MEDICAL DEVICE TAX IMPACTS

The medical device excise tax stunts medical innovation, hurts patients and small businesses, and harms America's economy and global competitiveness. Unless Congress acts, the tax will be reinstated on Jan. 1, 2020.

At first glance, the 2.3-percent medical device excise tax might not seem high, but it is imposed on revenue, not profit, meaning far too many medical device innovators in a highly competitive and risky industry, in order to be able to pay the tax, have to consider deferring crucial R&D and capital investment, delaying hiring, or holding off increases in employee compensation. Eighty percent of medical device companies have 50 or fewer employees, which makes this a disproportionately punitive tax on small businesses, and in turn a bad deal for patients who depend on medtech innovation.

THE EFFECTS OF THE MEDICAL DEVICE TAX ON PATIENTS AND INNOVATION:

If the medical device tax goes back into effect as scheduled on Jan. 1, innovation will be limited. Innovation is the key to providing cutting-edge, life-saving technology to patients.

- Between 1980 and 2015, new diagnostics and treatment tools helped increase life expectancy by more than five years. Just since the year 2000, medical advancements helped add two years to life expectancy.
- Advancements in medical technology yield savings across the health care system by replacing more invasive procedures, reducing hospital stays, and allowing people to return to work more quickly. Between 1980 and 2010, such advancements helped cut the number of days people spent in hospitals by 59 percent.
- Innovation can help reduce the burden of chronic diseases, which represent more than 70 percent of health care costs.
- The medical device tax increases costs to the health care system by delaying the availability of new and innovative devices that could provide faster, more efficient care and ultimately greater cost savings.
- According to an industry survey, more than half of medical device manufacturers reduced their R&D budgets as a result of the device tax – in effect from 2013 through 2015 – hampering innovation and slowing medical advancements.
- Because of its devastating impact on R&D and start-up companies, the device tax may prevent many breakthrough innovations from ever reaching patients.

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THE EFFECTS OF THE MEDICAL DEVICE TAX ON U.S. GLOBAL COMPETITIVENESS:

- The U.S. medtech industry is the most innovative and competitive in the world, and one of the few American manufacturing and technology industries that has consistently run a trade surplus. U.S. medtech exports totaled $52.5 billion in 2017, or $1.1 billion more than imports, but our lead has shrunk dramatically in the last decade.
- Survey data show that the device tax – in effect from 2013 through 2015 – resulted in relocation of manufacturing outside the U.S., or expanded manufacturing abroad rather than in the U.S., among almost 10 percent of medtech firms in the first year.
- The negative impact of the medical device tax on medtech investment in the first two years of the tax, as reported by three-quarters of companies, included: deferred or cancelled capital investments, deferred or cancelled plans to open new facilities, reduced investment in start-up companies, greater difficulty in raising capital (among start-up companies), and reduced or deferred increases in employee compensation.
- While the medical technology industry on the whole saw a significant net benefit from the recent overhaul of the U.S. corporate tax code, data show the gain would be more than wiped out if the device tax returned, according to an analysis by Ernst & Young.

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THE EFFECTS OF THE MEDICAL DEVICE TAX ON SMALL COMPANIES AND THE ECONOMY:

The medical device tax – estimated by the Congressional Budget Office to cost nearly $20 billion over 10 years – poses an enormous burden for small companies in terms of capital and compliance. The economic effects of the tax also cost good-paying American jobs.

- The tax is assessed on revenue, regardless of profit. Therefore, the tax especially threatens small start-up companies, which are subject to the tax from their first sale, even with millions of dollars in net operating losses incurred over years of development.
- More than 80 percent of medical device companies have fewer than 50 employees.
- The U.S. medtech industry saw a loss of nearly 29,000 jobs while the device tax was in effect from 2013 through 2015, according to data from the U.S. Department of Commerce.
- The net impact of permanently repealing the device tax could be in excess of 53,000 additional jobs, compared to what would occur if the tax were to go back into effect.
- Wages for U.S. medtech jobs are 1.85-times the national average.
- The device tax (in effect from 2013 through 2015) resulted in a 20 percent reduction in R&D spending by medtech companies, on average, and cut earnings by an average of 33 percent. The tax also resulted in a significant reduction in revenue and gross margins.
- The device tax also restricts the ability of established medtech companies to invest in or acquire start-up companies by limiting the amount of available funds.
- A persistent cycle of short-term suspensions of the device tax risks undermining the short-term relief by inhibiting company planning cycles and R&D investment timelines for new technologies and treatments that can require five to 10 years to go from bench to bedside.
- The current suspension of the medical device tax saves the medtech industry nearly $2 billion annually, according to estimates by the Congressional Budget Office.
- The device tax increases the cost of capital, and with uncertainty over whether the tax will return in 2020, companies are already planning potential reductions in staff and R&D spending.
- With an aging population, people with disabilities living longer lives, and chronic disease rates growing at faster rates, now is the time for more – not fewer – resources devoted to advancing cures and treatments that help people live healthier, longer, and more independent lives.