Supreme Court Ruling Leaves Medical Device Excise Tax in Place: Kalorama

While supporters and opponents of President Obama's healthcare reform legislation let out boos or cheers for the recent decision of the United States Supreme Court, one industry will not be pleased, according to Kalorama Information. The healthcare market research publisher says that the medical device industry will face additional costs because of a tax provision in the act that is set to begin in January of next year. This will likely be of concern to the $322 billion world medical device industry, according to Kalorama Information.

The Patient Protection and Affordable Care law included new tax provisions intended to help fund healthcare reform, which require device manufacturers to pay a 2.3% excise tax on "taxable medical device" sales beginning January 1, 2013. The tax applies to medical device products intended for human use, but exempts eyeglasses, contact lenses, and hearing aids, as well as devices that are "generally purchased by the general public for retail or individual use." Some companies have warned investors of the taxes they expect to pay in 2013 as a result of the tax:

- Johnson and Johnson, the largest device company, estimated that it will pay between $200-$250 million under the new law
- Teleflex stated it would face $15 million in charges
- Becton Dickinson said that 80% of its US revenues would be subject to taxes
  - *Source: company 2011 annual reports*

"These fees are not large compared to total revenues of the companies, but the burden of the fees is a concern for an industry that has been recovering from the recession," said Bruce Carlson, Publisher of Kalorama Information. "It will affect costs and profits, may affect R&D spending and may encourage cost-saving options such as outsourcing more production."

Kalorama notes that the Medical Device Manufacturers Association (MDMA) and other groups have fought to reduce the target size of the tax, as well as the rate. The group is currently working to repeal or change the provision in the Healthcare Reform bill. The repeal of the tax, popular in the medical device industry, has thus far been unsuccessful.

Kalorama Information's report, The Global Market for Medical Devices, 3rd Edition [1], includes profiles of companies in the industry, market sizing, forecasts and regional breakouts of the world device market, products in development and much more information.

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