WHY THE MEDICAL DEVICE TAX IS BAD TAX POLICY

The medical device tax is levied on gross revenue – not on profit or production levels – so even small and start-up companies with narrow or negative profit margins are forced to write hefty checks.

The table below illustrates the disproportionate impact of the medical device tax on high- and low-margin companies.

- Company A operates on high margins maintaining a high level of profit compared to production costs.
- Company B operates on low margins and profit levels are low compared to production costs.

PROFIT CALCULATIONS FOR A HIGH- AND LOW-MARGIN FIRM UNDER THE MEDICAL DEVICE TAX

	FIRM A: HIGH MARGIN	FIRM B: LOW MARGIN
TOTAL REVENUE	$1 million	$1 million
COSTS OF PRODUCTION	$900,000	$980,000
PROFIT	$100,000	$20,000
MEDICAL DEVICE TAX	$23,000	$23,000
AFTER-TAX PROFITS	$77,000	-$3,000

Source: Authors' Calculations

In the table above, both the high- and low-margin companies have $1 million in sales and, therefore, each owes $23,000 on the tax. However, in the case of the low-margin firm, the medical device tax completely wipes out its profit, driving it into the negative.

WHY IT MATTERS

Considering more than 80% of medtech companies have 50 employees or fewer – small, low-margin companies like Company B are a major component of the industry landscape.

Congress must repeal the medical device tax or risk running small business innovation into the ground.

AdvaMed
Advanced Medical Technology Association

Source: Tax Foundation