

EDITORIAL BOARD MEMO

To: Editors and Columnists

From: Frank Clemente, Executive Director, Americans for Tax Fairness

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MEDICAL DEVICE TAX REPEAL LIKELY TO BE “FAST-TRACKED” THROUGH U.S. SENATE AFTER RECENTLY PASSING U.S. HOUSE OF REPRESENTATIVES; WOULD GIVE PROFITABLE INDUSTRY A \$24 BILLION TAX BREAK

Device tax helps pay for health insurance coverage for millions of Americans

WASHINGTON, D.C. – In the coming days, the U.S. Senate is expected to vote on a bill that would eliminate the 2.3% excise tax paid by medical device companies to help pay for the extension of health insurance to 25 million Americans through the Affordable Care Act (ACA), also known as Obamacare. This corporate tax break will cost [\\$24.4 billion](#) over 10 years according to the Joint Committee on Taxation (JCT).

In June, the U.S. House of Representatives voted to repeal the medical device tax by a vote of [280-140](#). Senate Majority Leader Mitch McConnell (R-KY), a supporter of repeal, recently said he will [“fast-track” the bill through the U.S. Senate](#) meaning it will not go through the usual committee process but instead will go directly to the Senate floor for a vote.

This modest tax is assessed on U.S. sales of medical devices and is paid by device manufacturers or importers. It is applied to medical devices such as coronary stents, irradiation equipment, imaging machines, cardiac devices, and orthopedic implants. It does NOT apply to medical devices that consumers purchase at retail, such as eyeglasses, contact lenses, hearing aids and wheelchairs.

The \$24.4 billion it will raise over 10 years comes from a [U.S. industry that had at least \\$166 billion in sales in 2014 alone](#). As the device tax began in 2013, the U.S. medical device industry’s corporate profits [increased by 32% between 2012 and 2013](#) (rising from \$8.6 billion to \$11.4 billion), the most recent years available, and R&D spending increased by 6%, according to EY’s definitive report on industry economics (see p. 35). The companies affected by the tax are reaping significant benefits from health care reform, since the ACA has helped to create millions of new customers—and new profits—from the formerly uninsured.

The health insurance coverage of Americans should not be put at risk for the sake of one very profitable industry’s bottom line. **We urge you to editorialize in opposition to the repeal of this needed tax that largely affects large, profitable firms but benefits millions of Americans who are getting health care coverage for the first time.**

Repeal would be yet another tax giveaway to those who don't need the help. Since repealing the medical device tax would be another corporate tax break that isn't paid for, it will either add to the deficit or average Americans could end up footing the bill.

Medical device companies need to contribute their fair share to health care reform, as other industries are doing. For example, [insurance companies are contributing \\$102 billion](#) in new taxes over 10 years, and pharmaceutical companies are contributing \$34 billion, according to the Congressional Budget Office (p. 17). They have done so because they all – including the medical device industry – will reap significant benefits from the increased demand for medical services and products resulting from the ACA. Repealing the medical device tax will encourage other industries to try to undo their contributions.

[Nearly 400 medical device industry lobbyists](#) have been at work in Washington pushing Congress to repeal this modest tax, according to *The Washington Post*. They are pulling out all the stops to convince lawmakers that the tax needs to be repealed to protect jobs and strengthen the economy.

The arguments the medical device industry has raised against the tax have been discredited by numerous independent analyses, including the [Congressional Research Service](#) and the [Center on Budget and Policy Priorities](#):

- **The “effective” excise tax is actually 1.5%, not 2.3%.** According to the Congressional Research Service, “[t]he top federal corporate tax rate of 35% would [reduce the tax to 1.5%](#) because federal income taxes would fall by 0.8% of revenues (0.35 times 2.3%).” (p. 2)
- **The excise tax will have minimal impact on employment.** Despite industry claims that tens of thousands jobs will be eliminated by the tax the Congressional Research Service calculates that [as few as 47 industry jobs and up to 1,200 jobs, or two-tenths of one percent](#), could be lost (p. 18). With increased demand for health care under the ACA, Wells Fargo estimates that [the effects of the tax on the medical device industry will be offset](#). Claims of potential job losses of up to 39,000 by AdvaMed, a medical-device industry trade group, [were recently debunked by the Washington Post’s fact checker](#).
- **The tax creates no incentives to move jobs offshore because it affects domestic and foreign firms equally.** The tax covers all devices sold in the United States, whether from domestic or foreign manufacturers. It will not hurt the industry’s overseas sales because it exempts from taxation items produced for export.
- **The tax will have minimal impact on consumers.** The law specifically exempts eyeglasses, contact lenses and hearing aids, and it provides an exemption for other devices that are generally purchased by the public at retail for individual use, such as wheelchairs.

Last month, *The New York Times* editorialized that repeal of the device tax [“would harm the federal budget and do nothing to help consumers,”](#) calling claims that the tax hinders

innovation and drives jobs overseas “wildly exaggerated.” *USA Today* was equally harsh, editorializing that [“Congress would do well to listen to its own researchers instead of the industry’s self-serving whining.”](#)

The medical device tax raises \$2-\$3 billion a year from domestic and foreign companies combined; most of it comes from the largest and most profitable U.S. firms, many of which dodge paying their fair share of taxes. For example, the 15 most profitable U.S. medical device makers may be [avoiding \\$74 billion in federal income taxes](#) on \$257.5 billion in profits they hold offshore that are currently untaxed by the United States, according to Citizens for Tax Justice.

The American people don’t want another big corporate tax break and the uninsured don’t need another impediment put in their way to get the peace of mind provided by health coverage under the ACA. The medical device tax is a pragmatic, fair, and responsible way to get a booming industry to contribute to the expanded health coverage from which it is profiting. Therefore, we urge you to call on your state’s U.S. senators to OPPOSE the repeal of the medical device tax.

RESOURCES

OPINION

[Congress should not repeal medical devices tax](#), *Cleveland Plain Dealer* editorial, June 25, 2015
[Destructive Health Care Proposals](#), *The New York Times* editorial, June 18, 2015
[Medical Device Tax Misinformation](#), *US News & World Report*, April 27, 2015
[Keep medical device tax](#), *USA Today* editorial, January 4, 2015

ARTICLES

[Fact Checker: The recurring claim that the medical device tax has cost more than 30,000 jobs](#), *The Washington Post*, June 30, 2015
[New Analysis Challenges Arguments for Repealing Tax on Medical Devices](#), *The New York Times*, January 13, 2015
[Fact Checker: Has the medical device tax eliminated ‘thousands’ of jobs?](#), *The Washington Post*, January 7, 2015
[Fact Checker: Has the medical device tax shipped jobs overseas and stunted innovation?](#), *The Washington Post*, November 21, 2014
[How killing the medical device tax became one of Washington’s top priorities](#), *The Washington Post*, November 7, 2014

REPORTS

[The Medical Device Excise Tax: Economic Analysis](#), Congressional Research Service, January 9, 2015
[Big Medical Device Makers Decry Device Tax While Dodging Billions by Offshoring Profits](#), Citizens for Tax Justice, April 23, 2015
[Keep the Medical Device Tax](#), Center on Budget and Policy Priorities, April 22, 2015

[Excise Tax on Medical Devices Should Not Be Repealed](#), Center on Budget and Policy Priorities,
February 23, 2015

Americans for Tax Fairness is a diverse coalition of [425 national and state endorsing organizations](#) that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.

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