



The Daily Dish

The Medical Device Tax

DOUGLAS HOLTZ-EAKIN | OCTOBER 23, 2017

Eakinomics: The Medical Device Tax

The recent discussions of corporate and personal income tax reform may have distracted from the fact that not all of tax policy is on the table — namely the Affordable Care Act taxes. The ACA was full of new taxes — the medical device tax, health insurers fee, excise tax on high-cost plans (cadillac tax), surtaxes on investment income and payroll of high-income taxpayers, the tanning tax, the employer and individual insurance penalties, and more — most of it of [poor quality](#) design and a candidate for future reform.

At present, both the [medical device tax](#) and [health insurers fee](#) have been suspended, but will return in full force on January 1, 2018. I'll reserve a future Eakinomics for the implications of the latter; for the moment, focus on the medical device tax. The medical device tax, which went into effect on January 1, 2013, is a 2.3 percent excise tax on all sales by manufacturers and importers of taxable medical 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.

From the outset, a concern arose because the tax is levied on sales revenue and not profits. This allows for the possibility that firms running losses, particularly smaller start-up device manufacturers, may still have considerable tax liability and shed employment as a means to compensate for the tax burden. 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.

Congress could, however, extend the suspension or permanently repeal the tax. If it did the latter, 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.