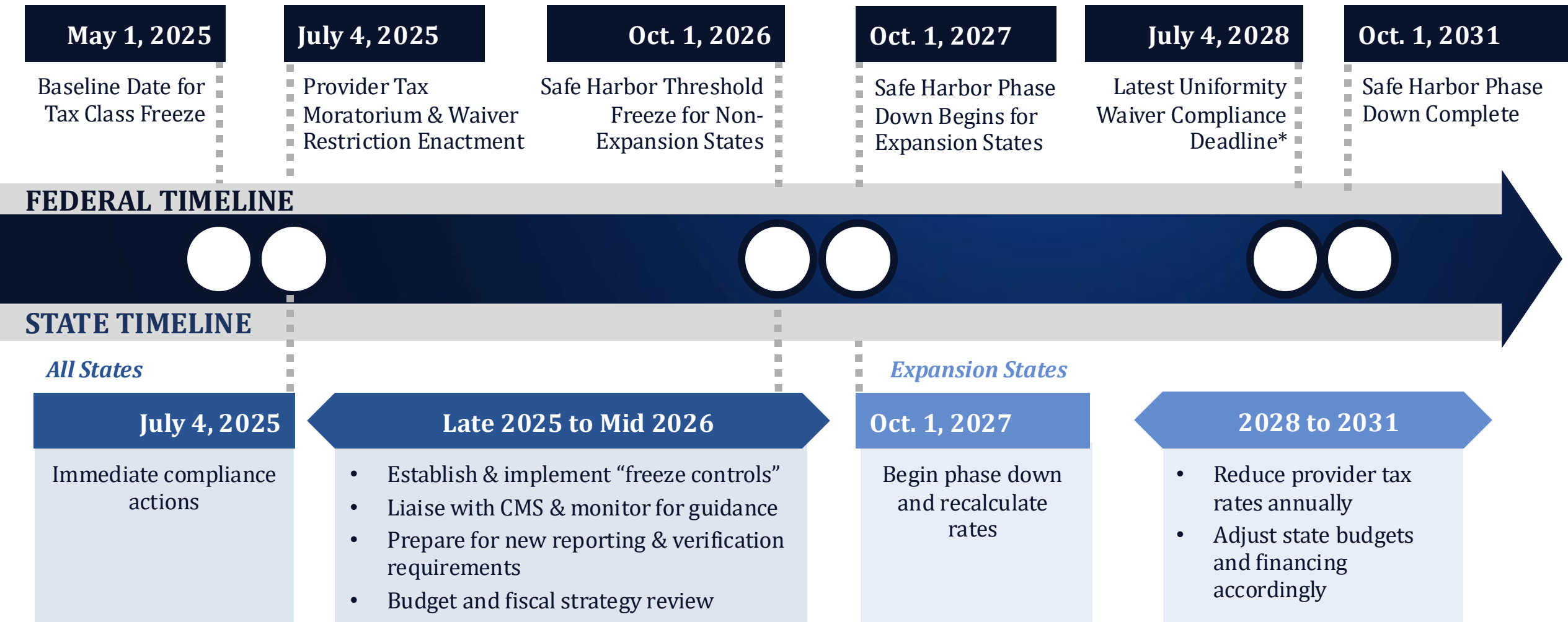


STATE ROADMAP FOR OBBBA PROVIDER TAX PROVISIONS

TRP’s roadmap outlines how states may prepare for the implementation of the OBBBA’s changes to Medicaid provider tax regulations.



*Only if granted a transition period by HHS Secretary

Federal Deadlines

- **May 1, 2025 — Baseline Date for Tax Class Freeze**

The list of permissible provider tax classes under 42 CFR 433.56(a) is locked in as of this date. States cannot add new provider classes or revise existing ones based on later regulatory changes. This establishes the permanent baseline for all allowable tax categories going forward.
- **July 4, 2025 — Provider Tax Moratorium & Waiver Restriction Enactment**

The OBBBA’s provider tax moratorium and new waiver restrictions take effect. States may no longer implement provider taxes that apply higher rates to Medicaid-related units or rely on uneven structures to qualify for a redistributive waiver.
- **October 1, 2026 — States Begin Safe Harbor Phasedown** ----->

At the start of FY 2027, the “safe harbor” threshold will be frozen at the tax rate that was in place as of July 4, 2025 for non-expansion states. For expansion states, a gradual phasedown will begin, starting at the 6% federal cap for FY 2027 and gradually lowering by 0.5% annually to 3.5% by FY 2032. The phase-down limits state flexibility and aligns all states with uniform federal standards.
- **July 4, 2028 — Latest Possible Uniformity Waiver Compliance Deadline**

Although the waiver restrictions took effect upon enactment, HHS may allow up to a three-year transition period. By this date, all states must comply fully with the new uniformity waiver rules, and no additional extensions will be granted.
- **October 1, 2031 — Safe Harbor Phase-Down Complete**

The federal “safe harbor” threshold for provider taxes is fully reduced to 3.5 percent for FY 2032. CMS oversight will transition to a uniform national standard reflecting this lower limit, marking the completion of all phase-down and transitional flexibilities under the OBBBA.

Safe Harbor Phasedown Timeline	
FY 2027	6%
FY 2028	5.5%
FY 2029	5%
FY 2030	4.5%
FY 2031	4%
FY 2032	3.5%

STATE ROADMAP FOR OBBBA PROVIDER TAX PROVISIONS

All States

Immediate Compliance

Effective July 4, 2025

Effective July 4, 2025 (the date of enactment), states are prohibited from establishing any new provider taxes or increasing existing ones, including both rate changes and creation of new tax classes. States should document every tax currently in effect as of the baseline date and maintain a complete inventory of provider and MCO taxes, rate histories, and CMS approvals for compliance and audit purposes.

Operational Adjustments

Late 2025 to Mid 2026

States should establish internal “freeze controls” within budgeting, rulemaking, and legislative processes to prevent unintentional tax changes during the moratorium period. States should also strengthen financial reporting systems in anticipation of new CMS verification and documentation requirements. For the waiver restriction, states should coordinate with CMS regional offices to confirm the status of any existing or pending waiver arrangements, particularly those that could require modification if HHS grants a state-specific transition period.

Ongoing Monitoring

2026 to 2028

Compliance teams should closely monitor CMS subregulatory guidance, FAQs, and technical updates related to the new “generally redistributive” standard and waiver compliance tests. States should also begin multi-year fiscal planning to address the potential reduction in provider tax revenue and prepare for adjustments in state-directed and supplemental payment programs that rely on those funds.

Expansion States

Safe Harbor Phase-Down

2027 to 2031

Beginning October 1, 2027, expansion states will begin the annual 0.5 percent reduction of the federal safe harbor threshold for provider taxes, starting at 6 percent and reducing to 3.5 percent by FY 2032. Each state must recalculate its effective provider tax rates annually and adjust budgets, payment structures, and financing strategies to remain compliant with the new cap. CMS is expected to issue guidance to support rate recalibration and maintain fiscal stability during the transition.