

## **Impact of Proposed Medical Technology Manufacturing Fee on California**

### **Overview of the Medical Device and Diagnostics Industry in California**

**California has far more medical technology workers and companies than any other state** -- California is home to 1,300 medical technology firms, more than any other state in the nation. The more than 112,000 medical technology jobs in California represent roughly one-third of the total U.S. medical technology workforce. The number also represents the largest segment (41 percent) of the total 271,000 California life sciences (medical technology, biopharmaceuticals, academic research, etc.) jobs.

**California leads the nation in medical technology venture capital funding** – Beyond large employers, the majority of medical technology companies in the state are smaller, venture capital-backed firms with fewer than 50 employees. In 2007, medical technology venture capital investment in the state was \$2.018 billion, or nearly 55 percent of the total \$3.7 billion in total medical technology venture capital nationwide.

**At roughly \$47.8 billion, California companies represent over 30 percent of total U.S. medical device sales.**

### **California Disproportionately Impacted By Proposed Tax**

**In light of the concentration of medical technology companies in California, the proposed medical technology manufacturing fee would have a vastly disproportionate impact on California at a time, with 12.2% unemployment, the state can least afford it.**

While it is impossible to quantify the exact number of jobs the new tax would cost the state, we can illustrate potential impact based upon a number of known figures and estimates. This includes acknowledgement of job losses in the CBO/JCT estimation that annual revenue from such a tax will be offset by 25% in lost payroll/income tax revenue.

For example, based on the Senate Finance Committee measure's \$40b (\$4b/year over ten years) fee provision:

\$4 billion is roughly the equivalent of 67,000 jobs averaging \$60,000 per year.

- **With roughly one-third of the industry, California's share of the tax would be \$1.3 billion.**
- **\$1.3 billion equals more than 22,000 jobs at \$60,000 per year.**

Not all of the tax would translate to job cuts, but companies would clearly cut back on R&D to some extent.

- **A 50 percent reduction in R&D in California translates to more than 11,000 lost jobs.**
- **A 25 percent reduction would mean more than 5,500 lost jobs.**

The Milken Institute estimates that every direct industry job is linked to three additional jobs in fields from building trades to professional services. Thus the multiplier effect of 5,500 direct jobs lost would threaten another 16,500 jobs, or a total of 22,000 jobs.

For many firms, the cost of the new excise tax would exceed the value of the federal research and experimentation tax credit.

To the extent the excise tax caused firms to reduce R&D, it would inhibit future growth in high-tech manufacturing.

Many medical device and diagnostics companies are based on inventions that originated in California academic institutions. Reductions in industry investment would mean less technology transfer, along with fewer licensing royalties, at a time when the state's universities face intense financial pressure.