IMPACT OF THE MEDICAL DEVICE EXCISE TAX

A Status Report from AdvaMed
impact of the medical device excise tax

Prior to the implementation of the medical device excise tax on January 1, 2013, assessments by industry members, studies by academic researchers, and independent data suggested that the medical device tax would have a significant and negative impact on employment, research and development, and industry competitiveness. Supporters of the tax disputed some of these assessments.

To provide information on the actual real world impact of the tax in the first year of implementation, AdvaMed conducted an electronic survey of member companies. The survey was sent to all AdvaMed members on November 14, 2013, with a response deadline of December 9. The responses to the survey were generalized to the industry as a whole based on the ratio of revenues of responding companies to revenues of the overall industry.
key findings

JOB LOSS

The tax has resulted in employment reductions of approximately 14,000 industry workers and forgone hiring of 19,000 workers. The total job impact of the tax on industry employment was approximately 33,000.

Independent estimates of the relationship between direct employment in the industry and indirect employment among suppliers and in the general economy found a ratio of four indirect jobs for each direct job. Applying this ratio to jobs lost or foregone suggests that the impact of the tax on indirect employment would be approximately 132,000 jobs, for a total job loss due to the tax of as many as 165,000 jobs.

MOVED JOBS ABROAD

Almost 10 percent of respondents said they had relocated manufacturing outside of the U.S. or expanded manufacturing abroad rather than in the U.S. because of the tax.

OTHER NEGATIVE IMPACTS

Three-quarters of respondents said they had taken one or more of the following actions in response to the tax: deferred or cancelled capital investments; deferred or cancelled plans to open new facilities; reduced investment in start-up companies; found it more difficult to raise capital (among start-up companies); reduced or deferred increases in employee compensation.

FUTURE IMPACTS

While the focus of the survey was on effects of the tax in its first year, several questions were future-oriented and suggest that the tax will have additional negative impacts over time if not repealed.

- 58% of respondents said they would consider reducing employment if the device tax were not repealed.
- 50% said they would consider reducing R&D investment if the device tax were not repealed.
methodology & additional data

As noted above, the survey was conducted electronically between November 14 and December 9, 2013. The survey was sent to every AdvaMed company. The thirty-eight responding companies accounted for approximately 40% of the domestic sales revenues of AdvaMed members and approximately 15% of member companies.

Respondents were almost evenly divided between large and small companies, with 45% having sales below $100 million and the remainder with sales above this amount.

As is typical of the industry, companies were dispersed geographically, with respondents reporting headquarters locations in 17 states (Arizona, California, Colorado, Illinois, Indiana, Massachusetts, Michigan, Minnesota, North Carolina, New Jersey, New York, Ohio, Oregon, Pennsylvania, South Carolina, Texas, and Utah). Respondents reported employment in all 50 states.

Sixty percent of the respondents were currently operating at a profit, while 40% were not.

Responses were expanded to national estimates of employment impact using the following methodology. U.S. total expenditures on medical devices and diagnostics in 2010 were $156.3 billion. This figure was assumed to equal medical technology company revenues. This estimate was updated to 2012 using percentage increases in revenues in 2011 and 2012 for publicly traded “pure” device companies, yielding total industry revenues of $159.4 billion. Respondents to the AdvaMed survey represented 22.3% of total industry revenues ($35.5 billion), so job losses and jobs foregone reported by survey respondents were multiplied by (159.4/35.5) to arrive at an estimate for the industry as a whole.

3. Ernst and Young, Pulse of the Industry: Medical Technology Report 2013 and Pulse of the Industry: Medical Technology Report 2012. “Pure” device companies are companies that are only in the business of manufacturing devices and diagnostics. Revenue increases for conglomerates for the device portion of their business are assumed to be similar.
key comments

The survey included an open-ended question asking respondents to comment on the impact of the medical device tax on their business.

“We have restructured our business, including significant layoffs... We have reduced service levels to customers. We will consider adding headcount if there is a repeal.”

“Adding offices and employment outside US (EU and Asia) in lieu of US jobs. Modest numbers today, but will increase in upcoming years.”

“As a start-up company getting ready to launch a product, the MDET will create a $300K potential debt/cash-flow problem. I can’t afford to be successful!”

“We are likely to close a US plant which will offset about 70-80% of the cost of the MDET.”

“Taxes, along with cuts to reimbursement, are destroying the innovation business case for personalized medicine.”

“As a small start-up operation that is not yet cash positive, the device tax is particularly onerous because of the decreased amount of funds available to invest in the business.”

“This tax is a penalty on companies that are successful in the U.S.”

“The tax will continue to be a negative drag on our company and will affect our decisions to further invest in device products.”