



SB 1507: Elimination of CAT on pharmaceutical and other personal items

Testimony for the Senate Finance Committee – John Calhoun– 2.7.2022

Tax Fairness Oregon is opposed to reducing the revenue for education raised by the CAT. If an exemption is made for pharmaceuticals, diapers and hygiene products, is the legislature willing to increase the rate on all other products and businesses? Otherwise, we will open the door to a sure and steady reduction of revenue available to schools that have previously been underfunded for 30 years.

It is also true that independent pharmacies are under severe margin stress and many rural communities are at risk of losing the only pharmacy in their town. This calls for government action to address this issue. However, it is not clear that eliminating the CAT on pharmaceuticals would solve the problem facing independent stores.

The CAT is essentially a ½ % tax on revenue. However, this cost is swamped by other problems. Over the past year consumer prices rose about 7% and wage growth was up 9%. Pharmacies, like most businesses today, are having difficulty finding staff.

However, the biggest problem independent pharmacies face is arbitrary pricing rules set by pharmacy benefit managers (PBMs). As reported in the American Prospect <https://prospect.org/health/biden-regulators-take-action-on-hidden-pharma-monopolies/>,

“Independent pharmacies that are unaffiliated with PBMs have been hit particularly hard, with low reimbursement rates for distributing drugs, high and often random fees, and an inability to earn back above costs. Many such pharmacies have shut their doors, particularly in rural areas where they are a key element of the health system.”

This is a national problem and a real solution requires a federal fix. Fortunately, there is hope on the horizon. The Centers for Medicare & Medicaid Services (CMS) has proposed a new rule to address this issue. See item seven at <https://mattstoller.substack.com/p/hope-on-the-horizon> The issue facing you as Oregon legislators is will a federal fix happen in time to save independent pharmacies here in Oregon or is there something else you could do for a short-term fix.

However, eliminating the CAT on drugs will not solve the problem for local stores. The savings will go almost entirely to the same chains and PBMs that are benefiting from the current rules. Three PBMs control 80% of the drug market. One of them is Caremark, a division of CVS, which provides two-thirds of CVS’s revenue.

Furthermore, we remain highly skeptical that any elimination of the CAT on this set of products will lead to lower consumer prices. Stores will simply keep the higher margin. After all, that is what the proponents trying to save independent pharmacies want. As we asked at the beginning of this testimony, if a CAT exemption is made for pharmaceuticals, diapers, etc. reducing the revenue for education, is the legislature willing to increase the CAT rate on all other products and businesses?