CONNECTICUT HOSPITAL ASSOCIATION

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CONNECTICUT'S HOSPITAL TAX

What is the Hospital Tax

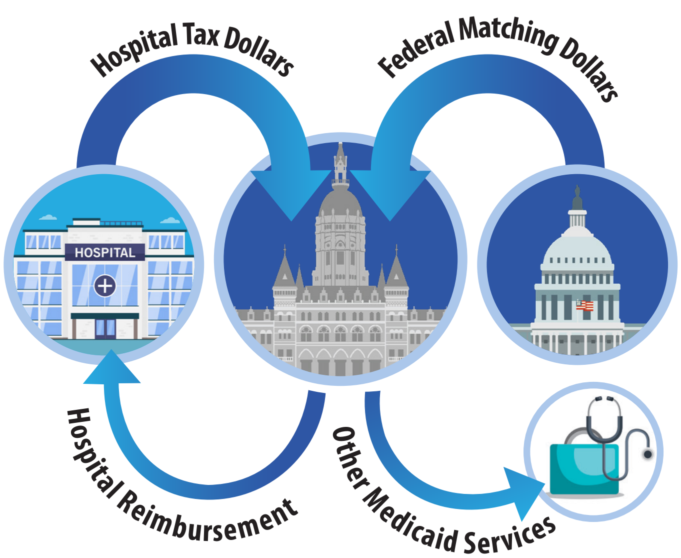
Under federal government rules, states can place a tax on healthcare providers to help finance their Medicaid program and use the revenue collected from the tax to receive federal matching funds.

How Does the Medicaid Match Work

Medicaid is a state and federal partnership, which means the state <u>and</u> federal government *each pay a share* of all payments for Medicaid services. Every state dollar that's used to fund Medicaid services is matched by at least one federal dollar, sometimes more.

States can use hospital tax dollars as the *state share*, allowing them to access federal matching dollars to pay for Medicaid services. Most states use the new tax and federal revenue to strengthen hospitals. The tax-supported reimbursement increases nearly always result in a substantial net financial benefit to hospitals. The rest of the tax dollars are used to support other Medicaid services.

That has not been the case in Connecticut. For many years, Connecticut used the tax primarily to bolster the state budget – resulting in **revenue gains to the state**, and **overall net losses for hospitals**. This weakened rather than strengthened hospitals and led to a lawsuit and eventual settlement with the state that expires at the end of FY 2026.



Revenue Gains for the State, Losses for Hospitals

The state's revenue gain will total
$7.2 billion
from the hospital tax

Since the hospital tax began under Governor Dannel P. Malloy, the state has achieved a net revenue gain totaling $3.2 billion before the 2019 settlement and is on pace to receive nearly $4 billion in revenue gains during the period of the settlement, which expires in 2026.

Hospitals will have lost a total of
$1.7 billion
due to the hospital tax

From the beginning of the tax program in 2012 to the end of the settlement in 2026, Connecticut hospitals will have been taxed $10.3 billion, received $8.6 billion in reimbursement, and be left with an overall net loss of $1.7 billion.

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The Hospital Tax in Connecticut and Other States

Historically, federal and state governments have treated not-for-profit hospitals as tax-exempt entities, recognizing the significant impact of the role they play in strengthening the health and well-being of the communities they serve. Over the years, hospital taxes have become common across the country because they provide states with revenue to help fund the state share of the Medicaid program.

While most hospitals in Connecticut are not-for-profit and exempt from corporate, sales and use, and property taxes, **they are one of the state's largest providers of tax revenue**, being taxed on their net patient revenue as part of a healthcare provider tax (hospital tax). Unlike taxes on business income, the taxes must be paid in good times and bad, even in years when hospitals have large negative operating margins.

44 — How Many States Have a Hospital Tax

44 states have a hospital tax, according to a KFF (Kaiser Family Foundation) report on state fiscal year 2024.

25 — Who Pays the Hospital Tax in Connecticut

Short-term general acute care hospitals. (Includes 25 acute-care hospitals in Connecticut and excludes UConn Health John Dempsey Hospital and Connecticut Children's.)

What the Hospital Tax Supports

The $850 million in taxes that hospitals pay helps Connecticut fund the state share of the Medicaid program, freeing up general fund revenue for other purposes. A little more than $300 million is used to fund the state share of Medicaid rate increases and supplemental payments for hospitals. The balance of more than $500 million is used to fund other Medicaid services.

Despite the hospital payments, the tax program has not done nearly enough to help support the cost of providing hospital services to Medicaid beneficiaries. The program has instead resulted in net losses to hospitals because the new Medicaid payments have been less than the value of the taxes paid. In comparison, the state has always generated a net gain—more than $500 million annually since 2016.

What Led to the Hospital Tax Settlement

Connecticut's hospital tax was enacted in 2012 by the administration of Governor Dannel P. Malloy to help fund the state share of the Medicaid program and reduce pressure on the state budget. Original plans were that hospitals would pay $350 million per year to the state, but the taxes would be offset by an increase in hospital reimbursement. Under the original agreement, hospitals would receive about 15% more in reimbursement than they paid in taxes. But as state deficits grew, the tax was increased, and the state gave back less and less to hospitals. In 2017 alone, the tax program resulted in a net loss of more than $400 million for hospitals.

After years of the tax creating an enormous financial burden for hospitals while the state used it to fill budget holes, a legal challenge was raised. In 2019, Governor Ned Lamont and Connecticut hospitals announced a historic settlement of the longstanding dispute around the hospital tax.

The settlement covers seven years, through FY 2026, gradually reducing the tax burden on hospitals, while preserving more than $500 million a year in net revenue gains for the state.

Hospitals are one of the state's largest providers of tax revenue.

Connecticut hospitals want to utilize the hospital tax better to invest in the health of local residents, families, and communities. Scan or click here to learn more.