

DRUG CORPORATIONS' PRICE GOUGING & TAX DODGING RIPS OFF PATIENTS AND TAXPAYERS

Big drug corporations have raised prices so high that millions of Americans can't afford medicines needed to treat illness, manage their health and take care of their families. But drug corporation abuses don't end there—they are ripping off consumers, taxpayers and the federal government several ways at once.

DRUG CORPORATIONS PRICE-GOUGE CONSUMERS & TAXPAYER-SUPPORTED HEALTHCARE

- The average retail price of over 100 drugs rose 214% over the last 12 years—nearly 9 times faster than inflation. In 2018, retail prices for 267 popular brand-name drugs rose by 5.8%, more than twice the inflation rate.
- Prices charged (before any rebates) for drugs used in the taxpayer-funded programs Medicare and Medicaid soared eight times the rate of inflation over a recent five-year span.

DRUG CORPORATIONS RACK UP HUGE PROFITS COMPARED TO OTHER INDUSTRIES

- The Pharma Big 10 racked up nearly \$69 billion in total worldwide profits in 2018.
- The annual average profit margin for drug corporations is 15% to 20%—three times more than the average profits of the largest 500 corporations across all other industries.

TRUMP-GOP TAX LAW SLASHED DRUG CORPORATIONS TAXES ON THOSE PROFITS

- The tax law slashed the corporate tax rate on domestic profits by 40%—from 35% to 21%—giving drug corporations a huge windfall. The U.S. tax rate on foreign profits plummeted to about 11%. As a result, just five corporations got a total of \$8.2 billion in tax cuts in 2018.
- The Pharma Big 10 were also handed a one-time tax discount worth more than \$70 billion on their accumulated offshore profits.

TAXPAYERS SUBSIDIZE BIG DRUG CORPORATIONS

- **Through public health programs.** In 2017, \$253 billion was spent on drugs through Medicare Part D (\$155 billion), Medicare Part B (\$30.4 billion) and Medicaid (\$67.6 billion).
- **Drug corporations get rich from federal contracts.** Five corporations were paid a total of \$27 billion in federal contracts from 2008 to 2018, much of it for vaccines.
- **Big Pharma reaps profits from taxpayer-funded research while setting prices out of reach for patients.** The National Institutes of Health spent \$100 billion funding research relied on by all 210 new drugs approved for use in the U.S. between 2010 and 2016.
- **Research tax credits fatten profits.** The Research and Experimentation Tax Credit and a tax credit for orphan drug research are worth billions of dollars a year to the industry.
- **Government-granted monopolies protect profits.** This frees corporations from competition while consumers get price-gouged on brand-name drugs.
- **Big Pharma's "charity" boosts profits and reduces taxes.** Financial aid provided to patients boosts a corporation's bottom line while lowering its tax bill.
- **Drug corporations get a tax break for buying all those drug ads.** In 2016, the \$6 billion corporations spent on drug ads was deductible when calculating their taxes.

DRUG CORPORATIONS PRICE-GOUGE CONSUMERS & TAXPAYER-SUPPORTED HEALTH PROGRAMS

CONSUMER PRICES ARE SKYROCKETING

- **Over the past 12 years, the average retail price of over 100 drugs on the market for that entire time rose 214%**—nearly 9 times faster than inflation, which rose 25%. [[AARP](#)]
- In 2018, retail prices for 267 popular brand-name drugs rose by 5.8%, well over twice the 2.4% inflation rate. [[AARP](#)]
- The average retail price of over 250 drugs widely prescribed for older Americans jumped by 8.4% between 2016 and 2017—four times faster than general inflation. [[AARP](#)]
- Even big price hikes can be excused if they reflect improved quality. But a recent study found that between 2016 and 2018 net retail prices of seven of the nation’s biggest selling drugs—including Humira, Lyrica, Truvada and Cialis—jumped from roughly 10% up to almost one-third, despite no evidence of improved quality. Altogether, these “unsupported” price hikes totaled over \$5 billion. [[Institute for Clinical and Economic Review](#)]

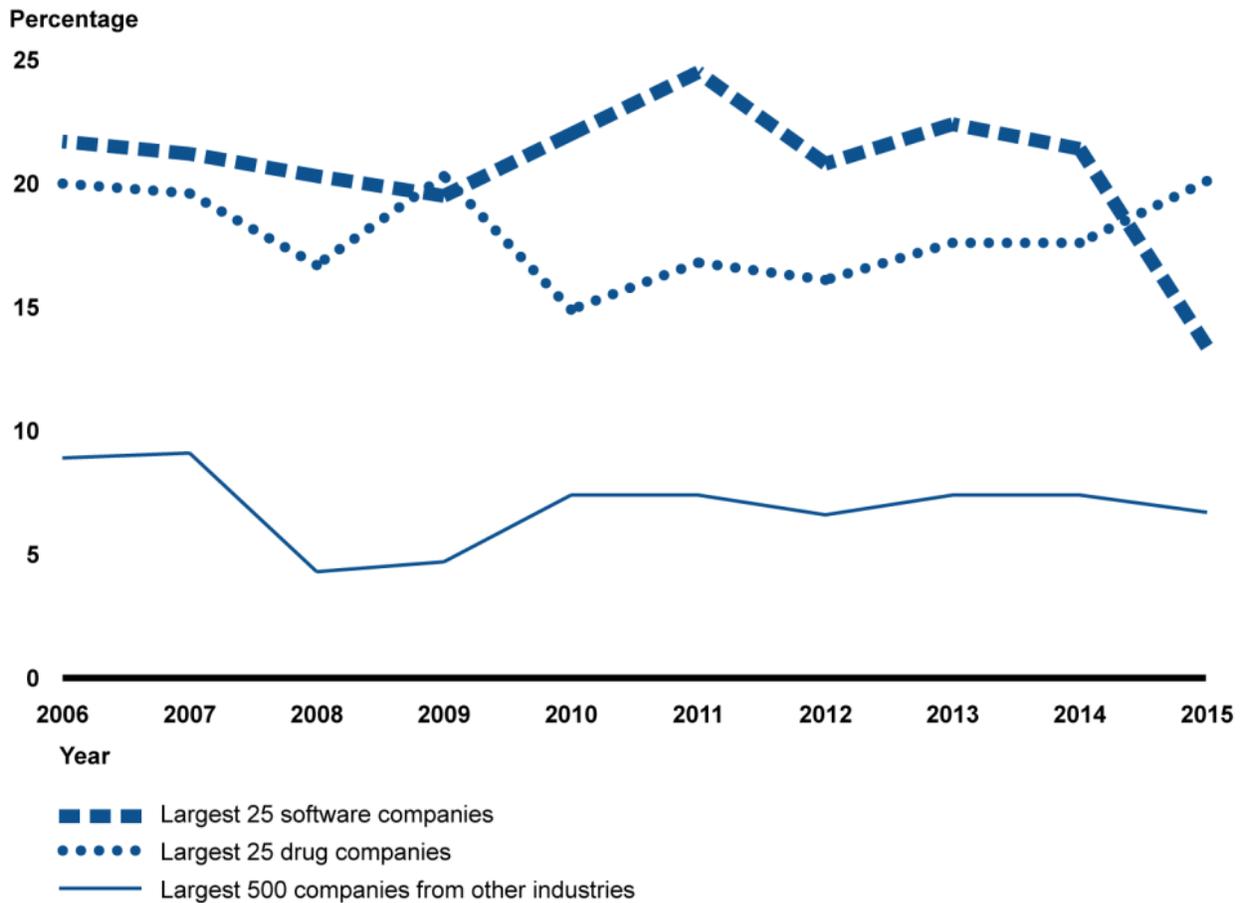
MEDICARE & MEDICAID PRICES ARE SHOOTING UP, TOO

- **The 10 biggest U.S. drug corporations—the Pharma Big 10—increased prices for some of their most prescribed medications by about 40% (before rebates) for Medicare and Medicaid between 2013 and 2017** (the most recent years with available data). [ATF analysis of [Medicare](#) and [Medicaid](#) data]
- Those price hikes are about 8 times the rate of general inflation over that period, and more than double the prescription-drug inflation rate.
- In 2017, \$253 billion was spent on prescription drugs through Medicare Part D (\$155 billion), Medicare Part B (\$30.4 billion) and Medicaid (\$67.6 billion). [[Centers for Medicare & Medicaid Services](#)]

DRUG CORPORATIONS RACK UP HUGE PROFITS COMPARED TO OTHERS

- **The Pharma Big 10 collectively racked up nearly \$69 billion in worldwide profits in 2018, on sales of \$331 billion.** [[ATF from MarketWatch](#)]
- **Over the decade 2006 to 2015, the annual average profit margin for the 25 largest pharmaceutical corporations ranged between 15% to 20%.** That was equivalent to another high-margin industry with similar cost structures—computer software—but about three times better than the average profits of the nation’s largest 500 corporations across all other industries, which ranged between 4% to 9%. [[Government Accountability Office](#)]

Average Profit Margin for Drug Companies, Software Companies, and the Largest 500 Companies from Other Industries, 2006-2015



Source: GAO analysis of Bloomberg data. | GAO-18-40

Note: Profit margins for drug companies were weighted by their pharmaceutical and biotechnology sales revenue. Profit margins for software companies were weighted by their software sales revenue. Drug and software companies were excluded from the largest 500. Profit margins for the largest 500 companies were weighted by their total sales revenue, minus any pharmaceutical, biotechnology, or software sales revenue that may have been reported. Bloomberg calculates profit margin as (net income/revenue)*100. This ratio is computed on a post-tax basis.

TRUMP-GOP TAX LAW SLASHED DRUG CORPORATIONS TAXES ON THOSE PROFITS

- **The Trump-GOP tax law that took effect in 2018 slashed the corporate tax rate on domestic profits by 40%—from 35% to 21%—giving drug corporations a huge windfall.** The U.S. tax rate on corporations' foreign profits plummeted to an effective rate of about 11%. As a result, five of the corporations, got an estimated total of \$8.2 billion in tax cuts in 2018. [See table below]
- **The Pharma Big 10 were also handed a one-time tax discount worth an estimated \$70 billion on their accumulated offshore profits.** [ATE] They stashed those profits—estimated at over half a trillion dollars—offshore for years to avoid paying their fair share of taxes. Then, instead of being forced to pay the 35% tax rate they owed (less foreign tax credits), corporations got a windfall tax rate of just 8% to 15% from the Trump-GOP tax law.

RX DRUG COMPANY TAX SAVINGS FROM TRUMP TAX CUTS – 2018		
Company	State Headquarters	Estimated Tax Cut
Merck	New Jersey	\$2.1 billion
Pfizer	New York	\$2.0 billion
Johnson & Johnson	New Jersey	\$1.8 billion
Amgen	California	\$1.2 billion
AbbVie	Illinois	\$1.1 billion
TOTAL		\$8.2 billion

Source: [JUST Capital](#)

- **Drug corporations haven't used their big tax cuts to reduce drug prices—they made massive stock buybacks.** In the roughly 18 months after Trump's tax cuts became law, the Pharma Big 10 announced \$80 billion in corporate stock buybacks. Buybacks boost share prices, which largely benefits CEOs and other wealthy shareholders. [[ATF](#) & [Oxfam](#)]

TRUMP WANTS TO GIVE PHARMA ANOTHER TAX CUT BY AXING THE ACA

- President Trump wants to eliminate the Affordable Care Act (ACA), which would hand the pharmaceutical industry a \$27 billion tax cut over 10 years. Big Pharma is one of the health-care industries assessed a special tax to help pay for the ACA's expanded coverage. [[ATF](#)]
- If the ACA is repealed, millions of people would lose coverage, and protections for up to 130 million people with pre-existing conditions would be eliminated. [[ATF](#)]

TAXPAYERS SUBSIDIZE BIG DRUG CORPORATIONS

DRUG CORPORATIONS GET RICH FROM FEDERAL CONTRACTS

- Even as drug corporations are contributing much less to federal revenues due to the Trump-GOP tax cuts, they are receiving billions of dollars in federal contracts beyond the amounts spent on prescription drugs through Medicare and Medicaid. Most of these additional costs are for vaccines. [[Healthcare Finance](#)]
- **Five corporations were paid a total of \$27 billion in federal contracts from 2008 to 2018.** They are **Merck** (\$15.7 billion), **Pfizer** (\$9.5 billion), **Johnson & Johnson** (\$975 million), **Abbott** (\$470 million) and **Amgen** (\$350 million). [[ATF](#)]

BIG PHARMA REAPS PROFITS FROM TAXPAYER-FUNDED RESEARCH, WHILE SETTING PRICES OUT OF REACH FOR PATIENTS

- **The federal National Institutes of Health (NIH) contributed research funding to every single one of the 210 new drugs approved for use in the U.S. between 2010 and 2016. That funding totaled over \$100 billion.** [[National Academy of Sciences, p. 2330](#)]
- Most public funding is for basic research. Yet, among all the new drugs approved between 1990 and 2007, more than one out of eight (13.3%) were directly discovered by public labs (funded by the federal government, universities or other non-profit institutions). [[New England Journal of Medicine](#) (NEJM), Table 2, "New Molecular Entity"]

- Among public labs, NIH discovered the most new products. [[NEJM](#), “Discovering Institutions and Rate of Discovery”]
- Public labs discovered important new drugs—as evidenced by the granting of priority approval reviews—at twice the rate of private-industry labs (46.2% vs. 20%) and were responsible for nearly all the most important new vaccines. [[NEJM](#), “Clinical Effect of PSRI Drugs” and “Types of Products”]
- One in four new drugs approved by the U.S. Food and Drug Administration (FDA) between 2008 and 2017 came from public labs (19%) or from private labs spun off from public institutions (6%). The therapeutic importance of these public-origin drugs is shown by the above-average rate of expedited regulatory approval they received. [[BMJ](#)]
- Despite its deep and expensive involvement in the development of new drugs, NIH licenses out its discoveries to pharmaceutical corporations, allowing them to reap generous profits from taxpayer-funded investments. [[The New Republic](#)]
- Proving that even a pro-business presidency objects to private companies profiting off taxpayer-funded research, the Trump administration has sued **Gilead Sciences** for infringing upon patents owned by the Department of Health and Human Services that were crucial for the discovery of Truvada and Descovy, H.I.V. prevention drugs that can cost patients up to \$20,000 a year. The government alleges that Gilead has earned billions of dollars from taxpayer-funded research but has not reimbursed the public. [[New York Times](#)]
- In addition to directly funding public research, taxpayers subsidize drug-company research through the **federal research and experimentation tax credit**. The R&E tax credit is providing tax breaks worth \$110 billion to all industries over 10 years. [[The CPA Journal](#), [Treasury Department](#), Table 1]
- The **orphan drug tax credit**—which subsidizes the development of so-called “orphan drugs” that treat rare diseases—is also a big tax break for drug corporations, costing the government \$43 billion over 10 years. Corporations have abused the orphan drug system by seeking orphan designation for new uses of famous drugs (such as Humira) that were already treating big patient populations. In addition to providing a tax credit, orphan designation reduces testing requirements and extends monopoly protections. [[Treasury Department Table 1](#), [BDO](#), [Kaiser Health News](#)]

GOVERNMENT-GRANTED MONOPOLIES PROTECT DRUG CORPORATION PROFITS

- The U.S. government provides prescription drug corporations with special monopoly protections in the form of patents, which typically last around 20 years, and FDA-granted exclusivities that prevent approval of competing products. These give the corporations temporary monopolies free from competition, allowing them to gouge consumers on brand-name drugs. [[FDA](#)]
- Patents keep cheaper generic drugs off the market, often even longer than the original patent period. Brand-name drug corporations use sneaky strategies to maintain their monopoly pricing power for as long as possible. [[Harvard Business Review](#)]

BIG PHARMA’S “CHARITY” BOOSTS PROFITS & REDUCES TAXES

- The financial assistance available to pay for prescription drugs often touted at the end of pharmaceutical industry ads may seem like good-hearted charity, but providing that aid to patients actually boosts a corporation’s bottom line while lowering its tax bills.
- By funding charities that help patients cover insurance co-payments on their prescriptions (so-called copay charities), drug corporations ensure those expensive prescriptions get filled, with insurance companies still covering the bulk of the cost. [[Wall Street Journal](#)]
- Every dollar drug corporations contribute to copay charities leads to \$21 in increased sales, according to Wall Street analytical firm Citi Research. [[Wall Street Journal](#)]
- Copay charities established by drug corporations received over \$50 million in contributions from big drug firms in 2015 (the most recent year with available data). [[USA Today](#), see “Drugmakers’ Donations”]
- Such donations qualify pharmaceutical corporations for a tax break, as long as corporations don’t require contributions be used to pay for their own drugs. [[New York Times](#)]

DRUG CORPORATIONS GET A TAX BREAK FOR BUYING ALL THOSE DRUG ADS

- In 2016, drug corporations spent \$6 billion buying 4.6 million drug ads targeting consumers, including over 650,000 TV commercials. [[JAMA](#)]
- Taxpayers subsidized all those ads because corporations are allowed to deduct the cost of advertising when calculating their taxes owed. [[Washington Times](#)]
- The American Medical Association has called for a ban on drug corporation advertising due to “concerns among physicians about the negative impact of commercially-driven promotions, and the role that marketing costs play in fueling escalating drug prices.” [[AMA](#)]

PHARMA LOBBYING & CAMPAIGN CASH KEEPS A RIGGED SYSTEM IN PLACE

- **Drug corporations spent \$170 million lobbying in 2018 and employed 839 lobbyists—nearly three-quarters of whom used to work for the federal government.** [[Open Secrets](#)] That is more than any other industry spent on lobbying last year. [[Open Secrets](#)] A similar sized army lobbied for the Trump-GOP tax cuts in 2017. [[Public Citizen](#)]
- Drug corporations, their employees and political action committees have contributed nearly \$100 million to candidates for federal office since the 2010 election cycle. [[Open Secrets](#)]

PROTECTING PROFITS BY STOPPING NEGOTIATIONS FOR LOWER MEDICARE DRUG PRICES

- Like all big buyers, the federal government has a lot of leverage negotiating prices with suppliers. It uses that power to hold down drug prices charged by drug corporations in sales to Medicaid, the Veterans Affairs department and other federal agencies.
- But due to years of deft lobbying and millions in campaign contributions, Republicans in Congress have blocked the federal government from negotiating prices on drugs purchased through the Medicare Part D prescription drug program. [[Mother Jones](#)]

BLOCKING RECENT EFFORTS TO STOP MEDICARE & CONSUMER DRUG-PRICE GOUGING

- In December 2019, the House of Representatives is expected to vote on a plan (H.R. 3, the Lower Drug Prices Now Act) from House Speaker Pelosi that would allow Medicare to negotiate lower prices on up to 250 of the most expensive drugs over a 10-year period. Those discounts could also apply to private health plans, meaning people with employer-sponsored or individual insurance would have access to cheaper medicine too. Medicare alone would save \$500 billion over 10 years, which will be used to expand benefits to include dental, vision and hearing coverage and help low-income seniors afford Medicare. The bill could result in price cuts of 40% to 55% for pharmacy drugs subject to negotiations. House Republicans oppose the bill as does President Trump. [[Associated Press](#), [Forbes](#), [MarketWatch](#)]
- Big Pharma has ramped up its lobbying against attempts to rein in exorbitant drug prices. At midyear, the main drug industry trade group was on track to spend nearly 15% more lobbying in 2019 than in 2018—almost \$33 million. Another, smaller trade group is on track to spend \$12 million in 2019, a 20% jump over 2018. [[Wall Street Journal](#)]
- Senate leader Mitch McConnell—whose campaigns and sponsored political action committee have received almost \$800,000 in contributions from the pharmaceutical and health products industry over the past five years—has indicated he will not even let his Senate colleagues consider the House Democrats’ drug-price control bill. [[Open Secrets](#), [Los Angeles Times](#)]

CONCLUSION

Prescription drug corporations use their enormous economic and political power to keep their prices high and their taxes low, while American patients pay at every stage of their profiteering—for research and development, overpriced prescriptions and massive tax breaks. This rewards the very corporations that price gouge them for essential and often live-saving medicines.

The time for tweaks, half-measures and broken promises is over. Americans are demanding that Congress take bold action to unrig this unfair system and finally force drug corporations to make medicines affordable and to pay their fair share of taxes.