

MEDICAL DEVICE TAX

KEY MESSAGES

The medical device excise tax is a 2.3% excise tax on the sale of certain medical technology that was enacted as part of the Affordable Care Act. In January 2018, Congress suspended the device tax until December 31, 2019 as part of legislation to continue funding government operations. We are appreciative of this action as an important step to provide short-term relief for the industry. However, we also recognize that, without further progress, we move closer and closer each day to the return of this punitive tax on an American manufacturing success story. If Congress does not act by the end of this year, the device tax will be reinstated.

BACKGROUND INFORMATION

A specific tax on medical device manufacturers looms large in 2019. The two-year suspension provided immediate relief, but the absence of a permanent repeal means that companies must prepare for the possibility that the tax could return in 2020. More notable, this threat limits the ability of companies to invest in new technologies and treatments that require 5-10 years to go from bench to bedside.

Medical devices have revolutionized health care in several ways. Advances in treatment mean patients undergoing less-invasive procedures, getting them out of the hospital faster and reducing recovery times. New technologies diagnose illnesses earlier, lowering the impact of care on a person's daily life. Breakthrough concepts reduce the overall cost of health care for patients and the system. All of these gains are at risk if the device tax is reinstated.

The effects of the tax would be felt across the industry, as every dollar of revenue (not income or profit) earned by a company is generally subject to the tax. For large, established companies, the device tax would once again equal tens, if not hundreds, of millions of dollars that could be used to expand research and create jobs. For start-up firms, the effect of the tax is two-fold – it punishes new firms and deters company growth, since the tax is imposed on the first dollar of revenue earned; and it restricts the ability of established medical technology companies to invest in or acquire start-up companies by limiting the amount of available funds. The revenue impact of the device tax, if reinstated, would likely wipe out any benefits accrued through corporate reform for the industry.

Permanently repealing the device tax will provide medical technology innovators with the long-term certainty necessary to support future job growth and sustainable, cutting-edge R&D that will ultimately lead to the next generation of breakthroughs in patient care and treatment. With any other policy outcome, effective planning for a sustainable future becomes much more difficult.

FOUR KEY POINTS

1. Future breakthroughs in patient care are undermined by the medical device tax.

- Americans should have access to life-changing medical technology, but the device tax will hinder the arrival of new breakthroughs.
- The patient stories that can be told thanks to the value of medical technology cannot be overlooked. Learn more at <https://www.lifechanginginnovation.org/>.

2. The device tax increases costs to the health care system.

- Medical technology has improved efficiencies and produced savings to the system through minimally-invasive procedures, more precise and accurate diagnostics, and devices that reduce hospitalizations or length of stay.
- These improvements mean better outcomes and higher quality care for patients, which lowers cost.
- Taxing the development and manufacture of medical technology imposes an unnecessary penalty on these savings and erodes the value these technologies provide to the system in the long run.

3. The suspension was good news in the short-term for patients, innovation, and continued American leadership of the medical technology industry.

- It meant funds were not diverted from current investments in jobs, capital improvements and medical research.
- The suspension did not drive new or long-term investments due to the uncertainty on whether the tax will come back into effect at the end of the year.

4. Congress should move forward immediately to repeal the medical device tax.

- The current suspension expires at the end of 2019.
- A persistent cycle of short-term suspensions risks undermining any relief by inhibiting company planning cycles and R&D investment timelines.