



SB 1507: Elimination of CAT on pharmaceuticals

Testimony for the Senate Finance Committee – John Calhoun –
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Tax Fairness Oregon is opposed to reducing the revenue raised for education by adding exemptions to the CAT. If an exemption is made for pharmaceuticals, is the legislature willing to increase the rate on all other products and businesses? Otherwise, you will open the door to a sure and steady reduction of revenue available to schools that have previously been underfunded for 30 years.

At the same time, it is 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.

If you feel that you must do something in the short term about the pharmacy crisis, we would support SB 1524 with one of the amendments that narrows the drug exemption to businesses with no more than 6 locations. It needs a further amendment that adds a one- or two-year sunset. Then you should establish a workgroup to seek a real and permanent solution at the state level that properly protects independent stores from the abuse of PBMs. (Unless the feds fix this first.)

The CAT is only a ~1/2 % tax on revenue. This cost is swamped by other problems. Over the past year consumer prices rose about 7%, wage growth was up 9% and 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 some 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>

Eliminating the CAT on drugs in SB 1507 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 drugs 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 reducing the revenue for education, is the legislature willing to increase the CAT rate on all other products and businesses in order to maintain funding for schools?