The Important Details About The Medical Device Tax

Effective 1/1/2013, there is a 2.3% tax on medical devices in the United States as part of the affordable care act. Medical device manufacturers have communicated measured opposition to it from the beginning. Purchasers of medical devices such as hospitals, clinics, etc., are uncertain about it as they are trying to keep costs down. Healthcare insurers are guarded about the tax as it may mean higher costs for them to cover through their insured members.

This tax is paid by the manufacturers of these items. There is a long, diversified list of medical devices to which this tax applies; it includes bedpans, pacemakers and tongue depressors. Products identified as items usually purchased through retail are exempt (band aids, blood glucose meters, etc.). The purpose of the tax is to help fund coverage for those persons who are not able to afford it as defined by healthcare reform legislation. It is categorized as a manufacturer's excise tax which companies will pay quarterly to the government. Over the course of ten years, the tax is expected to raise $30 billion dollars.

Presently, medical device manufacturers have not directly applied the tax to their invoices; they are responsible for accepting the burden on their own behalf. It can be understood manufacturers have already figured the tax into their customer pricing. While the 2.3% does not show up as a separate line item, the buyers of the devices are somehow paying for it regardless. Eventually, these costs are then passed on through the supply chain, to the provider, then to patients and payers.

There is opposition to the tax as it does drive up the cost of healthcare. For advanced medical equipment and its functional accessories, 2.3% will add a noticeable cost burden to products as they are generally higher ticket items. The tax requires additional administration by manufacturers to manage it and this affects their bottomlines further.

Payers, from a health plan or consumer perspective, will not be immune from the increased costs represented by the tax. The impact on consumers for now is distanced but will eventually come into play in total treatment costs. Insurers and healthcare institutions will seek to recover the additional charges passed to them by medical device manufacturers which will be transferred to them through overall product pricing. They will pass the 2.3% burden onto consumers (patients) via higher healthcare insurance premiums and charges correlating with individual procedures and treatments whether they are or are not covered by benefit plans.