



Research

Employment Effects of the Medical Device Tax

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The Affordable Care Act (ACA) included a provision imposing a 2.3 percent excise tax on all medical devices sold in the United States, including both U.S.-made and imported devices. The only explicit exemptions are for eyeglasses, contact lenses, and hearing aids; there is also a poorly-defined exemption for “retail” devices, and a few other exemptions later clarified by regulation. Over the three years the tax was in effect, the medical device and related industries lost more than 28,000 jobs. The American Action Forum (AAF) projects that if the tax resumes in 2018, up to 25,000 additional jobs could be lost by 2021. However, if the tax is permanently repealed, it is expected that the jobs already lost when the tax was in effect will be recovered within three to five years. This means that the net impact of permanently repealing the medical device tax could be in excess of 53,000 additional jobs, compared to what would occur if the tax remains in effect.

The medical device tax was originally scheduled to take effect on January 1, 2013 and remain in force indefinitely. However, Congress suspended the tax for calendar years 2016 and 2017. During the three years the tax was in force, actual revenue from the tax was substantially lower than projected. If Congress takes no further action, the tax will automatically come back into effect at the beginning of 2018, and will remain in force thereafter. As with many other provisions of the ACA, it is possible that the tax will be repealed permanently.

In 2012, AAF estimated^[i] the likely effects of the medical device tax on employment in the medical device industry. Based on estimates of the revenue to be collected by this tax published by the Joint Committee on Taxation,^[ii] we estimated that there would be a reduction of employment in the medical device industry of approximately 14,500 jobs over 10 years. This was our “conservative” estimate; with alternative assumptions we estimated job loss could have reached as high as 47,100 over 10 years.

Now, almost five years later, it is time to revisit those estimates in light of additional experience; in particular, data available on actual tax collections^[iii] (not just estimates) for the three years the tax was in effect, as well as data on employment changes in the affected industry during that same time period.

For the three years the tax was in effect (2013-2015), our original calculations estimated cumulative job loss of approximately 10,900 jobs in the medical device industry. These estimates were based on the conservative assumption that due to third-party payment, the quantity of demand for medical devices would not be substantially reduced. The lack of market forces affecting prices (specifically, Medicare payments being set by regulation, and other third-party payers having significant market power) would limit the ability of device manufacturers to pass the tax on to buyers. In effect, this would mean that the tax revenue collected would be a reasonable estimate of the total revenue loss for the industry.

As it happens, the actual tax collected was significantly lower than anticipated. This suggests that, in fact, total sales were reduced (since the tax is a direct percentage of sales). Therefore, the revenue loss to the industry consists of both the tax paid, which was lower than anticipated, and the reduction in sales, which turned out to be much higher than the amount of the tax paid.

Based on the actual tax collected, the cumulative job loss for the years the tax was in effect was predicted to be 21,900 jobs. As it happens, this is closer to the observed value of 28,800 jobs lost in the medical device industry. [iv]

The figures are summarized in Table 1 below.

| Year | Projected Tax Revenue | Actual Tax Revenue | Reduction in Industry Sales | Original Predicted Cumulative Job Loss | Expected Cumulative Job Loss based on tax revenue | Actual Cumulative Industry Job Loss |
|-----------------|--|--------------------|-----------------------------|--|---|-------------------------------------|
| | \$Millions | | | | | |
| 2013 | \$2,475 | \$1,837 | \$25,544 | 7,100 | 20,000 | 4,400 |
| 2014 | \$2,725 | \$1,980 | \$28,458 | 10,500 | 22,300 | 31,400 |
| 2015 | \$2,850 | \$2,100 | \$27,905 | 10,900 | 21,900 | 28,800 |
| <i>Sources:</i> | Projected Tax Revenue: Joint Committee on Taxation Actual Tax Revenue: Office of Management and Budget Actual Job Losses: U.S. Census Bureau All others: Author's calculations (Tax revenue reported in fiscal years; converted to calendar years by author to match employment data.) | | | | | |

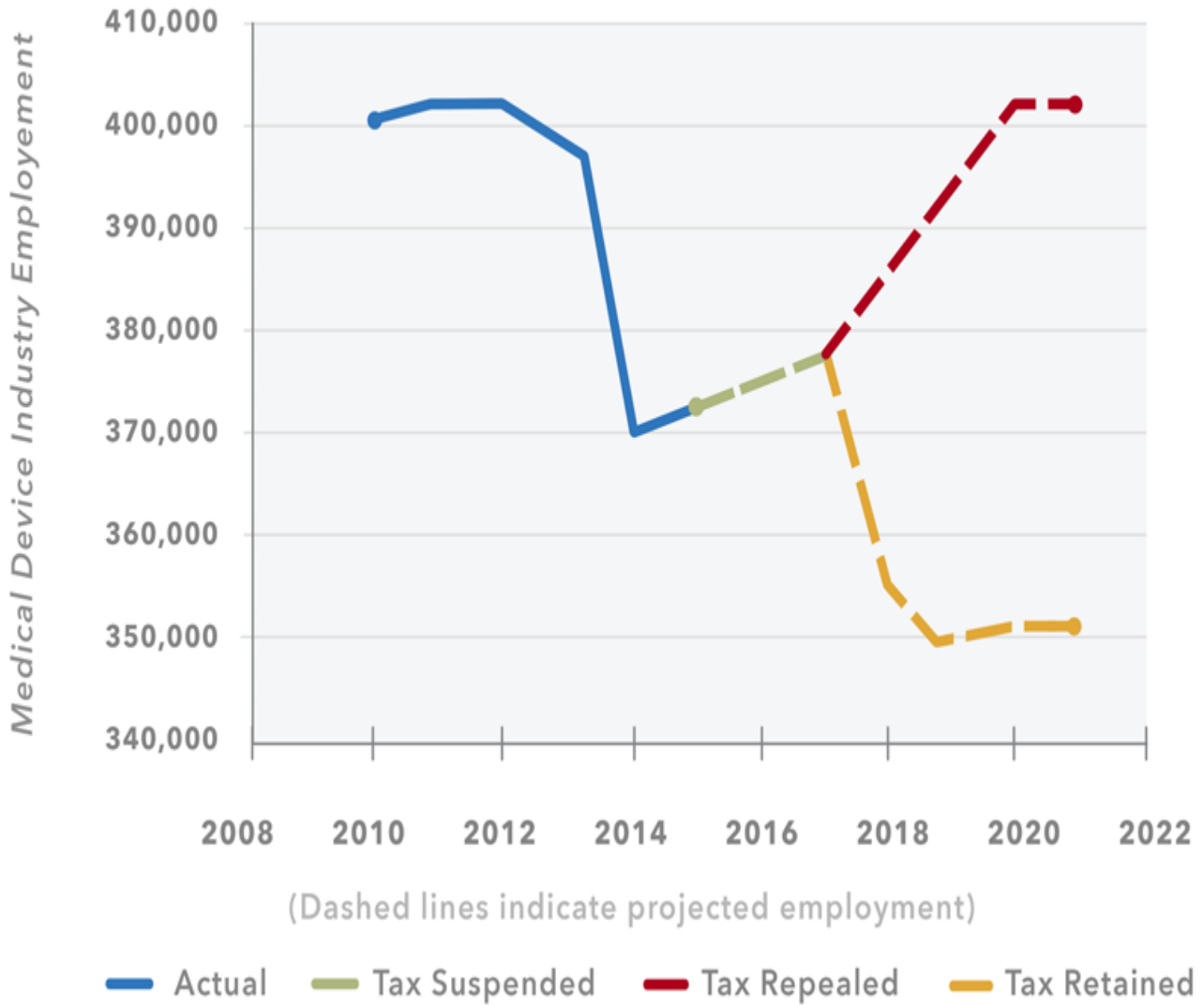
As can be seen from the table above, the total job loss for the three-year period is similar, but the pattern is not quite the same. It is possible that the impact was primarily felt in 2014 when the tax appeared permanent, and the employment recovery began in 2015, when the law suspending the tax in 2016-2017 had been passed, even if it had not yet taken effect. Of course, there are also many other factors which would affect the industry, although the impact of other factors in such a short period of time is likely to be small.

While actual employment data for 2016 are not yet available, AAF anticipates that these figures will show modest job growth in the industry. However, AAF does not expect employment to return to pre-2013 levels, since there is still uncertainty about whether the tax will be reinstated in the future, and the default position is that it will be. If the medical device tax is resumed in 2018, AAF expects medical device industry revenue and employment would resume their decline. Based on projections of revenue from this tax by the Office of Management and Budget, AAF projects an additional loss of 25,000 jobs in the medical device industry by 2021.

If the tax is permanently repealed, it is likely that the 28,800 jobs lost when the tax was in effect will be recovered within three to five years. Combined with the 25,000 jobs projected to be lost upon resumption of the tax, permanently repealing the medical device tax could net an excess of 53,000 additional jobs, compared to current law.

Figure 1 shows the actual and projected medical device industry employment, both with and without the medical device tax after 2018.

Figure 1:
EMPLOYMENT IN THE MEDICAL DEVICE INDUSTRY



[i] Michael Ramlet, Robert Book, and Han Zhong, “The Economic Impact of the Medical Device Excise Tax,” American Action Forum, June 4, 2012, at http://www.americanactionforum.org/wp-content/uploads/sites/default/files/The_Economic_Impact_of_the_Medical_Device_Excise_Tax.pdf.

[ii] “Description of H.R. 436, The ‘Protect Medical Innovation Act of 2011,’” Joint Committee on Taxation, May 29, 2012, at <http://www.jct.gov/publications.html?func=showdown&id=4431>.

[iii] Office of Management and Budget, “Historical Tables,” Table 2.4, line 36, at <https://obamawhitehouse.archives.gov/sites/default/files/omb/budget/fy2017/assets/hist02z4.xls>.

[iv] Annual Survey of Manufacturers, Statistics for Industry Groups and Industries, U.S. Census Bureau, Economics and Statistics Administration, U.S. Department of Commerce, at <http://www.census.gov/programs-surveys/asm.html>.