

MinnesotaCare Provider Taxes

What are the taxes? Minnesota imposes a series of gross revenue taxes on various types of providers of health care goods and services. Revenues from these taxes are used to pay for the MinnesotaCare program, which provides state-subsidized health care coverage for low-income individuals.

Who is subject to the tax? Provider taxes apply to the following:

- “Health care providers,” including licensed health care professionals such as physicians, dentists, nurses, psychologists, physical therapists, and chiropractors; unlicensed individuals providing services reimbursed under Minnesota’s Medicaid program; staff model health plan companies (an HMO where services are provided by employees); ambulance services; opticians; and sellers of hearing aids
- Hospitals
- Surgical centers
- Wholesale drug distributors

What entities are exempt from the tax? MinnesotaCare provider taxes do not apply to the following:

- Nursing homes and other residential care facilities, such as board and care homes, adult foster homes, boarding care homes, and adult day care centers
- Home health agencies
- Providers of personal care services
- Providers of private duty nursing services
- An entity that employs health care providers to service only their employees
- An educational institution that provides services to its students, if it does not charge for extended coverage

What is the tax base? The taxes apply to the gross revenues derived from “patient services,” which include most services provided to patients, such as diagnostic and therapeutic services, and bed and board. Some services are explicitly excluded:

- Services provided to nursing homes and in connection with assisted living and congregate housing programs
- Exams for insurance, employment, litigation, and so forth
- Certain mental health services
- Hospice services
- Specified residential services for the developmentally disabled

What is the tax rate? The tax rate is 2 percent. A temporary 1.5 percent rate applied from 1998 through 2003.

What exemptions apply?

Exemptions from the tax apply to the following payments:

- For services provided under Medicare
- For home health care services
- Made from the state chemical dependency fund
- Funded by charitable donations not designated for an individual or group
- Under programs funding research on human subjects under federal law
- Made by the federal employee and military (Tricare) health insurance plans that cover federal workers and military personnel and retirees
- From providers that were already subject to the tax

Are credits allowed?

Credits are allowed for taxes paid to other states and for qualifying research expenditures. The research credit is subject to an annual cap of \$2.5 million; the commissioner of revenue sets the credit rate to equal the cap amount.

How is the tax paid?

Providers make quarterly estimated payments; an annual return is filed to reconcile the estimated payments with the final liability for the tax year. All payments and returns must be filed and made electronically. The Department of Revenue administers the tax. Providers may itemize the tax on patient bills.

How are drugs taxed?

Legend drugs (i.e., those requiring prescriptions under FDA regulations) are taxed under a wholesale drug tax equal to 2 percent rate to the wholesale price. A use tax applies when drugs are purchased for resale in Minnesota from an out-of-state seller who does not have nexus and, thus, cannot be required to pay the tax. The use tax does not apply to purchases by individuals for their own use.

Is the tax permanent?

Under legislation enacted in 2011, the provider taxes will expire on January 1, 2020.

How much revenue is collected from the taxes?

In February 2015, Minnesota Management and Budget (MMB) estimated that the MinnesotaCare provider taxes will yield \$611 million in revenues for the health care access fund in fiscal year 2016. Because health costs are rising at a rapid rate and because consumption of health services is also increasing steadily, these revenues are likely to rise at a faster rate than most other state tax sources. MMB is forecasting 5.8 percent annual growth in its revenue over the next five years; by contrast, it forecasts general fund tax revenue to grow over the same period at a 4.3 percent annual rate.

Are these the only sources of revenue for the health care access fund?

No, the revenues from applying the insurance premiums tax to health maintenance organizations (HMOs) and nonprofit health services corporations (such as Blue Cross) are deposited in the health care access fund and used to pay for MinnesotaCare. In addition, other revenues from the program, such as premium payments by participants and some federal funding, go to the fund.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn; taxpayers with questions about how the tax applies to specific situations should contact the Department of Revenue at 651-282-5533.

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