

September 22, 2009

The Honorable Max Baucus
Chairman
U.S. Senate Committee on Finance
511 Hart Senate Office Building
Washington, DC 20510

Dear Senator Baucus:

We are writing today to express strong opposition to the inclusion of a \$40 billion tax on the medical device industry in the Senate Finance Committee health care reform proposal. We all support health care reform, but special taxes on the companies that bring high-quality, innovative solutions to health care professionals and their patients runs counter to the goals of better health care for Americans.

As you may know, the U.S. leads the world in medical technology research and development, which is among our nation's most vibrant and innovative industries. In addition, the medical technology industry is a key constituency in our states and is an integral part of our respective economies. In 2006, the industry directly employed approximately 360,000 employees in the United States, paying \$21.5 billion in salaries and exporting \$123 billion in products worldwide. Studies show that each medical technology job creates an additional 2 jobs, each medical technology payroll dollar generates an additional \$1.12 in payroll in the company's state, and each dollar of medical technology sales adds \$0.90 in sales in the state. Many of these are high-paying, basic science and engineering jobs that must be preserved and increased for a sector that provides an important economic engine for our country and states.

We are very concerned about the impact of an excise tax on the industry, employees, health care providers, and patients that rely on these innovations in our states. It is our understanding that the excise tax proposal would be levied upon all manufacturers of medical device and diagnostics products, impacting as many as 80,000 products currently sold in the U.S. This would affect everything from toothbrushes and eyeglasses to artificial heart valves and advanced diagnostic equipment. The tax would apply regardless of the size of the company or its profitability, which would have a particularly negative effect on small and mid-sized companies – the backbone of the medical technology industry.

Recent independent estimates indicate annual domestic sales of these products at approximately \$131 billion. To achieve a \$40 billion goal, a domestic market of that size would require a tax rate of roughly 3.1 percent, which, depending on the company, would be roughly the equivalent of a 10-30 percent income tax surcharge.

Such a rate would dramatically increase the overall effective tax rate on manufacturers, making the United States the highest tax jurisdiction in the world in which to produce medical technology. This rate would constrain resources used for research and development, support services and training for clinicians, investment in physical manufacturing capacity, and jobs. One manufacturer alone estimated that this tax could result in more than \$300 million in added tax – a figure equivalent to 5,500 jobs.

Further, we believe this proposed excise tax would actually *increase* health care costs, rather than reduce costs within the system. The U.S. device industry is highly competitive and has kept prices quite low. Overall, prices for devices and diagnostics have increased at one-fourth the rate of other medical prices and at one-half the rate of the consumer price index.

We believe strongly that the industry's innovation contributes greatly to the continued growth in the efficiency and effectiveness of health care delivery within the system and the quality of care provided to patients. This industry is producing new innovations that are crucial to chronic disease management, reduced procedure times, and more precise diagnoses. In short, this industry provides solutions that are integral to our health care reforms.

For these reasons, we sincerely request that the excise tax on medical devices not be included in any health care reform proposal considered by your Committee or the Senate. We appreciate your consideration of this request and your efforts to help address health care reform.

Sincerely,



Governor Tim Pawlenty
Minnesota



Governor Mitch Daniels
Indiana



Governor Jim Gibbons
Nevada



Governor Arnold Schwarzenegger
California



Governor Gary R. Herbert
Utah