

IOWA HOUSE DEMOCRATS



BILL AND AMENDMENT SUMMARY

HF 2739

Health Maintenance Organization Taxation/Taxpayer Relief Fund Transfers

Status of Bill: House Calendar

Committee: Ways & Means Committee (16-7); Appropriations (14-10)

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Lead Democrat: Rep. Judge; Rep. Srinivas

Floor Manager: Rep. Lundgren

Key Points/ Takeaways

- Changes the taxation of Health Maintenance Organizations (HMOs).
- Provides a supplemental appropriation from the Taxpayer Relief Fund to the state General Fund of \$296.2 million to account for decreased state tax revenues from the One Big Beautiful Bill Act (OBBA).
- Provides a supplemental appropriation from the state General Fund to cover the Medicaid shortfall.

Background

Currently, HMO and Managed Care Organization (MCO) premiums are taxed under the same framework in Iowa law ([Ch. 432](#)). However, since the OBBA's enactment, the [Centers for Medicare & Medicaid Services](#) (CMS) finalized a rule closing the "[Medicaid tax loophole](#)". This rule makes significant reforms to Medicaid financing, restricts premium tax increases, and is effective beginning April 3, 2026. State officials have a temporary window to pass legislation and submit their enacted tax changes to CMS by March 31, 2026. Iowa's HMOs and MCOs are currently taxed at 0.925% of premiums.

Specifically, CMS's final rule prohibits tiered tax rates, eliminates a state's ability to tax providers for the necessary revenue triggering federal matching funds, lowers the maximum allowable provider tax rate, and freezes new or increased provider taxes. Based on this, Iowa would lose the ability to impose higher tax rates on Medicaid-related businesses than on non-Medicaid businesses (i.e. – Wellmark, Sanford, Wellpoint, and Aetna). Lastly, as a Medicaid expanded state, Iowa may tax MCO premiums only up to 3.5% of net patient revenue.

Due to OBBA's new tax restrictions, a proposed, one-time, 3.5% tax increase on private HMO insurance providers may result in a 238% hike on private health insurance costs. If applied retroactively, this measure could increase Wellmark's premium taxes alone from \$12.1 million to \$24.2 million, which may subsequently be shifted on to Iowa consumers, small businesses, and other entities. Conversely, enacting a one-time tax within the allotted federal window would allow Iowa to collect increased revenue for the first three quarters of 2026 and fill the state's Medicaid budget deficit.

Overall, Iowa's latest financial estimate shows a rough \$1.3 billion spending gap between the state's \$9.42 billion budget and state revenues for the fiscal year. The state is also currently facing a multi-million-dollar Medicaid budget shortfall, which can be attributed to pandemic-era federal aid expiration and a reduction in the federal government's matching rate for state Medicaid costs.

Summary

Division I – Health Maintenance Organization Taxation

Each Health Maintenance Organization (HMO) transacting business in the state is subject to a health care-related tax. The tax is increased to 3.25% for the time period of January 1, 2026, through September 30, 2026. After October 1, 2026, the tax is reduced to 0.95%. Tax receipts are deposited in the Health Care Tax Fund created in the bill.

Repeals the Health Maintenance Organization Medical Assistance Program premium tax. (Iowa Code 432.1B)

A “Health Maintenance Organization” is a person who:

- Provides either directly or through arrangements with others, health care services to enrollees on a fixed prepayment basis.
- Provides either directly or through arrangements with other person for basic health care services.
- Is responsible for the availability, accessibility and quality of the health care services provided or arranged.

Under the bill, this specifically includes a Health Maintenance Organization contracting with the Department of Health and Human Services to administer the Iowa Code Chapter 249A medical assistance program (Medicaid), commonly referred to as Managed Care Organizations (MCOs).

The bill includes requirements for payment of the tax, including due dates, penalties for nonpayment, and remittance of the tax.

Division II – Taxpayer Relief Fund Transfers – Supplemental Appropriations

Transfers \$296.2 million from the Taxpayer Relief Fund to the state General Fund for state tax relief based on the reduction in state revenue associated with 2025 federal tax law changes. This includes, but is not limited to, the change in taxation of qualified tips, overtime compensation, and qualified passenger vehicle loan interest included in the federal One Big Beautiful Bill Act.

Readjusts the original state General Fund expenditure limitation based on the amount of money transferred from the Taxpayer Relief Fund through Fiscal Year 2030.

Appropriates \$70.3 million from the state General Fund to the Department of Health and Human Services for Fiscal Year 2026 to supplement the appropriation made for the medical assistance program (Medicaid) reimbursements.

Amendment Summary

H-8233 by Srinivas of Polk

This strike after amendment appropriates an FY 2026 Medicaid supplemental (\$70 million) from the general fund and transfers \$296 million from the Taxpayer Relief Fund.

H-8236 to H-8233 by Zabner of Johnson

This secondary amendment increases the health insurance premium of member of the General Assembly by 3.5% and then uses the additional savings to fund help fund the Medicaid program.

H-8238 to H-8233 by Srinivas of Polk and Zabner of Johnson

This secondary amendment is the same language HF 2738 which creates a state-based health insurance subsidy.

H-8239 to H-8233 by Srinivas of Polk

This secondary amendment strikes the ability for Republicans to use the transfer of Taxpayer Relief Fund to the general fund to be used when calculating the expenditure limitation. This amendment keeps the Republicans in check who have racked up two consecutive years of billion-dollar deficits.

H-8237 to H-8233 by Zabner of Johnson

This secondary amendment requires the sale of the Governors plane used for executive travel, paid for with American Relief Plan dollars and then puts the proceeds from the sale to the Medicaid program in the state.

H-8240 to H-8233 by Srinivas of Polk and Cooling of Linn

This secondary amendment prevents any health care premium increases for health benefits plans offered by health insurance companies. This includes policies, contracts or plans delivered after January 1, 2027. The freeze expires after 5 years.

H-8234 by Lundgren of Dubuque

The Republican amendment increases the transfer from the Taxpayer Relief Fund by \$50.8 million to \$347,013,889 and the appropriation from the general fund for the Medicaid supplemental by \$18.7 million to \$89,000,000. The amendment also prohibits the transfer from the Taxpayer Relief Fund to the general fund from being larger than the difference between the lower revenue estimate determined at the REC meeting prior to the December 15 and the meeting occurring in March.

Beginning in FY 2028, money transferred from the Taxpayer Relief Fund to the general fund is required to be used in setting the expenditure limitation. This language is repealed July 1, 2029.

H-8242 to H8234 by Lundgren of Dubuque

Clarifying amendment on the implementation of the 3.5% Health Care-Related Tax.

H-8241 to H-8234 by Srinivas of Polk

This secondary amendment strikes everything in H-8234 except for the Medicaid supplemental appropriation increase.