

AMERICA'S PHYSICIAN GROUPS

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CMS's Proposed Rule Implementing Limitations On Medicaid Provider Taxes Will Severely Undercut Managed Medicaid And Run Counter To The Agency's Drive For Accountable Care, Says America's Physician Groups

Washington, DC, September 21, 2026 -- In [comments](#) filed today in response to a Centers for Medicare & Medicaid (CMS) [proposed rule](#) implementing limits on Medicaid provider taxes, America's Physician Groups (APG) said the combined impact of this and other recently proposed Medicaid regulations – those governing new [community engagement requirements](#) and [state-directed payments](#) – would cause potentially millions of currently enrolled individuals to lose Medicaid coverage and limit the enrollment of millions more in the future; constrain state budgets and create financial and operational issues for Medicaid managed care organizations (MCOs) and their contracted provider networks, including many APG members; and cause drastic cuts in payment rates to health care providers, further eroding clinical quality and achievement of MCO performance metrics.

APG wrote that these changes would “severely undercut – if not destroy – the entire managed Medicaid model and the goals of bringing more value-based, accountable care into Medicaid.” The changes would also “fly in the face of CMS's concerted efforts to induce millions more Medicare beneficiaries and other individuals into high quality, patient-centered, and cost-effective alternative payment models and accountable care,” said Susan Dentzer, president and chief executive officer of APG.

Background: The proposed regulation implementing provider tax provisions of the 2025 reconciliation law would go well beyond that underlying statute in limiting provider taxes, a key mechanism that 49 states and the District of Columbia use to help fund their Medicaid programs. Federal rules have long allowed states to use provider taxes so long as a given provider tax did not exceed 6 percent of a provider's net patient revenue – the so-called “hold harmless” rate. But the 2025 reconciliation law will gradually reduce this limit for states that have expanded their Medicaid programs under the Affordable Care Act by 0.5 percent annually to a maximum of 3.5 percent by fiscal 2032. That statutory requirement, along with the regulation's additional complex provisions, would have the net effect of limiting future use of provider taxes even more sharply than the law, leading to a sequence of outcomes that will adversely affect Medicaid enrollees and the physician groups and MCOs that serve them.

Recommendations: In its comments to CMS, APG recommended that CMS make multiple changes in the proposed regulation before adopting it in final form. Among APG's ten key recommendations were that CMS should conduct and publish a detailed analysis of the proposed rule's effects on physician participation in Medicaid, Medicaid payment rates, rural and underserved communities, access to specialty and behavioral health care, and patient outcomes. “CMS should not finalize the rule unless it can demonstrate that states will be able to comply without materially reducing access to medically necessary care,” APG wrote. In addition, APG wrote that “CMS should expressly clarify that legitimate value-based payments, quality incentive payments, care-coordination payments, and outcome-based arrangements are not presumed to constitute an impermissible hold-harmless arrangement merely because they benefit providers that are subject to a health care-related tax.” CMS should also “preserve existing value-based payment arrangements during any transition period and require an analysis of how the proposed rule would affect Medicaid quality, care coordination, health equity, and physician participation in alternative payment models.”

About America's Physician Groups

APG's more than 300 physician groups comprise approximately 260,000 physicians and other clinician providing care to nearly 90 million patients, including about 1 in 4 Americans and 1 in 3 Medicare Advantage enrollees. APG's motto, ‘Taking Responsibility for America's Health,’ represents our members' commitment to clinically integrated, coordinated, value-based health care in which physician groups are accountable for the costs and quality of patient care. Visit us at www.apg.org.

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