



Today's Medical Developments

TMD[®]

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WATERJETS DMA CUT THROUGH DMA

Parker Fluid Control's
Manifold Mount
Cartridge Valve



Haydon Kerk's SRA04
Motorized ScrewRail
Linear Actuator



Heidenhain's
Absolute Gaging
Package





MEDICAL EXCISE TAX WILL COST US MORE THAN MONEY

The medical device industry is accelerating Congressional lobbying efforts to repeal a 2.3% excise tax that begins in 2013. The tax levied against medical products was passed as part of the Patient Protection and Affordable Care Act in September 2009.

Currently, five bills have been introduced that would overturn the tax. However, with no assurance that any one of the five measures will become law, the Medical Device Manufacturing Association (MDMA) is petitioning the IRS for a one-year delay in the implementation of the tax. Since the healthcare reform stipulates that exemptions should be limited to items widely purchased by the public from retailers, the IRS should be willing to petition Congress to pass this extension – if for no other reason than to gain additional time to write the mandates identifying which products are taxable. In addition, the definition of “manufacturer” needs to be clearly defined by the IRS. For example, subjecting a contract manufacturer and the OEM to the same excise tax could literally change medical device manufacturing as we know it today.

In fact, according to a Princeton, NJ-based research firm, The Boyd Co. Inc., the healthcare reform law and its excise tax on medical device sales is already driving companies to seek lower-cost areas to setup operations. The conflict between keeping research and development close to larger U.S. cities and academic areas, which are more expensive, and watching it move to lower-cost areas, is the tightrope that the medical device industry is currently walking, according to principal John Boyd Jr.

Personally, I would take this a step further and predict that this excise tax could cause the United States to forfeit medical device manufacturing jobs to China. Let's face the facts. The Chinese medical device industry is quickly moving up the ladder of technical sophistication and quality improvements. Today, Chinese factories have made significant improvements in medical technology, with some having already received certification from the U.S. FDA. Furthermore, China's healthcare system is undergoing reforms and modernization, paving the way for further medical device market development.

China views the medical device market as an opportunity to fortify its economy and move up the value chain with more high-tech products. By offering incentives such as low income tax rates, tax deferrals, and simplified custom procedures, China is aggressively attracting large multinational medical companies. If you think medical device companies are not taking advantage of this, think again. General Electric, Siemens, Johnson & Johnson, Philips, and others have already set up operations in China.

This excise tax could have very serious ramifications and needs to be carefully considered. Everyone involved in the medical sector needs to let Congress know that this excise tax has the potential to destroy medical manufacturing in the United States and it needs to be repealed. **tmd**

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