



Contact: Wendy Patton, 614.582.0048

Changes to health care MCO tax must protect local government finances

The federal government has told states to make sure that taxes that fund health care are fully in line with federal requirements. Ohio, like other states, has one tax that will need to be adjusted to come into full compliance. Like other states that have already made the fix, Ohio will find a solution, but it is trickier here because the tax under scrutiny, called the MCO tax (on Medicaid managed care organizations) is part of the sales tax, and changes could affect counties and transit agencies that levy a local sales tax on the state tax base.

“California, Michigan and Pennsylvania have found or are working toward solutions that meet federal requirements,” said Wendy Patton, Senior Project Director at Policy Matters Ohio. “Ohio will too. But protecting the \$200 million the MCO sales tax brings to local governments is critical to any Ohio solution.”

Local governments as a group have lost a billion dollars a year (adjusted for inflation) in recent years because of changes in state revenue sharing and taxes. Strong growth of the Medicaid MCO tax, driven by the federally-funded Medicaid expansion, brought some relief to counties and transit agencies, which are allowed to impose a sales tax. That has been important in places where local economies are weak and many people are enrolled in Medicaid, especially very rural counties and the most urban counties.

The MCO tax collections are especially important to transit agencies. The Greater Cleveland Regional Transit Authority, facing fare increases and service cuts this summer, could lose \$18 million a year if the state’s solution does not protect local government.

“The changes required in the MCO tax do not stem from the Medicaid expansion or the Affordable Care Act,” said Patton. “The state will adjust tax laws as required, but must fully protect local public finances as they craft a solution.”

###

*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
with offices in Cleveland and Columbus.*