HOW THE 340B PROGRAM IMPACTS FEDERAL & STATE TAX LIABILITY

DATA ANALYSIS

Magnolia market access
a medical knowledge group company

Understanding the Economic Burden on Federal and State Tax Liability of Forgone Commercial Rebates Due to the 340B Drug Pricing Program

Under the 340B Drug Pricing Program, eligible hospitals and clinics purchase drugs from manufacturers at reduced prices and usually receive reimbursement for those drugs from payers and cash-paying patients based on their undiscounted price. This program has seen exponential growth since its enactment in 1992 and is now the second largest federal drug program behind only Medicare Part D.[1] The 340B program is designed to support eligible providers furnishing services to a high volume of uninsured or low-income patients; however, the program has been criticized for lack of oversight and transparency into eligible providers' use of profits generated by 340B drug sales.[2]

The 340B program has often been touted as cost-free to taxpayers, as the discounted pricing comes from drug manufacturers directly.[3-6] However, a recent IQVIA study found that contrary to this narrative, discounted pricing on drugs sold under the 340B program displaces manufacturer rebates to commercial health insurance plans (including employer health plans) as duplicative discounts in the commercial market are often prohibited by contracts. This displacement of manufacturer commercial rebates in favor of 340B discounted pricing corresponded to a $5.2B increase in healthcare costs for self-insured employers and workers in 2021.[7] The increase in healthcare costs associated with drugs sold under the 340B program corresponds to a decrease in taxable income for affected employers and workers, resulting in lost tax revenue for the federal and state governments.

To assess the lost tax revenue from forgone employer rebates due to the 340B program, Magnolia Market Access expanded upon the IQVIA analysis to include fully insured employers and workers and assessed how forgone rebates due to the 340B program affect tax revenue to the federal government and states. Magnolia Market Access' analysis found:

ANALYSIS HIGHLIGHTS

- The combined increase of $7.8B in healthcare costs for both self-insured and fully insured employers and workers from forgone manufacturer rebates due to the 340B program resulted in $1.8 billion in lost federal and state tax revenue in 2021.
- This total accounts for $1.4B in lost federal tax revenue and $418M in lost state tax revenue in 2021.
    - California, New York, and Pennsylvania are the most affected states, with annual losses of $77M, $32M, and $26M, respectively, in 2021.

Forgone commercial rebates are just one way 340B drives up costs for employers, the government and taxpayers. Research suggests 340B also contributes to increased spending by incentivizing the use of more and higher-cost medicines, shifting care to more expensive settings, and driving provider consolidation.[8-10] These other sources of increased cost are outside the scope of this analysis, which suggests its findings are a conservative estimate of the true cost of the program to employers, the government and taxpay.

Annual Tax Impact for Self-Insured and Fully Insured Employers and Workers, 2021 ($ in millions)

Tax Impact	Self-Insured Employers & Workers	Fully Insured Employers & Workers	Total
Federal	$903.0	$457.1	$1,360.1
All States	$277.4	$140.4	$417.8
Total (Federal + All States)	**$1,180.3**	**$597.5**	**$1,777.9**

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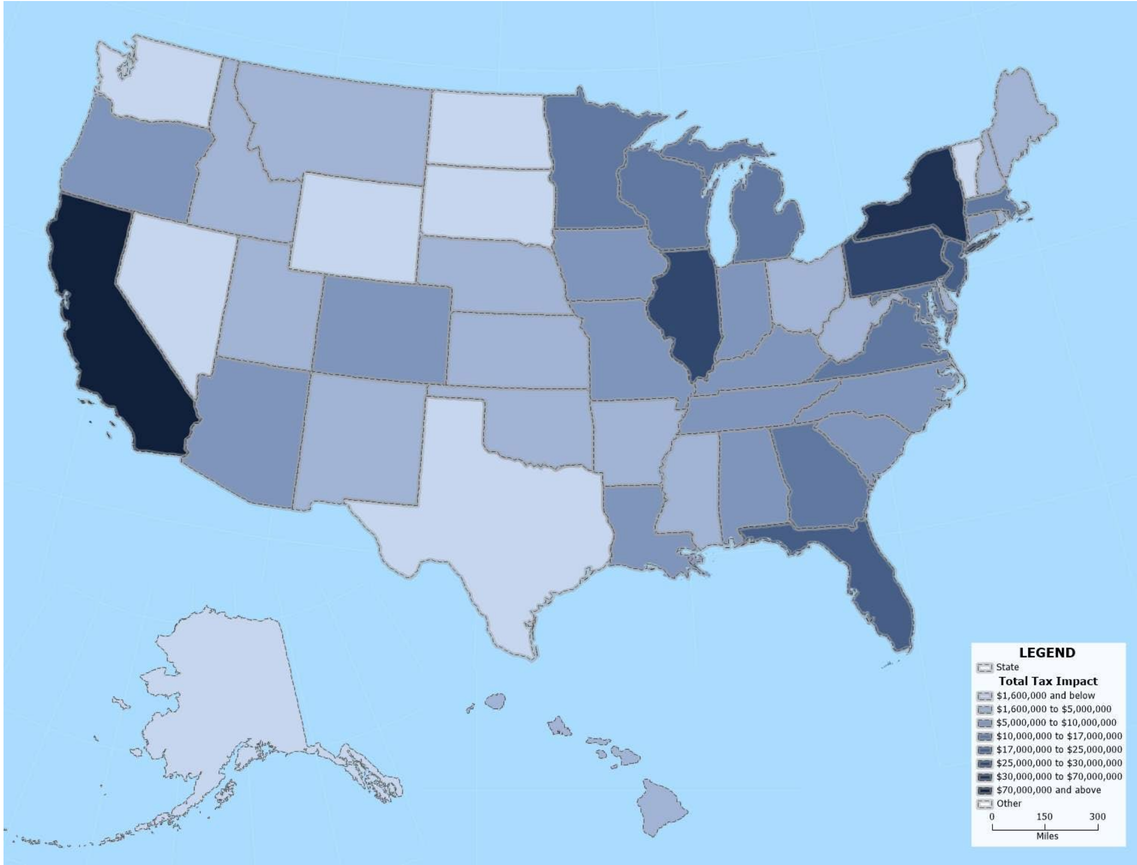

Despite the 340B program's goal of improving access to more affordable medicines for vulnerable patients, the program results in forgone rebates in the commercial market and comes at a significant cost to states due to lower taxes collected. It is important to consider the true financial impact of the 340B program on all stakeholders in the system.

Methodology: The number of self-insured workers, annual drug cost per worker, and differences in total rebates between scenarios with and without 340B eligibility were obtained from a previous analysis completed by IQVIA.[7] The healthcare cost difference for fully-insured workers compared to self-insured workers was obtained from an article published in Health Affairs and was applied to scale costs for the fully-insured population.[11] The total population for the analysis was determined using the distribution of self-insured and fully-insured workers obtained from the Kaiser Family Foundation 2021 Annual Survey and the distribution of single and family coverage obtained from the Medical Expenditure Panel Survey (MEPS).[12,13] Healthcare costs were distributed to employees and employers using data obtained from the Kaiser Family Foundation 2021 Annual Survey.[12] Federal and state taxes for these employee and employer costs were calculated using rates obtained from Tax Foundation reports, a Prudential report, and a Government Accountability Office report.[13-17] The taxes in each state were subsequently weighted by the distribution of US population by state obtained from the US Census Bureau.[18]

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Annual State Tax Impact for Self-Insured and Fully Insured Employers and Workers by State ($ in millions)

Tax Impact	Self-Insured Employers & Workers	Fully Insured Employers & Workers	Total
Alabama	$4.8	$2.5	$7.3
Alaska*	$0.4	$0.2	$0.6
Arizona	$5.1	$2.6	$7.6
Arkansas	$2.0	$1.0	$3.0
California	$50.8	$25.7	$76.6
Colorado	$4.1	$2.1	$6.2
Connecticut	$3.9	$2.0	$5.9
Delaware	$1.3	$0.6	$1.9
Florida*	$14.4	$7.3	$21.6
Georgia	$9.6	$4.9	$14.4
Hawaii	$1.4	$0.7	$2.0
Idaho	$1.8	$0.9	$2.7
Illinois	$17.1	$8.7	$25.7
Indiana	$4.8	$2.4	$7.2
Iowa	$3.8	$1.9	$5.7
Kansas	$2.6	$1.3	$3.8
Kentucky	$3.5	$1.8	$5.3
Louisiana	$3.8	$.9	$5.7
Maine	$1.4	$0.7	$2.0
Maryland	$7.2	$3.7	$10.9
Massachusetts	$8.1	$4.1	$12.1
Michigan	$8.9	$4.5	$13.4
Minnesota	$8.2	$4.1	$12.3
Mississippi	$2.1	$1.1	$3.2
Missouri	$4.2	$2.1	$6.3
Montana	$1.2	$0.6	$1.7
Nebraska	$2.0	$1.0	$3.0
Nevada**	$0.0	$0.0	$0.0
New Hampshire	$1.5	$0.8	$2.3
New Jersey	$11.9	$6.0	$18.0
New Mexico	$1.7	$0.9	$2.6
New York	$21.2	$10.7	$32.0
North Carolina	$5.1	$2.6	$7.6
North Dakota	$0.3	$0.2	$0.5
Ohio	$1.4	$0.7	$2.0
Oklahoma	$2.6	$1.3	$3.9
Oregon	$5.0	$2.5	$7.5
Pennsylvania	$17.2	$8.7	$26.0
Rhode Island	$1.1	$0.6	$1.7
South Carolina	$4.3	$2.2	$6.5
South Dakota**	$0.0	$0.0	$0.0
Tennessee	$5.9	$3.0	$8.9
Texas**	$0.0	$0.0	$0.0
Utah	$2.5	$1.3	$3.7
Vermont	$0.7	$0.4	$1.1
Virginia	$8.0	$4.1	$12.1
Washington**	$0.0	$0.0	$0.0
West Virginia	$1.8	$0.9	$2.7
Wisconsin	$6.9	$3.5	$10.5
Wyoming**	$0.0	$0.0	$0.0
Total (All States)	**$277.4**	**$140.4**	**$417.8**

**State does not impose a personal income tax but does levy an employer payroll tax.*

***State does not impose any personal income or employer payroll taxes.*

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