HDA
Healthcare Distribution Alliance
PATIENTS MOVE US.

June 14, 2017

Honorable Senator Hass and Representative Barnhart
Co-Chairmen, Joint Committee on Tax Reform
900 Court St. NE
Salem Oregon 97301

Re: Healthcare Distribution Alliance (HDA) Comments on House Bill 2830 – Oppose

Dear Co-Chairmen Hass and Barnhart:

On behalf of the Healthcare Distribution Alliance (HDA), I am writing in opposition to House Bill (HB) 2830, as amended. While HDA and our member companies understand the need for the state to identify a solution to address the budget deficit, implementing a gross receipts tax (GRT) disproportionately impacts high-volume, low-margin industries, particularly any type of wholesale distribution operations. We respectfully request that any gross receipts tax be rejected in its entirety.

Primary pharmaceutical distributors are the vital link between the nation's pharmaceutical manufacturers and healthcare providers. Each business day, HDA member companies ensure that 15 million prescription medicines and healthcare products are delivered safely and efficiently to nearly 200,000 pharmacies, hospitals, long-term care facilities, clinics and other healthcare settings nationwide. HDA members work 24 hours a day, 365 days a year to efficiently deliver life-saving medicines and healthcare products, provide value and efficiency, and achieve an estimated $42 billion in cost savings each year to our nation's healthcare system.

HDA is extremely concerned with GRT proposals due to the fact that they disproportionately impact HDA member companies. Pharmaceutical distribution is a high-volume, high-value, yet very low margin industry. In 2015, the net profit of HDA members was approximately 1.4 percent on average. GRTs have been proven to be discriminatory to the distinct nature of the pharmaceutical distribution industry as the tax is placed on the entire sale, or gross proceeds of the business and not only on the company's profits. GRTs do not have deductions for standard business costs like traditional income or profits taxes do, and are imposed at each stage of the production chain. This leads to "tax pyramiding", a mechanism that imposes a tax at each stage of production which inequitably compounds the tax burden on low margin industries. Primary pharmaceutical wholesale companies' revenues are almost entirely and immediately offset by the costs of purchasing the medicines, resulting in those razor thin margins. The application of a GRT on medicines will have a cumulative, negative impact throughout the healthcare supply chain and increase drug costs for Oregon consumers, since the same medicines would be taxed multiple times before finally reaching the patient, including:

- When the manufacturer completes the sale to the distributor;
- When the distributor sells the product to the pharmacy; and,
- In many states, when the pharmacy sells it to the consumer.

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While we appreciate the committee's intent to lower the burden on the wholesale industry and providing a reduced rate of 0.25 percent, even when a GRT is levied at a lower tax rate, the high-volume nature of the pharmaceutical wholesale industry means that any GRT would have a crippling effect on our member companies. Applying such a tax on health sustaining medicines will compound costs throughout the healthcare supply chain, likely increasing the costs of medicines for Oregon patients at a time when the national conversation is laser-focused on controlling medication costs.

The two states utilized as models for HB 2830, Ohio and Washington, include specific provisions for the pharmaceutical wholesale distribution industry in an effort to address the disproportionate impact on the industry, all of which are excluded from the amendment to HB 2830. Washington provides the pharmaceutical wholesale industry with a further reduced rate of 0.00138, a lower overall rate than other wholesale industries due to the unique nature of pharmaceutical distribution. Ohio provides a qualified distribution center (QDC) exemption, which was originally proposed in the draft amendment for HB 2830 and subsequently excluded. Further, the amendment language under Section 7, Subsection (b) provides an exclusion for sales to a wholesaler when the product is intended to be sold outside this state, this provision should also apply to the wholesaler and the sale of goods outside of the state.

In conclusion, HDA strongly opposes any gross receipts tax and we encourage you to reject this type of discriminatory tax that disproportionately impacts high-volume, low-margin businesses and will only serve to drive up costs for all products, including life-saving medications in Oregon. Please feel free to contact me at Llindahl@hda.org should you have any questions or concerns.

Sincerely,

Leah D. Lindahl

Leah Lindahl
Senior Director, State Government Affairs