



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

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**NOTICE TO TAXPAYERS REGARDING THE INCREASE IN THE  
HEALTH INSURANCE CLAIMS ASSESSMENT (HICA) TAX RATE AND  
THE SUSPENSION OF THE HMO USE TAX**

**Issued: January 20, 2017**

The Health Insurance Claims Assessment (HICA)<sup>1</sup> is a broad-based tax on paid health care claims. The tax was originally designed to replace the 6% tax imposed on the use or consumption of medical services provided by Medicaid Health Maintenance Organizations and Prepaid Inpatient Health Plans (referred to as the “HMO Use Tax”).<sup>2</sup> Replacing the HMO Use Tax was necessary due to longstanding concerns that federal “matching” funds available for the State Medicaid program may be reduced by revenues generated by the tax. The HICA was therefore enacted as a means for the State to finance its Medicaid obligation without reducing matching funds available from the federal government.

HICA revenues, however, fell short of the amount needed to fully fund the Medicaid program. As a result, the State revised its plan to finance its Medicaid obligations through legislation which included a reduction to the HICA tax rate from 1.0% to .75%<sup>3</sup> and a temporary reinstatement of the HMO Use Tax.<sup>4</sup> The HMO Use Tax was reinstated pending a formal position from the federal government regarding the merits of the tax under the provisions of the Social Security Act. In this regard, the amending legislation contained a contingency provision whereby the HICA rate would automatically revert to 1.0% if the federal government informed Michigan that Medicaid matching funds would be reduced by HMO Use Tax revenues.<sup>5</sup>

The federal government has since informed Michigan that the revenue collected from the HMO Use Tax will not be federally reimbursed. This determination has resulted in several noteworthy changes to both HICA and the HMO Use Tax.

**HICA.** Because HMO Use Tax revenues will not be federally reimbursed for purposes of Medicaid funding, the HICA tax rate automatically reverted to 1.0% effective January 1, 2017. Taxpayers subject to HICA are therefore required to pay a 1.0% tax on paid claims effective January 1, 2017, and continuing until the current HICA sunset date of July 1, 2020.

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<sup>1</sup> MCL 550.1731 *et seq.*

<sup>2</sup> MCL 205.93f

<sup>3</sup> 2014 PA 162.

<sup>4</sup> 2014 PA 161.

<sup>5</sup> MCL 550.1733(1).

**HMO Use Tax.** Legislation was enacted at the end of 2016 which suspended the HMO Use Tax effective January 1, 2017.<sup>6</sup> As currently amended, this suspension is temporary and the tax will be reinstated upon the earliest of the following dates:

1. July 1, 2020 (the current HICA sunset date);
2. the effective date of the repeal of Section 3 of HICA, or;
3. the effective date of any amendatory act that reduces the HICA rate to 0%.<sup>7</sup>

At the first of the above-mentioned dates, the HMO Use Tax will automatically be reinstated. At that time, taxpayers will again be required to remit the HMO Use Tax as required under Section 3f of the Use Tax Act.

For taxpayers required to file returns and remit payment of the HMO Use Tax prior to January 1, 2017, the annual filing and payment deadlines remain in effect. The 2016 annual return is due February 28, 2017.

For questions and account related inquiries, contact the Miscellaneous Taxes and Fees Unit at 517-636-0515.

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<sup>6</sup> 2016 PA 390.

<sup>7</sup> MCL 205.93f.