HDMA POSITION STATEMENT

IMPACT OF GROSS RECEIPTS TAX ON PHARMACEUTICAL DISTRIBUTORS

HDMA's Position

Efforts by state governments to change existing tax laws to impose a gross receipts tax on the pharmaceutical distribution industry is inherently inequitable due to the unique high-value, low-margin nature of the business. The application of a multi-tiered tax will make medicines less affordable, ultimately disrupting state efforts to contain healthcare costs. HDMA instead supports providing alternative tax options, such as a gross margins tax or a business income tax for distribution industries, which are disproportionately affected by a tax on gross receipts.

- Distributors' revenues are almost entirely and immediately offset by the costs of purchasing medicines, resulting in razor-thin profit margins. A gross receipts tax is not a tax on profit, but is a tax based on total sales revenue without consideration of operating costs or expenses (cost of medicine) or profit.
- A gross receipts tax has a significant financial impact on pharmaceutical distributors given the high dollar value of the products they carry. For example, even if the gross receipts tax rate is relatively low, the total tax owed becomes substantial when multiplied by the high volume and value of pharmaceutical products sold by distributors. The unique distribution business model will result in a disproportionately high tax, compared with other industries.

Issue

Pharmaceutical distribution is an industry that suffers disproportionately from a gross receipts tax. For distribution companies operating in such a highly competitive market, it is impossible to absorb the negative financial impact of a gross receipts tax the way that other industries can. For example, at a national level, a 0.25 percent gross receipts tax would average 2.8 percent of pre-tax income for all industries. By contrast, within the healthcare distribution sector, the tax burden would be equivalent to 17.9 percent of pre-tax income – *almost six times higher than the average industry*. Applying gross receipts taxes on medicines will compound costs throughout the healthcare supply chain, likely increasing the costs of medicines for patients.

Additional Information

The application of a gross receipts tax on medicine will have a cumulative impact throughout the healthcare supply chain, as the same medicines would be taxed multiple times before reaching the consumer:

- At the time of sale by the manufacturer to the distributor;
- When sold by the distributor to the pharmacy; and,
- In many states, when sold by the pharmacy to the consumer.

The Healthcare Distribution Management Association (HDMA) is the national association representing primary healthcare distributors, the vital link between the nation's pharmaceutical manufacturers and healthcare providers. Each business day, HDMA member companies ensure that nearly nine million prescription medicines and healthcare products are delivered safely and efficiently to nearly 200,000 pharmacies, hospitals, long-term care facilities, clinics and others nationwide. HDMA and its members work daily to provide value and achieve cost savings, an estimated $42 billion each year to our nation's healthcare system. For more information, visit www.HealthcareDistribution.org.

HDMA

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