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Study: Device Tax Could Cost Jobs, Stifle Innovation

WASHINGTON, D.C. –The medical device tax, if implemented, could cost tens of thousands of jobs, almost double the industry’s total taxes, raise the effective tax rate to among the highest in the world, and harm U.S. competitiveness, according to a study released today by the Advanced Medical Technology Association (AdvaMed).

The new study, “Employment Effects of the New Excise Tax on the Medical Device Industry,” by Manhattan Institute senior fellow Diana Furchtgott-Roth and Hudson Institute senior fellow Harold Furchtgott-Roth, outlines a number of economic harms likely to result from the tax.

“The effect of the tax on earnings of U.S. companies is likely to be significant,” say the authors. The industry directly employs about 400,000 Americans, and the study concludes that the device tax puts 43,000 of those jobs at risk, with a corresponding loss in wages of more than \$3.5 billion.

“This study comes at a critical time as Washington focuses on job creation, which everyone agrees is key to reigniting our economy. As the Administration and Congress work to address this issue, it’s important for them to understand the device tax is counter-productive to economic growth and the shared aim of putting more Americans to work,” said Stephen J. Ubl, president and CEO of AdvaMed.

In 2006, medical device manufacturers reported taxable income of \$13.7 billion and paid \$3.1 billion in corporate taxes. The new tax would add \$2.67 billion a year in new taxes. “The new 2.3 percent tax will create an obvious disadvantage to American firms working to create jobs, hitting smallest companies the hardest,” said Furchtgott-Roth.

“This new tax burden could force companies that would otherwise never leave the U.S. to make difficult choices based on stark economic reality,” said Ubl.

Also contrary to an innovation-based economy, the tax would be especially harmful to companies that create novel technologies. As the study points out, these companies tend to suffer losses in their early years when focused on research and development for a new product. These start-up companies would have to pay the full tax regardless of whether they had any profit. “This is a tax on innovation,” said Ubl.

The study identified the following conclusions as a result of the implementation of the device tax:

- U.S. industry employment and employment compensation could decline. Based on reasonable assumptions, the study estimates the loss of 43,000 jobs in the medical device industry;

- The economic effects of the tax likely would be seen in every state, especially harming states that employ large numbers in the medical device industry;
- U.S.-based firms will be at a significant disadvantage compared to foreign competitors in terms of profitability, investing in new products and attracting capital;
- Innovation could be stifled, as the new tax must be paid americanmedicalnews@gmail.com by companies regardless of net income; and
- The cost of medical devices would increase for health care providers and consumers.

Diana Furchtgott-Roth, a former chief economist of the Department of Labor, is a senior fellow at the Manhattan Institute. Harold Furchtgott-Roth is the president of Furchtgott-Roth Economic Enterprises, a senior fellow at Hudson Institute, and a former chief economist of the House Commerce Committee.

AdvaMed supports repeal of the medical device tax, but remains committed to the central elements of health reform that are consistent with our long-held principles, including expanded coverage, reform of the payment system to encourage quality and efficiency, and a new emphasis on health promotion and disease prevention.

A copy of the study can be found [here](http://www.advamed.org/NR/rdonlyres/27ADDF3E-292D-4DFC-B4ED-B01E93E6D5AD/0/090711EmploymentEffectofTaxonMedicalDeviceIndustryFINAL.pdf). (<http://www.advamed.org/NR/rdonlyres/27ADDF3E-292D-4DFC-B4ED-B01E93E6D5AD/0/090711EmploymentEffectofTaxonMedicalDeviceIndustryFINAL.pdf>)

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