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ACA Repeal Means Tax Cuts for Drug Companies and Health Insurers

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Republican plans to repeal the Affordable Care Act (ACA) are expected to repeal taxes on drug companies, health insurers, and medical device manufacturers — even as they would eliminate tax credits that about 7 million families use to help pay for health coverage and leave tens of millions of people newly uninsured. Cutting the ACA-related taxes that these companies pay would reduce revenues by $180 billion over 2016 to 2025, according to the Congressional Budget Office (CBO) estimate of the repeal bill vetoed by President Obama in January 2016.[1]

Repealing these taxes now would be unwise. Their revenue will likely be needed to help pay for subsequent legislation to replace the ACA and prevent millions of Americans from losing health insurance coverage. Health reform has benefitted drug companies, health insurers, and other segments of the health care industry, which have gained customers as more Americans have been able to afford adequate health care. The ACA set fees on these companies so these industries help pay for the coverage expansions.

Cutting taxes paid by drug companies. President-elect Trump has criticized drug companies, including for the prices they charge government, most recently in his January 11 press conference.[2] But repealing the ACA's tax provisions would benefit those companies and investors even as it loses revenues. Eliminating a tax levied on drug companies would reduce revenues by $30 billion over 2016 to 2025, CBO estimated.[3] Manufacturers and importers of brand-name prescription drugs pay this fee based on their brand-name drug sales to government health programs. Wealthy shareholders and other investors, who own the bulk of stock and other investments, would likely ultimately enjoy the benefit of this tax cut as companies' profits expand. Because the fee does not

[1] Congressional Budget Office (CBO), "Estimate of Direct Spending and Revenue Effects of H.R. 3762, The Restoring Americans' Healthcare Freedom Reconciliation Act, as Passed by the Senate on December 3, 2015, and Following Enactment of the Consolidated Appropriations Act, 2016," January 4, 2016, https://www.cbo.gov/publication/51107.

[2] See Paul R. La Monica, "Trump: Drug companies 'Getting away with Murder,' CNN Money, January 11, 2017, http://money.cnn.com/2017/01/11/investing/donald-trump-press-conference-markets-economy/.

[3] CBO, "Estimate of Direct Spending and Revenue Effects of H.R. 3762," January 4, 2016.

impose an additional cost for drugs sold in the private market, it would not flow through to consumers in the form of measurably higher premiums for private coverage, CBO notes.[4]

Repealing the tax on health insurance companies. The fee on health insurance providers, known as the health insurance tax, also helps pay for the ACA's coverage expansions. (The tax is suspended in 2017 and is scheduled to come back into effect in 2018.) Eliminating it would reduce revenues by $130 billion over 2016 to 2025, CBO estimates.[5] While some of the tax cut could flow to consumers in the form of lower premiums, a portion of the tax cut is likely to increase insurance company profits, benefiting shareholders and other investors.

Moreover, Republican plans to repeal the ACA also mean that consumers would lose the benefit of many other health reform provisions that slow premium growth and help them afford coverage.[6] For example, repealing the individual mandate to purchase health insurance would cause some relatively healthy individuals to drop their insurance, thereby leaving the overall pool less healthy and driving up premiums. If both the individual and employer mandates were eliminated, while the ACA's Medicaid expansion and marketplace premium and cost-sharing assistance were left in place temporarily, average costs for those remaining in the individual market would rise by about 10 percent.[7]

Repealing the medical device tax. The ACA's 2.3-percent excise tax on the sale of any taxable medical device by a manufacturer or importer is due to return in 2018, after having been suspended in 2016 and 2017. The tax is intended to ensure that the medical device industry, which benefits from higher sales due to improved health coverage under the ACA, contributes to health reform provisions that allow millions of Americans to afford that coverage.

The tax does not apply to eyeglasses, contact lenses, hearing aids, wheelchairs, or any other medical device that the public generally buys from retailers for individual use. Sales for further manufacture or for export are also tax-exempt. Because of these exemptions, only about half of the device industry's output is subject to the tax. As we have previously explained, the tax won't cause manufacturers to shift production overseas because it applies equally to imported and domestically produced medical devices, and the tax should have little effect on innovation — in fact, health reform may well spur medical device innovation by promoting more cost-effective ways of delivering care.[8] Repealing the tax would cost about $20 billion over 2016 to 2025, CBO estimates.

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[4] Congressional Budget Office, *An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act*, November 30, 2009, http://cbo.gov/sites/default/files/cbofiles/ftpdocs/107xx/doc10781/11-30-premiums.pdf. Further, to the extent that the sales of brand-name drugs generate profits for drug companies that are to a great extent dependent on patents, natural monopolies, or other market power, the tax is likely a very efficient revenue source that would not affect investment or operations of drug companies.

[5] CBO, "Estimate of Direct Spending and Revenue Effects of H.R. 3762," January 4, 2016.

[6] Paul N. Van de Water, *Health Reform Tax on Insurers Should Not Be Repealed*, Center on Budget and Policy Priorities, July 25, 2013, http://www.cbpp.org/research/health-reform-tax-on-insurers-should-not-be-repealed.

[7] Linda J. Blumberg, Matthew Buettgens, and John Holahan, *Implications of Partial Repeal of the ACA through Reconciliation*, Urban Institute, December 2016, p. 16, http://www.urban.org/sites/default/files/publication/86236/2001013-the-implications-of-partial-repeal-of-the-aca-through-reconciliation_0.pdf.

[8] Paul N. Van de Water, *Excise Tax on Medical Devices Should Not Be Repealed*, Center on Budget and Policy Priorities, February 23, 2015, http://www.cbpp.org/research/health/excise-tax-on-medical-devices-should-not-be-repealed.