Manufacturers Battle Reform Taxes On Medical Devices

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WASHINGTON (AP) — They were calling it the tax on Q-tips.

Amid Republican ridicule, a Democratic chairman backed down Tuesday and exempted consumer items of $100 or less — from condoms to contact lenses — from a proposed tax on medical device manufacturers. It would help pay for health care coverage for the uninsured in comprehensive legislation.

But Finance Committee Chairman Max Baucus, D-Mont., left intact a $4 billion-a-year levy on the medical devices industry, which makes everything from heart valves to imaging machines to tongue depressors. This week the committee is voting on the Baucus plan, a 10-year, nearly $900 billion proposal to remake the health care system.

Baucus' last-minute switch means that contact lens solution, scented maxi-pads and home pregnancy tests — among many other items — will not be taxed. (It's not clear if Q-tips were ever on his list.)

But more expensive consumer medical goods, from power wheelchairs to insulin pumps and hearing aids, would still get hit.

The difference is those are paid mostly through insurance, so the full cost doesn't come out of the household budget.

"He's trying to avoid the perception that the middle class is going to be taxed," said Dan Mendelson, president of Avalere Health, an information company that serves the health industry and government. "The trick is to get funding for the bill but not to have anything that smacks of a middle-class tax."

The medical devices industry says that eventually, the taxes will get passed on to consumers. Republicans say that amounts to a violation of President Barack Obama's campaign pledge not to raise taxes on the middle class.

A top industry lobbyist said the tax will raise health care costs.

"One of the principal goals of health reform is to bend the cost curve, but there's no question that a significant portion of the tax is going to get passed on to consumers or providers of health care," said Brett Loper, representing AdvaMed, an industry trade group. "Ultimately that means higher premiums or copays."

The companies say they can't just take a $4 billion hit and suck it in.

Loper cited a UBS Investment Research study that estimated the tax equals about one-fifth of industry profits. And the levy would take effect right away, before the coverage expansion in the Baucus bill gets going in 2013. That means the companies would start paying before they get the benefit of millions of new government-subsidized customers.

Scott Mulhauser, a spokesman for Baucus, said it's only fair. Hospitals and drugmakers have volunteered to take cuts to help pay for the overhaul — and so should device companies.

"The device manufacturers, who will benefit significantly from reform, stood with the president at the White House promising to contribute to reform with real savings," said Mulhauser. "Revenues to the device manufacturing industry will go up as insurance coverage expands, and this fee will ensure the industry helps contribute to the reform effort as it benefits."

Supporters and detractors were equally surprised when Baucus' seemingly arcane proposal to impose a "fee" on the medical devices industry turned out to have such potentially broad consequences. The tax would be levied on the companies themselves, not directly on their products.

The government classifies medical devices into three types, from Class 1 to Class 3. Class 1 includes items like Band-Aids and Q-tips. Class 3 is for high-tech, high-risk devices, such as automatic cardiac defibrillators implanted in the body. Early sketchy versions of the Baucus plan made it sound like the companies would be taxed on revenues from all medical devices, giving rise to speculation about a Q-tip tax.

Last week, when Baucus formally unveiled his plan, he exempted Class 1 devices.

But critics kept talking about the Q-tips tax.

"This bill has new taxes on everything from Q-tips to pacemakers, and cancer screening to pregnancy tests," Sen. Charles Grassley, R-Iowa, said Tuesday morning, before Baucus announced his latest changes. "Experts and economists say that all of these health care taxes would be passed on to consumers."

His office said later that Grassley wasn't referring to the devices tax, but to another Baucus provision limiting a tax break now on the books that allows consumers to buy Q-tips and other medical goods and services with pretax dollars.

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