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Medicaid sales tax windfall for state

Managed care plan fee buoys government coffers

By **SHANNON MORTLAND**

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A little-known sales tax on Medicaid managed care plans is propping up county and state coffers as sales tax on most other things lags behind predictions.

In the state budget bill that was passed last summer, health insurers that offer Medicaid managed care plans in Ohio agreed to pay a sales tax on those plans, said Kelly McGivern, president and CEO of the Ohio Association of Health Plans. The sales tax went into effect Oct. 1, and the first payment was made Nov. 1.

As a result, the state has exceeded its sales tax predictions in the first two months of the program. In November, non-auto sales tax revenue in Ohio reached \$533.7 million, which was \$9.1 million above estimates of \$524.6 million. The surplus is due to the Medicaid managed care plan tax bringing in \$36.5 million, which was \$14 million more than expected, according to a Dec. 11 report from the Ohio Office of Budget and Management.

"Without the performance of the managed care portion, tax receipts would have actually been \$5.1 million short of the estimate," according to the report by the Office of Management and Budget.

December brought a similar story as non-auto sales tax statewide totaled \$628.5 million, which was \$9.3 million above the estimate of \$619.2 million, according to a Jan. 11 report by the Office of Budget and Management. That month, the Medicaid managed care plan sales tax ushered in \$37.2 million, or \$14.7 million more than projected, the state reported.

The estimates have been surpassed because more Ohioans have enrolled in Medicaid managed care plans since the tax was created a year ago, Ms. McGivern said. About 1.4 million Ohioans now are enrolled in Medicaid managed care plans, compared with only 1.2 million a year ago, she said.

Though taxes generally are viewed as bad, health insurers paying the sales tax on their Medicaid managed care plans don't seem to mind because most of the money comes back to them from the state, which receives the money from the federal government.

The tax replaces two fees previously paid by those insurers on their Medicaid managed care plans, said Frederick Church, deputy tax commissioner at the Ohio Department of Taxation. The federal government last year decided to stop reimbursing insurers for those fees because they were "uncomfortably close to being a mechanism where you're just doing it to get federal money," he said.

As a result, several other states replaced similar fees or franchise taxes on Medicaid managed care plans in various

ways, Mr. Church said. For example, California imposed an insurance tax, Pennsylvania created a tax on gross receipts and Michigan implemented a sales and use tax, he said.

Realizing the loss of the franchise fee would leave a hole in the state budget, Ohio's lawmakers and the insurers who offer Medicaid managed care plans in Ohio took a tip from Michigan and worked to create a replacement tax, Mr. Church said.

"This is an idea that (insurance) plans really partnered with the state to develop and move forward," said Janet Grant, executive vice president of external affairs with CareSource, a Dayton-based insurer that offers Medicaid managed care plans in Cuyahoga County.

The insurers who provide Medicaid managed care plans pay the sales tax on those plans to the state, which then reimburses the insurers, Mr. Church said. The federal government then reimburses the state for those costs and provides additional money for Medicaid services, he said. So, essentially, each county and the state end up with additional money that is generated from the sales tax on the Medicaid managed care plans.

Though the sales tax revenue in Cuyahoga County is still much lower than in previous years, the Medicaid managed care tax helped sales taxes collected in November and December rise slightly above sales tax revenues for the same time period a year ago, said Matt Rubino, interim director for budget management in Cuyahoga County.

"Most of the entire increase is due to the expansion of the sales tax base," he said. "If we didn't have that in there, it would be flat or less."

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