis in both Democrat- and Republican-led states.
- States tax providers, such as hospitals, nursing homes and other care specialists, up to 6% of net patient revenues. Thirty-seven states and the District of Columbia utilize at least one provider tax over 5.5%.

¹ <https://www.cbo.gov/publication/61461>

² <https://ccf.georgetown.edu/2025/05/13/house-energy-and-commerce-committee-reconciliation-bill-would-restrict-state-use-of-provider-taxes-and-undermine-state-financing-of-medicaid/>

³ https://assets-us-01.kc-usercontent.com/9fd8e81d-74db-00ef-d0b1-5d17c12fdda9/37f7f928-c3db-4455-bef5-6d5b7dc5fb6b/CMWF_SDP_Brief_2025-05_b_Rd9.pdf

⁴ https://modernmedicaid.org/wp-content/uploads/2025/03/Modern-Medicaid-Alliance_Provider-Tax-1P_3.24.25_.pdf

State Directed Payments

- State Directed Payments (SDPs) were introduced in 2016 as a key mechanism in Medicaid managed care that allows states to maintain provider operations, improve care quality and support broader health care reforms.⁵
- Funded jointly by states and the federal government, these state direct payments are especially beneficial for hospitals heavily reliant on Medicaid patients, helping to offset underpayments and sustain essential services.
- They also improve access to specialized care for Medicaid enrollees at hospitals that are not primarily focused on Medicaid populations.

Why This Matters

Every state except for Alaska relies on provider taxes — implemented with full legal authority and federal oversight — to fund its state Medicaid program. Many states also rely on SDPs to enhance Medicaid payment rates to support hospitals and providers that deliver essential care in underserved communities.

Undermining these vital funding mechanisms through unclear and restrictive rules would fundamentally weaken Medicaid.

- Limiting provider taxes **would force states to choose between cutting services or raising non-health care taxes.**⁶
- Reductions to SDPs would hit rural hospitals, safety-net providers, children's hospitals and other providers operating on thin margins the hardest, **potentially leading to across-the-board service reductions, staffing cuts or even closures in areas where care is already scarce.**⁷
- **Children's hospitals, safety-net providers and underserved communities** would bear the brunt of reduced access to care.⁸
- Medicaid enrollees could face **longer wait times, fewer provider options and reduced access to specialized care.**

⁵ https://assets-us-01.kc-usercontent.com/9fd8e81d-74db-00ef-d0b1-5d17c12fdda9/37f7f928-c3db-4455-bef5-6d5b7dc5fb6b/CMWF%20SDP%20Brief_2025-05_b%20Rd9.pdf

⁶ <https://www.kff.org/medicaid/issue-brief/5-key-facts-about-medicaid-and-provider-taxes/>

⁷ https://assets-us-01.kc-usercontent.com/9fd8e81d-74db-00ef-d0b1-5d17c12fdda9/37f7f928-c3db-4455-bef5-6d5b7dc5fb6b/CMWF%20SDP%20Brief_2025-05_b%20Rd9.pdf

⁸ <https://www.aha.org/fact-sheets/2025-02-07-fact-sheet-medicaid-provider-taxes#:~:text=States%20can%20implement%20these%20taxes.net%20revenue%2C%20flat%20taxes>