

Gross receipts tax imposed on providers

Minnesota imposes a series of gross revenue taxes on various types of providers of health care goods and services. Revenues from these taxes are deposited in the health care access fund and used to pay for portions of the cost of both the Medical Assistance and MinnesotaCare programs. The fund also pays for various agency responsibilities including administering MinnesotaCare and granting resources to entities that enhance public health activities.

Persons 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; 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

Exempt entities

Provider taxes do not apply to the following:

- Nursing homes and other residential care facilities, such as boarding and lodging establishments, 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

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

Tax rate

For calendar year 2024, the tax rate is 1.8 percent. The rate may be reduced from year to year by the commissioner of management and budget, in consultation with the commissioner of revenue, based on the projected balance in the health care access fund. The rate was 1.6 percent in 2023.

Exemptions

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

Credits

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 (0.5 percent in 2023) to equal the cap amount.

Taxation of drugs

Legend drugs (i.e., those requiring prescriptions under FDA regulations) are taxed under a wholesale drug tax equal to 1.8 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.

Amount of revenue collected

In 2023, the MinnesotaCare provider taxes yielded \$761 million. Minnesota Management and Budget (MMB) estimated that the taxes will yield \$786 million in revenues for the health care access fund in fiscal year 2024 and \$882 million in fiscal year 2025.

Other sources of funding for the health care access fund

In addition to provider tax revenues, revenues from the insurance premiums tax on health maintenance organizations (HMOs) and nonprofit health services corporations (such as Blue Cross) are deposited in the health care access fund. Other revenues, such as premium payments by participants and some federal funding, also go to the fund.



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