

MEDICAL DEVICE TAX:

CLAIMS AND FACTS

There is bipartisan support for repeal of the medical device tax. Legislation to repeal the tax was reintroduced in the House of Representatives April 2019 with 227 cosponsors, including 46 Democrats.

CLAIM:

Health insurance coverage under the Affordable Care Act would be put at risk by repeal. If the tax is repealed, Congress must find an offset to pay-for repeal.

- The revenue raised by the tax was used in a bookkeeping sense to offset the cost of coverage when the bill was originally passed. Today, however, the tax is simply another source of general revenue to the Treasury.
- Repeal of the tax will not reduce subsidies to purchase insurance coverage under the ACA by a single dime or, in fact, impact any other provision of the law. Repeal is an issue of corporate tax policy, not health reform policy.
- Further, the CBO and JCT determined, in their March 2015 estimate of the ACA's coverage provisions, that the overall costs of these provisions has decreased by \$204 billion. This reduction is more than 10 times the estimated cost of repealing the device tax.
- The tax is currently in its fourth year of suspension. Clearly, repeal of the device tax will not have a significant impact on the overall finances of the ACA, despite prior concerns.
- The most recent CBO score for full repeal puts the cost at \$19.6 billion over 10 years.
- The device tax is fundamentally flawed policy that should be repealed, and Congress should determine the appropriate way to accomplish that as quickly as possible.

CLAIM:

The medical technology industry agreed to the tax and wants to renege on its commitment.

- The medical technology industry has consistently opposed the tax and called for its repeal.
- During the ACA legislative process, AdvaMed and other health care organizations committed to “do their part” to help reduce the rate of overall health care cost increases.
- We did not commit to provide new revenues to finance health reform.
- Industry was grateful to Congress for reducing the initial proposed tax from \$40 billion to \$20 billion and delaying its start date.
- But we always maintained that even at this reduced level the tax was destructive and should be fully repealed.

CLAIM:

The tax has a disproportionate impact on smaller, pre-profit device companies. Congress should consider restructuring the tax, but not repealing it.

- It is true that the tax is levied on revenues, not profits, and is particularly onerous on smaller companies, which make up more than 80 percent of the industry, are the source of so much innovation, and many of which generate revenue but no profit. This has a downstream effect on the entire innovation ecosystem for medtech.
- That said, the medical device tax is fundamentally flawed policy and should be completely repealed. There is no policy justification for taxing innovation that leads to better health care outcomes for patients.
- Additionally, the medical technology ecosystem is entirely interconnected, with smaller and start-up companies often relying on funding from larger companies to invest in innovation and grow.
- Restructuring the device tax to only impact larger companies still puts pressure on the entire ecosystem by reducing investment resources to fuel new growth and consequently threatens innovation.

CLAIM:

The medical device industry just received a major tax cut as part of the \$1.5 trillion Republican tax package. Why do you need another tax cut?

- AdvaMed commissioned Ernst & Young (E&Y) to analyze the federal income tax liability of the medical device industry post-passage of tax reform and compare it to the industry's projected medical device excise tax liability.
- The medical device industry is estimated to receive a \$9.9 billion decrease in federal income tax liability over the 2018-27 period from the Tax Cuts and Jobs Act (TCJA). If the device tax were in effect over this entire period, it would equate to approximately \$16.7 billion in additional tax liability.
- Reinstatement of the device tax would more than negate the benefit of tax reform for the medical device industry.