

**GROSS RECEIPTS TAXES AND THE
HEALTHCARE DISTRIBUTION INDUSTRY**

Prepared for

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Gross Receipts Taxes and the Healthcare Distribution Industry

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Gross Receipts Taxes and the Healthcare Distribution Industry

EXECUTIVE SUMMARY

Background

Revenue shortfalls have prompted states to consider, and in some cases adopt, gross receipts taxes to supplement or replace other business taxes. Gross receipts taxes, also referred to as “turnover” taxes, are imposed on sellers on total receipts from sales at each stage of the supply chain, e.g., on the manufacturer, distributor, and the retailer. Compared to a value added tax, which taxes value added once, a gross receipts tax may subject the same value added to multiple taxation (i.e., double or triple taxation or more).

State gross receipts taxes proliferated after the Great Depression in response to dire economic conditions. Over time, most states replaced gross receipts taxes with more economically sound revenue systems, while in Europe, turnover taxes have been replaced with value added taxes. In 2004, only Delaware and Washington continued to impose broad-based gross receipts taxes. In 2005, however, Ohio adopted the Commercial Activity Tax (“CAT”), a form of gross receipts tax, and Texas followed by replacing its franchise tax in 2006 with the so-called Texas “Margins Tax”, effective for tax years 2007 and beyond. In addition to the Ohio and Texas taxes, New Jersey and Kentucky have adopted gross receipts based “alternative minimum taxes” to supplement their corporate income tax revenues.

Policy Issues Affecting All Industries

The renaissance of state gross receipts taxes is surprising in view of their widely known economic infirmities. Gross receipts taxes distort production and consumption decisions because the amount of tax imposed on any particular good or service depends on how many different in-state firms are involved in the supply chain. Effective tax rates can differ widely by industry. For example, a 2002 report commissioned by the State of Washington on the Business and Occupational Tax found that the effective tax rate on food manufacturing was 6.7 times the statutory tax rate, while the effective tax rate on the utility industry was 1.5 times the statutory tax rate.

Gross receipts taxes also encourage in-state companies within the same supply chain to merge (i.e., “vertically integrate”) in order to reduce the number of layers of gross receipts tax in the final product. Such tax-motivated mergers serve no useful economic purpose.

Moreover, due to the effects of the cascading and/or pyramiding of the tax at each stage of the production process, gross receipts taxes competitively disadvantage in-state companies relative to out-of-state competitors, both when selling to in-state and to out-of-state customers. As a result, states that impose gross receipts taxes create a tax incentive to move production and distribution activities elsewhere.

Healthcare Distribution Industry

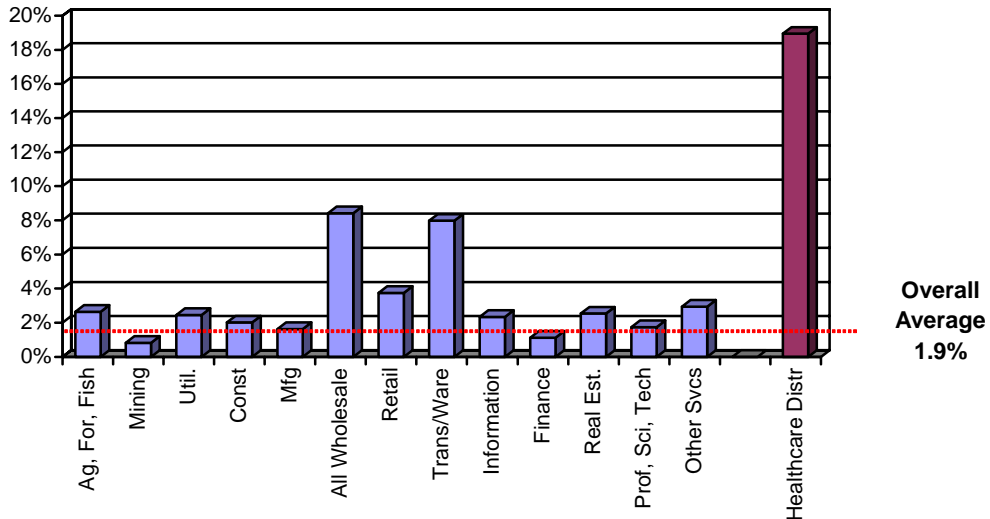
Gross receipts taxes have a particularly adverse effect on healthcare distributors due to the specific characteristics of the industry. As a result of margins that have been driven to razor-thin levels by intense competition (1.18 percent of pre-tax profits for HDMA members in 2005), the number of full service distributors over the last 15 years has decreased by more than 50%. HDMA members alone distribute over \$200 billion of pharmaceuticals in the United States annually and include approximately 40 local, regional, and national distributors, with over 75,000 employees and 200 warehouses. In addition to within-industry competition, the industry also competes with mail order sales and manufacturers that sell direct to retailers and/or final consumers.

Policy Issues Affecting Healthcare Distributors

Due to the industry’s extremely thin margins, imposition of even low-rate gross receipts taxes can result in punishing tax burdens relative to the industry’s profits and net worth. For example, at a national level, a 0.25

percent gross receipts tax averages 1.9 percent of pre-tax income for all industries; by contrast, within the healthcare distribution sector, the tax burden is equivalent to 18.9 percent of pre-tax income (see Figure E-1 below). Thus, relative to income, which measures ability to pay, the healthcare distribution industry suffers a tax burden that is almost *ten times* higher than the average industry.

Figure E-1. 0.25% Gross Receipts Tax as a Percent of Pretax Income by Industry, 2003-5



Source: Compustat, HDMA, and PricewaterhouseCoopers calculations. See Appendix for underlying data.

Combining the impact of a 0.25 percent gross receipts tax with the 35 percent federal corporate income tax rate results in a total tax burden on healthcare distributors of 47 percent of pre-tax income (after accounting for the deduction of state taxes against federal income tax). In the short run, healthcare distributors would have to absorb much of the burden of a new gross receipt tax because the industry frequently enters into annual and multiyear fixed-price agreements that do not permit price adjustments for new taxes imposed on distributors.

Pharmaceutical manufacturers often provide rebates to health plans to ensure inclusion of branded drugs in plan formularies. These rebates can exceed 15 percent of the manufacturers' list price. Gross receipts taxes are imposed on the price charged to the health plan without regard to rebates, with the result that the effective tax rate on pharmaceutical sales may be 15 percent higher than for goods and services sold without rebates.

State gross receipts taxes may have the unintended effect of creating a tax incentive for manufacturers and distributors to use out-of-state warehouses in order to avoid an extra layer of tax. As a result, the delivery of vital medications to in-state consumers may be delayed.

In addition, gross receipts taxes on pharmaceuticals are particularly unfair to low-income families who spend a much higher percentage of their income on drugs than more affluent households. For example, relative to household income, families earning between \$15,000 and \$20,000 in 2005 spent over six times more on drugs than families earning \$70,000 or more. Not only are gross receipts taxes on pharmaceuticals regressive, they may cause low-income families to forego purchase of medications necessary for the maintenance of good health.

Finally, gross receipts taxes on pharmaceuticals may be fiscally counterproductive because state and local governments purchase large amounts of drugs for Medicaid beneficiaries and public hospitals. At a national level, imposition of a 0.25 percent gross receipts tax would increase government spending on pharmaceuticals in 2007 by an estimated \$470 million at the federal level and \$110 million at the state and local levels. Taxation of pharmaceuticals thus runs counter to public policy to reduce the growth in healthcare costs.

Gross Receipts Taxes and the Healthcare Distribution Industry

I. INTRODUCTION

Revenue shortfalls have prompted states to consider, and in some cases adopt, gross receipts taxes to supplement or replace other business taxes. Gross receipts taxes may be defined in general terms as taxes on the gross income, gross sales, or other gross proceeds of any business. The gross receipts tax, also referred to as a "turnover" tax, is imposed on gross proceeds from transactions at each stage of the supply chain, e.g., on the manufacturer, distributor, and the retailer. As a result, as opposed to a European "value-added" tax, the gross receipts tax may be applied multiple times to the same value added (i.e., double or triple taxation, or more). Further, unlike a corporate income tax, gross receipts taxes are due regardless of profit.

While state gross receipts taxes proliferated after the Great Depression in response to the severe fiscal crisis, most states that adopted such taxes have since replaced them with more economically sound revenue systems. However, the idea of gross receipts taxes has been raised in the context of recent budget proposals, and the taxes have reappeared in a limited number of states (e.g., the Ohio Commercial Activity Tax ("CAT") adopted in 2005).

In light of this apparent renewed interest in state gross receipts taxes, the Healthcare Management Distribution Association ("HDMA") commissioned PricewaterhouseCoopers LLP to prepare a study of these taxes, including their particular effects on healthcare distributors.

This report presents our findings regarding gross receipts taxation. Section II provides an historical background on state gross receipts taxation. Section III contains financial and operational information about the healthcare distribution industry. Section IV analyzes policy issues raised by gross receipts taxes generally as well as the specific effects of the tax on healthcare distributors. Section V contains the conclusion to the report.

II. GROSS RECEIPTS TAXES

A. Definition

Gross receipts taxes, as the name implies, generally refer to taxes on all gross receipts of a business that are situated, or assigned, to the taxing jurisdiction. Whether imposed on "gross income," "gross proceeds," "gross business," or "gross sales," gross receipts taxes effectively tax the total receipts of the business, with limited or no deductions.¹ Gross receipts taxes may be imposed broadly, such as on all businesses for the "privilege" of engaging in business in a state,² or may be imposed narrowly on special industries.³

B. History

While imposition of gross receipts taxes in the United States generally was limited to low-yield license taxes in the mid-Atlantic states during the nineteenth century, the Great Depression saw a proliferation of gross receipts taxes as states sought to offset revenue losses and to decrease reliance on the property tax.⁴

Over time, most states replaced gross receipts taxes with more economically sound revenue systems, while in Europe turnover taxes have been replaced with the value added tax. For example, National Tax Association President and University of Illinois professor J. Fred Giertz has written that the gross receipts tax, "usually appears in public finance textbooks only as an example of an inefficient tax."⁵ According to Prof. John Mikesell, gross receipts taxes were abandoned "for good reason"⁶:

"No sensible case can be made for imposing gross receipts taxes in the modern economic environment. The old turnover taxes, typically adopted as desperation measures in fiscal crisis, were replaced with taxes that created fewer economic problems. Gross receipts taxes should never be seen as an element of positive tax reform. They were abandoned for good reason."

Another challenge to the continuing application of gross receipts taxes is possible discrimination against interstate commerce, thereby raising Constitutional issues.⁷ Both West Virginia and Washington were forced to revise the language in their gross receipts statutes to respond to judicial rulings. These states modified their statutes to provide equal treatment for in-state and out-of-state companies, and to provide a credit for out-of-state companies that are subject to tax in multiple jurisdictions. In addition, West Virginia subsequently repealed its gross receipts ("business and occupation") tax.

By 2004, only Delaware and Washington continued to impose broad-based gross receipts taxes.⁸

¹ Piper and Eggen, "Gross Receipts Taxes: General Principles," BNA Tax Management Multistate Tax Portfolios, 1610 T.M., 1610.03.A.2.

² See, e.g., Wash. Rev. Code Sec. 82.04.220, which levies the Business and Occupation (B&O) Tax on "every person... for the act or privilege of engaging in business activities."

³ See, e.g., the "MinnesotaCare Tax," which is imposed at a rate of 2 percent of the gross revenues of hospitals, surgical centers, health care providers, and wholesale drug distributors.

⁴ John L. Mikesell, "Gross Receipts Taxes in State Government Finances: A Review of their History and Performance," Tax Foundation, January 2007, No. 53.

⁵ J. Fred Giertz, "The Illinois Gross Receipts Tax Proposal," *State Tax Notes*, Mar. 26, 2007, p. 899

⁶ Mikesell, p. 15.

⁷ Each of the following cases illustrates examples of courts striking down gross receipts taxes or specific provisions of the taxes. In *Armco Inc. v. Hardesty*, the Court invalidated the West Virginia business and occupation tax as discriminating against interstate commerce in violation of the Commerce Clause. (*Armco Inc. v. Hardesty*, 467 U.S. 638, 104 S.Ct. 2620, 81 L.Ed.2d 540 (1984)). In *Ashland Oil, Inc. v. Rose*, the Court applied *Armco* retroactively (*Ashland Oil, Inc. v. Caryl*, 497 U.S. 916, 110 S.Ct. 3202, 111 L.Ed.2d 734 (1990)). In *Tyler Pipe Industries, Inc. v. Department of Revenue*, the Court found that certain aspects of the Washington business and occupation tax were unconstitutional under the Commerce Clause. (*Tyler Pipe Industries, Inc. v. Washington State Department of Revenue*, 483 U.S. 232, 107 S.Ct. 2810, 97 L.Ed.2d 199 (1987)).

⁸ Classification of a tax as a gross receipts tax is an inexact undertaking: for example, Michigan's Single Business Tax is a hybrid tax with value-added tax features, and New Mexico's gross receipts tax is widely regarded as being akin to a sales tax.

C. Recent Applications

In 2005, Ohio became an exception to this general trend of gross receipts tax repeal. Effective July 1, 2005, the Ohio Commercial Activity Tax ("CAT") generally applies to the total Ohio gross receipts of any person regardless of legal or organizational form. The CAT is phased-in over a five-year period and ultimately will be imposed at a rate of 0.26 percent. Gross receipts are broadly defined as the total amount realized by a person, without deductions for the cost of goods sold or most other expenses incurred.

Texas substantially revised its business income/net worth tax, the Franchise Tax, in 2006. The *revised* Franchise Tax, also commonly referred to as the Texas "Margins Tax," applies to the 2007 taxable years (reports due in 2008) and is imposed at a rate of 0.5 percent for taxable entities primarily engaged in retail and wholesale trade businesses, and 1 percent for all other taxpayers. However, unlike the Ohio CAT, the Texas Margins Tax is imposed on *modified* gross revenue ("taxable margin"), which equals the lesser of 70 percent of a taxable entity's total revenue or 100 percent of an amount equal to the entity's total revenue less either cost of goods sold or compensation. As a result, the Texas Margins Tax limits the multiple taxation of value added.⁹

In addition, New Jersey¹⁰ and Kentucky have adopted gross receipts "alternative minimum taxes" to supplement their corporate income taxes.

Kentucky's corporate income tax "Alternative Minimum Calculation" (AMC) was adopted in 2005. The Kentucky AMC is the lesser of 0.095 percent of Kentucky gross receipts or 0.75 percent of Kentucky gross profits. The tax has since been renamed the "Limited Liability Entity" (LLE) tax, imposed at the same rates as the AMC on Kentucky gross receipts or gross profits.

While broad-based gross receipts taxes were repealed in most instances by the beginning of the 21st Century,¹¹ the experience of Ohio, Texas (limited to "taxable margin"), New Jersey, and Kentucky shows that a few states are again examining these taxes, or variants thereof, as a means of replacing or supplementing taxes on business. The experience of these states, however, illustrates some of the challenges and limitations associated with gross receipts taxes.

⁹ Because the Margins Tax does not allow for the full deduction of the costs of producing goods, such as overhead, it still taxes a portion of value added multiple times.

¹⁰ The New Jersey alternative minimum assessment expired for corporation business taxpayers for privilege periods beginning on or after July 1, 2006; however, the tax remains in effect for corporations that claim immunity from the corporation business tax under P.L. 86-272.

¹¹ Andrew Chamberlain and Patrick Fleenor, "Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes," Tax Foundation, December 2006, No. 147. See, e.g., West Virginia's repeal of its business and occupation tax in 1987, and Indiana's repeal of its gross income tax, effective January 1, 2003.

III. HEALTHCARE DISTRIBUTION INDUSTRY

U.S. healthcare distributors deliver medical products to the healthcare providers. HDMA members alone ensure that 9 million healthcare products are delivered to more than 144,000 pharmacies, hospitals, and other healthcare providers across the United States on a daily basis. The primary objectives of healthcare distributors are to:

- Guarantee the accurate, timely, and safe distribution of products needed to diagnose, prevent, and treat illnesses; and
- Distribute products as efficiently and economically as possible.

By providing daily delivery, high service levels, and business efficiencies in an intricate supply chain, Booz Allen Hamilton estimates that distributors save the healthcare system \$10.5 billion per year.¹²

In 2005, total U.S. pharmaceutical sales were \$251.8 billion, of which sales by pharmaceutical distributors were approximately \$201.7 billion (80 percent).¹³ HDMA members include approximately 40 local, regional, and national distributors with over 75,000 employees and 200 strategically located distribution centers.¹⁴

Chain and independent drug stores account for 58 percent of the pharmaceutical distribution industry's sales; hospitals, HMOs, clinics, and nursing homes account for an additional 27 percent; and the remaining 15 percent is sold to governments, to mail order fulfillment centers, and to other customers (see Table III-1).

Table III-1. Healthcare Distribution Industry, Customers by Category, 2004-5

Customers	2004		2005		2005/2004
	(\$billion)	(%)	(\$billion)	(%)	(% Change)
Chain sales	63.47	34.3%	78.53	38.9%	23.7%
Independent drug stores	29.10	15.7%	37.75	18.7%	29.7%
Hospitals & HMOs	39.80	21.5%	34.29	17.0%	-13.8%
Specialty pharmacies	0.02	0.0%	0.02	0.0%	0.0%
Clinics and nursing homes	26.43	14.3%	20.65	10.2%	-21.9%
Mail order	10.68	5.8%	12.56	6.2%	17.6%
Government sales	6.22	3.4%	8.43	4.2%	35.5%
Other customers	9.38	5.1%	9.44	4.7%	0.6%
Total sales	185.10	100.0%	201.68	100.0%	9.0%

Source: HDMA Foundation, 2006-2007 HDMA Factbook: Industry Overview.

The healthcare distribution industry provides various types of sales contracts to meet specific needs of different customers. These include annual contracts and long-term (3-5 year) national contracts. In general, both the annual and long-term contracts provide that new taxes will *not* be passed through to the customer before the date of contract renewal. As a result, healthcare distributors generally will be required to absorb any new taxes during the contract term. A customer may not renew a contract that seeks to impose pricing adjustments for new taxes, especially if the customer can find an alternate supplier that is not subject to the new tax.

The healthcare distribution industry is a high volume industry with exceptionally low profit margins. In 2005, the industry's sales were approximately \$202 billion; however, the pre-tax profit margin for these sales was only 1.18 percent.¹⁵ Industry profits are primarily derived from three primary sources: (1)

¹² Booz Allen Hamilton, *The Role of Distributors in the U.S. Healthcare Industry*, study prepared for HDMA, 2004.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ HDMA Foundation, 2006-2007 Factbook: Logistics & Operations.

buying revenue (e.g., gain on distributors' inventories during periods of rising prices); (2) selling revenue; and (3) fee-for-services revenue, which is a new fee received from manufacturers for handling the distribution of product. The distribution industry's buying revenue has greatly diminished over the last few years, while fee-for-services revenue has become more prevalent.

A. Competitive Environment

1. Internal Competition

Over the past 15 years, HDMA has seen the number of primary full service distributor members decrease by more than 50 percent, from approximately 100 distributors in the early 1990s to fewer than 50 distributors in 2006. As such, competition among the distributors has heightened.

Most distributors attempt to locate distribution centers near their customers so that they may provide them with the efficiency of next day delivery. Gross receipts taxes discourage this good business and healthcare practice by creating a competitive disadvantage for in-state distributors. **That is, a sale from an in-state distributor to an in-state retailer will be subject to the gross receipts tax, whereas a sale from an out-of-state distributor to that same retailer may not be subject to the tax, putting in-state distributors at a competitive disadvantage.**

Distributors in a gross receipts tax state also are at a competitive disadvantage to out-of-state distributors when selling to out-of-state customers because the out-of-state distributor's inventory is not layered with the gross receipts tax.

2. External Competition

Distributors, not to mention independent pharmacies, face competition from out-of-state mail order pharmacies. There is also the competition from direct distribution by manufacturers. Both of these alternative distribution channels operate with a lower tax burden than traditional healthcare distributors under a gross receipts tax. In instances where consumers purchase pharmaceutical products directly from mail order suppliers, gross receipts tax may be completely avoided. Where retailers purchase directly from manufacturers, one level of tax pyramiding is eliminated. Consequently, distributors are at a competitive disadvantage.

B. Government Regulation

The healthcare distribution industry is heavily regulated at both the federal and state levels. At the federal level, the industry is regulated and/or scrutinized by various agencies, including the Food and Drug Administration and the Drug Enforcement Agency. The industry also must comply with rules and licensing requirements promulgated by many state regulatory authorities prior to conducting distribution activities. Although these federal and state agencies are focused on protecting consumers, they often add significant administrative burdens on distributors.

C. Taxation of Pharmaceuticals

States frequently provide zero or reduced tax rates on sales of pharmaceuticals for purposes of their sales and use taxes and gross receipts taxes. Tax preferences are a recognition of the fact that pharmaceuticals are essential for the health and well-being of the citizenry. In addition, due to the regressive nature of these taxes, states do not want to impose a greater burden on their lower income residents. Examples of preferential tax treatment of pharmaceuticals are highlighted below:

Sales Tax: States have imposed sales and use tax on goods and specifically enumerated services since the 1930's. With the exception of Illinois, which taxes prescription drugs at a

reduced rate, all states exempt the sales of prescription drugs to the final consumer. The exemption of pharmaceuticals from State sales taxes is even more universal than the exemption for food.

MinnesotaCare Tax: In an effort to provide a revenue source for the uninsured, Minnesota enacted the MinnesotaCare tax. This tax, which started in the mid-1990s, imposes a two-percent tax on hospitals, surgical centers and wholesale drug distributors. In response to the disproportionate financial impact of this tax on the distribution industry, the Minnesota legislature included two provisions. The first provided that wholesale drug distributors could separately state the tax on the invoice. The second provided that an in-state retailer must pay the tax directly to the state if the retailer bought the product from anyone other than a wholesale drug distributor. Essentially, the Minnesota legislature allowed the tax to be passed through to the ultimate consumer.

Washington Business and Occupations Tax: For years, Washington State applied the standard Business and Occupational Tax rate of 0.484 percent to pharmaceutical distributors. In the late 1990's, in response to intense competition from out-of-state and mail-order distributors that were able to avoid some or all of the tax, the Washington legislature reduced the tax rate to 0.138 percent for pharmaceutical distributors, a 72 percent reduction in tax burden.

IV. POLICY ISSUES

Gross receipts taxes lower economic efficiency by causing consumers and producers to alter purchasing and production decisions in ways that harm productivity and consumer well-being. Gross receipts taxes also are undesirable from an equity perspective as they are imposed without regard to ability to pay and the effective tax rate is not uniform across products, firms, or industries.

This section first discusses flaws in the design of gross receipts taxes that affect all industries, and then focuses on the specific adverse effects of gross receipts taxation on the healthcare distribution industry.

A. Issues Affecting All Industries

1. Pyramiding of Tax

As gross receipts taxes are imposed at each stage of the production process, their impact will accumulate, often referred to as “cascading” or “pyramiding” of the tax. The pyramiding of gross receipts taxes erodes the basic fairness of the tax in that the same output is taxed multiple times in the distribution chain.

For example, suppose a retailer purchases a good from a distributor, who purchased the good from a manufacturer for \$1,000.00. At each stage in the distribution chain, the business pays the gross receipts tax. Assuming a 0.25 percent gross receipts tax and a hypothetical 5 percent mark-up at the distributor and retailer stages, the total gross receipts tax would be \$7.89, if the tax is borne by sellers (see Table IV-1). In this example, the gross receipts tax amounts to 0.72 percent of the final sale price of \$1,102.50, which is almost three times the statutory gross receipts tax rate. The high effective tax rate results from triple taxation of the good’s \$1,000 manufacturing value and double taxation of the distributor’s 5 percent margin.

Table IV-1. Pyramiding under a Gross Receipts Tax: Example
[0.25 percent gross receipts tax rate]

Stage of Production	Tax Absorbed by Seller		Tax Passed through to Buyer	
	Price	GR Tax	Price	GR Tax
Manufacturer	\$1,000.00	\$2.50	\$1,002.51	\$2.51
Distributor	\$1,050.00	\$2.63	\$1,055.27	\$2.64
Retailer	\$1,102.50	<u>\$2.76</u>	\$1,110.81	<u>\$2.78</u>
Total		\$7.89		\$7.93

If the tax is passed through to buyers, rather than borne by sellers, the total gross receipts tax in the above example would be \$7.93, or 0.71 percent of the final sales price of \$1,110.81. In this case, not only is there double and triple taxation of value added, but also tax cascading, i.e., imposition of gross receipts tax on prices that include gross receipts tax.

According to a 2002 report by a Washington State Commission, the state’s gross receipts tax pyramids an average of 2.5 times, meaning that goods consumed by Washington residents are on average taxed 2.5 times under the gross receipts tax.¹⁶

Pyramiding does not occur under an income tax because deductions are allowed for the cost of purchases from other companies. Likewise, pyramiding of tax on consumer goods generally is avoided under a retail sales tax because the tax is imposed only on the final retail sale.¹⁷

¹⁶ Washington State Tax Structure Study Committee, *Tax Alternatives for Washington State: A Report to the Legislature*, Volume I, November 2002. The Washington estimates ignore the impacts of vertical integration.

2. Disparities in Tax Burdens between and within Industries

As discussed below, a gross receipts tax has differential impacts both between and within industries.

a. Differences between Industries

The degree of tax pyramiding under a gross receipts tax depends on how much of the output of an industry consists of inputs from other industries that are subject to tax. The larger the in-state share of a good's value chain, the higher the tax pyramid and the greater the total tax collected relative to the final sales price.

A 2002 Washington State Commission report found that the manufacturing sector generally has the highest level of pyramiding. In the food manufacturing industry, the effective tax rate on value added is 6.7 times the statutory gross receipts tax rate. The lowest level of pyramiding occurs in the services sector, which generally has high levels of value-added relative to output. The industry with the lowest level of pyramiding in the state of Washington study is Computer Programming and Data Processing, whose output faces an effective tax rate of 1.4 times the statutory gross receipts tax rate (see Table IV-2).

¹⁷ Certain business purchases are subject to sales and use tax if not purchased for resale, creating the potential for tax pyramiding within retail sales taxes.

Table IV-2. Pyramiding under the Washington State B&O Tax by Industry

Industry	Tax / Value Added ^a	Degree of Pyramiding
Manufacturing – Food	2.03%	6.7
Manufacturing - Petroleum Refining	3.06%	6.7
Manufacturing - Aircraft & Parts	2.63%	5.3
Manufacturing - Rubber & Plastics	2.03%	4.3
Manufacturing - Primary Metal	2.00%	4.1
Manufacturing - Apparel & Textiles	1.95%	4.1
Manufacturing - Lumber & Wood Products	1.92%	4.0
Manufacturing - Professional & Scientific Instruments	1.83%	4.0
Manufacturing - Industrial & Commercial Machinery & Equipment	1.90%	3.9
Manufacturing - Furniture & Fixtures	1.76%	3.7
Manufacturing - Other Transportation Equipment	1.85%	3.7
Manufacturing - Paper Products	1.66%	3.7
Manufacturing - Stone, Clay & Glass	1.59%	3.4
Manufacturing - Chemical Products	1.54%	3.3
Construction	1.59%	3.3
Manufacturing - Electronic Equipment (Except Computers)	1.38%	2.8
Manufacturing - Leather & Leather Products	1.42%	2.8
Movies, Amusement & Recreation	2.25%	2.7
Miscellaneous Repair Services	1.35%	2.7
Manufacturing - Miscellaneous Manufacturing Industries	1.16%	2.7
Manufacturing - Printing and Publishing	1.35%	2.6
Railroad, Air, Water & Other Transportation	1.84%	2.5
Mining & Quarry	1.17%	2.4
Manufacturing - Fabricated Metal	1.08%	2.3
Lodging Services	1.08%	2.2
Barbers, Dry Cleaning and Other Personal	2.04%	2.1
Agriculture, Forestry & Fishing	1.39%	2.0
Auto Repair Services	0.96%	2.0
Communications	1.18%	1.9
Wholesale Trade	0.89%	1.9
Legal, Engineering & Accounting	2.07%	1.8
Advertising, Mailings, and Other Business Services	1.58%	1.7
Retail Trade	0.75%	1.6
Medical & Health Services	1.95%	1.6
Finance, Insurance & Real Estate	1.48%	1.6
Electric, Gas & Other Utilities	3.22%	1.5
Computer Programming and Data Processing	1.26%	1.4
Average	1.53%	2.5

^a Tax collections by industry relative to value added.

Source: Washington State Tax Structure Study Commission, *Tax Alternatives for Washington State: A Report to the Legislature*, Appendix C-12, November 2002, Table 1, pg. 41.

b. *Differences within Industries*

A gross receipts tax can have varying impacts on in-state companies within the same industry. Tax pyramiding is reduced in cases where various stages of production and distribution are commonly owned, i.e., “vertically integrated”. For example, if the manufacturer and its distributor are commonly owned, there will be no tax collected on the transfer of manufactured goods to the distributor, and one level of taxation will be removed from the gross receipts tax pyramid. In the previous example, a manufacturer that acts as its own distributor and sells directly to retailers eliminates one layer of tax, resulting in a reduction in cumulative gross receipts tax from \$7.89 to \$5.39, a 32 percent reduction in tax burden (see Table IV-3).

Table IV-3. Pyramiding under a Gross Receipts Tax: Vertical Integration Example
[0.25 percent gross receipts tax rate]

Stage of Production	Separate Companies at Each Stage of Supply Chain		Manufacturer and Distributor Vertically Integrated	
	Price	GR Tax	Price	GR Tax
Manufacturer	\$1,000.00	\$2.50	\$1,000.00	--
Distributor	\$1,050.00	\$2.63	\$1,050.00	\$2.63
Retailer	\$1,102.50	<u>\$2.76</u>	\$1,102.50	<u>\$2.76</u>
Total		\$7.89		\$5.39

Note: Table assumes tax is absorbed by the seller.

By encouraging vertical integration where it is inefficient from an operational standpoint, gross receipts taxes lower the overall productivity of the economy. Moreover, gross receipts taxes impose inconsistent tax burdens on businesses based on their organizational structure.

Gross receipts taxes discriminate against small companies that need to purchase rather than self-supply services (e.g., an in-house legal staff). Under a gross receipts tax, services provided by a company’s in-house legal department are not subject to a separate level of tax. By contrast, services provided by an outside law firm are subject to tax, a portion of which will be passed through to purchasers. Smaller companies, which are less likely to have their own in-house counsel, would face a higher tax burden under the gross receipts tax compared to larger companies.

3. Differential Treatment of Interstate and Intrastate Shipments

Under a gross receipts tax, imports from out of state generally are subject to less tax pyramiding than goods produced in-state. **As a result, a gross receipts tax encourages purchases from out-of-state producers, putting in-state producers at a competitive disadvantage. Gross receipts taxes effectively subsidize purchases of goods from out-of-state producers to the detriment of local firms.** This discrimination against in-state producers is illustrated in the following example (see Table IV-4). In this example, the in-state manufacturer and distributor would cumulatively pay \$5.13 in gross receipts tax, while out-of-state firms would be exempt from gross receipts tax. As a result, imports of consumer goods manufactured and distributed out-of-state are subject to gross receipts tax only at the retail level, resulting in total tax of \$2.76 compared to \$7.89 for in-state production and distribution.¹⁸

¹⁸ Assumes the out-of-state manufacturer and distributor do not have nexus.

Table IV-4. Treatment of Imports under a Gross Receipts Tax: Example
[0.25 percent gross receipts tax rate]

Stage of Production	Sale to In-State Retailer			
	In-State Manufacturer and Distributor		Out-of-State Manufacturer and Distributor	
	Price	GR Tax	Price	GR Tax
Manufacturer	\$1,000.00	\$2.50	\$1,000.00	--
Distributor	\$1,050.00	\$2.63	\$1,050.00 ^a	--
Retailer	\$1,102.50	<u>\$2.76</u>	\$1,102.50	<u>\$2.76</u>
Total		\$7.89		\$2.76

Note: Table assumes tax is absorbed by the seller.

^a This calculation is based on the assumption that the distributor does not have economic presence (or nexus) in the state that imposes the gross receipts tax.

A gross receipts tax also disadvantages in-state manufacturers and distributors with respect to sales to out-of-state retailers. If the export is competing with goods made and distributed in states that do not impose gross receipts tax, the export will bear higher gross receipts tax. The competitive disadvantage of in-state distributors is illustrated in the following example, which assumes the manufacturer has an economic presence, or nexus, in the state imposing the gross receipts tax and is therefore subject to the tax (see Table IV-5). In this example, the manufacturer would pay \$2.50 in gross receipts tax. The in-state distributor would pass through the \$2.50 of gross receipts tax in the form of higher prices to its retail customers, while out-of-state distributors could set prices without regard to the gross receipts tax. As a result, in-state distributors would suffer a \$2.50 tax disadvantage relative to out-of-state competitors when marketing to out-of-state retailers.

Table IV-5 Treatment of Exports Under a Gross Receipts Tax: Example
[0.25 percent gross receipts tax rate]

Stage of production	Sale to Out-of-State Retailer			
	In-State Manufacturer and Distributor		Out-of-State Manufacturer and Distributor	
	Price	GR Tax	Price	GR Tax
Manufacturer	\$1,000.00	\$2.50	\$1,000.00	--
Distributor	\$1,052.50	--	\$1,050.00	--
Retailer	\$1,105.00	--	\$1,102.50	--
Total		\$2.50		\$0.00

B. Issues Specifically Affecting Healthcare Distribution Industry

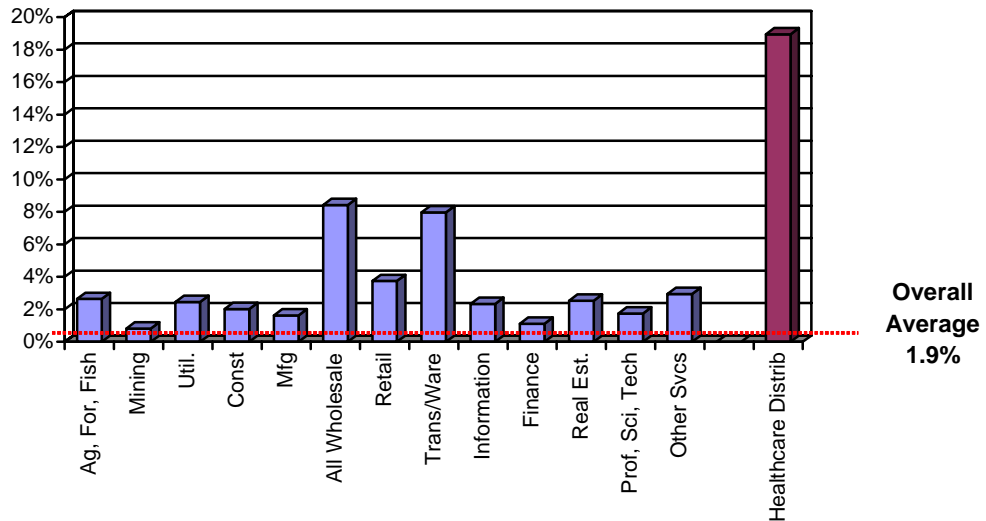
1. Low Margins

The healthcare distribution industry operates with razor-thin margins. For such industries, even a relatively small gross receipts tax can represent a substantial burden on competitiveness and net profits.

For the United States as a whole, over the 2003-2005 period, a 0.25 percent gross receipts tax would have been equivalent to a 1.9 percent tax on the pre-tax income of the average industry (see Figure IV-1). Among the major industrial classifications, a 0.25 percent gross receipts tax would range from a low of 0.8 percent of pre-tax income in mining to a high of 8.4 percent of pre-tax income in wholesale trade (all industries). By contrast, within the healthcare distribution industry, a 0.25 percent gross receipts

tax amounts to 18.9 percent of pre-tax income.¹⁹ **Thus, relative to income, which measures ability to pay, the impact of a gross receipts tax on the pharmaceutical distribution industry is almost 10 times greater than for the average industry.** Combining the impact of a 0.25 percent gross receipts tax with the 35 percent federal corporate income tax rate results in a total pharmaceutical distribution industry tax burden of 47 percent of pre-tax income (after deduction of state taxes against federal income tax).²⁰

Figure IV-1. 0.25% Gross Receipts Tax as a Percent of Pretax Income by Industry, 2003-5



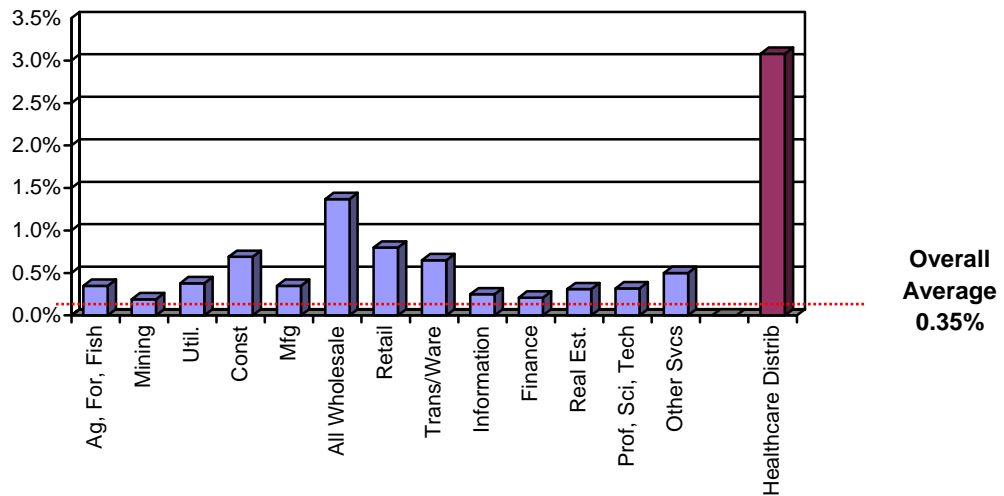
Source: Compustat, HDMA Factbook, and PricewaterhouseCoopers calculations. See Appendix for underlying data.

Figure IV-2 compares the burden of a 0.25 percent gross receipts tax relative to shareholder equity by industry. On average, a 0.25 percent gross receipts tax annually represents 0.35 percent of shareholders' equity (see Figure IV-2). **By comparison, the same tax annually represents 3.1 percent of shareholders' equity in the healthcare distribution industry, a tax burden that is almost nine times greater than for the average industry.**

¹⁹ Healthcare distributors are included under North American Industry Classification System (NAICS) code 424210, Drugs and Druggists' Sundries Merchant Wholesalers. We have calculated the effective tax rate based on margins estimated by HDMA. See *2006-2007 HDMA Factbook: Industry Overview*, Table 1.

²⁰ Because state taxes are deductible from federal income taxes, the effective tax rate is less than the sum of the federal marginal rate of 35 percent and the effective gross receipts tax rate on income of 18.9 percent. The overall burden is calculated as: $35\% + (1 - 35\%) * 18.9\% = 47\%$.

Figure IV-2. 0.25% Gross Receipts Tax as a Percent of Net Worth by Industry, 2003-5



Source: Compustat, HDMA, and PricewaterhouseCoopers calculations. See Appendix for underlying data.

The calculations in Figures IV-1 and IV-2, above, do not incorporate the impact of tax pyramiding, which would make the impact of the gross receipts tax even larger.

2. Multi-Year Fixed Price Contracts

Healthcare distribution companies frequently enter into multi-year (3-5 year) fixed-price supply contracts. In such cases, distribution companies are unable to pass through a newly enacted gross receipts tax to their customers, and the burden of the tax is fully borne by the distributor. As profit margins in the industry are exceptionally low (pre-tax profits averaged only 1.18 percent of sales in 2005), imposition of even a low-rate gross receipts tax can result in losses on fixed-price supply contracts. Such punitive taxation not only raises questions of fairness, but may force distributors to cease operations in states that impose gross receipts taxes in this manner. The short-term impact of gross receipts taxation on distributors is exacerbated by tax pyramiding because the distributor cannot pass on the increased cost of drugs purchased from in-state suppliers that are subject to gross receipts tax.

3. Pharmaceutical Rebates

To ensure inclusion of their products in health plan formularies, branded pharmaceutical manufacturers generally pay rebates to the plans on their drug purchases. The result is that the net price of the drugs to the plan can be lower than the price charged by the distributor. Under a gross receipts tax, however, the distributor pays tax on sales *before* rebates, and there is no refund of gross receipts tax when rebates are paid. For example, if a drug manufacturer rebates 15 percent of health plan purchases, the tax levied on the distributor is based on the gross price, which is 18 percent higher than the actual price net of rebates.²¹ In this case, the effective rate of tax on these drugs will be 18 percent higher than the rate that applies to products sold without rebates. Not only does the tax discriminate against drugs that are sold with substantial rebates, but it means that consumers lose some of the benefit of rebates due to the imposition of disproportionately high gross receipts tax.

²¹ If the price received by the distributor is \$100 and the net price to the plan is \$85, the distributor receives a price that is 18 percent larger ($\$100 / \$85 - 1$).

Table IV-6 illustrates the impact of manufacturer rebates. In this example, the manufacturer provides the end-use buyer, e.g., the hospital or health plan, a rebate equal to 15 percent of the manufacturer's list price, and the cumulative amount of gross receipts tax is \$7.89. By contrast, if the manufacturer were instead to reduce its list price to the distributor by 15 percent, the cumulative amount of gross receipts tax would be \$6.76. Consequently, the amount of gross receipts tax collected is 17 percent greater (\$7.89 versus \$6.76) when the manufacturer provides a 15 percent rebate to the end user as compared to cutting its list price by 15 percent. The discriminatory result occurs because the rebate is not allowed as a deduction in computing the manufacturer's gross receipts tax liability.

Table IV-6 Treatment of Rebates Under a Gross Receipts Tax: Example
[0.25 percent gross receipts tax rate]

Stage of Production	15% Manufacturer Rebate		Sale by Manufacturer Net of Rebate	
	Price	GR Tax	Price	GR Tax
Manufacturer	\$1,000.00	\$2.50	\$850.00	\$2.13
Distributor	\$1,050.00	\$2.63	\$900.00	\$2.25
Retailer	\$1,102.50	<u>\$2.76</u>	\$952.50	<u>\$2.38</u>
End-Use Buyer:				
Before rebate	\$1,102.50		\$952.50	
Rebate	\$150.00		--	
After rebate	\$952.50		\$952.50	
Total		\$7.89		\$6.76

Note: Table assumes tax is absorbed by the seller.

The competitive nature of the pharmaceutical business causes drug manufacturers to keep confidential the magnitude of rebates paid. Certain requirements under the Medicaid program, which sets a minimum rebate of 15.1 percent for branded drugs (and 11 percent for generics), have limited the rebates in the private payor market.²²

The federal government annually estimates total drug spending as a part of the National Health Accounts. In these estimates, the government has estimated that rebates as a share of total drug spending are on average approximately 9 percent.²³ Therefore, because of rebates in the distribution chain, drug distributors will face a tax burden that is 9 percent larger than other industries. However, this burden would vary by product. For branded drugs in competitive therapeutic classes with high rebates, the distributors would face a significantly higher burden.

4. Sales to Government

Based on estimates of national health spending, the federal government will spend \$74.8 billion and, state and local governments will spend \$17.4 billion on prescription drugs in 2007 (approximately 32.6 percent and 7.6 percent of all drug spending, respectively).²⁴ The imposition of a gross receipts tax would increase that spending, and because of pyramiding the increase could be significantly larger than the statutory gross receipts tax rate. Assuming a 0.25 percent gross receipts tax rate and 2.5 taxable turnovers, federal drug costs would increase by \$470 million and state and local government drug costs would increase by \$110 million in 2007 (see Table IV-7). Overall, government drug costs would increase by \$580 million.

²² Before 2006, Medicaid was entitled to the larger of a 15.1 percent rebate (adjusted for inflation) or the "best price" that manufacturers gave to their private clients on each drug. As a result, manufacturers would limit rebates in the non-Medicaid market to avoid triggering the "best price" requirement. The enactment of Medicare Part D drug benefit will dilute the influence of this requirement because the rebates provided under Part D plans are not subject to the Medicaid requirement.

²³ Cynthia Smith, "Retail Prescription Drug Spending in the National Health Accounts," *Health Affairs* Vol. 23, No. 1 (January/February 2004).

²⁴ U.S. Centers for Medicare and Medicaid Services (CMS), *National Health Expenditure Projections, 2006-2016*.

**Table IV-7 Effect of National 0.25% Gross Receipts Tax on
Government Pharmaceutical Spending, 2007**

[Dollar amounts in billions]

Government	Total Spending	GR Tax ^a
Federal	\$74.8	\$0.47
State and local	\$17.4	\$0.11
Total	\$92.2	\$0.58

^a Assumes pyramiding of 2.5 times.

5. Benefit of Customer Proximity

To minimize delivery time to pharmacies, distributors strategically locate warehouse facilities throughout the country. As a result, patients typically are able to have prescriptions filled on demand and immediately begin therapeutic regimens. To the extent that state imposition of a gross receipts tax causes increased reliance on out-of-state distributors, pharmacies would need to increase their stocks of drugs to avoid shortfalls and delays in fulfilling prescriptions. If pharmacies are unable or unwilling to increase their stocks, patients would experience greater difficulty in filling prescriptions on a timely basis. For ordinary products, shortages and purchasing delays are a source of mere inconvenience; for pharmaceuticals, however, delays can prolong sickness, pain, and incapacity, and potentially increase health costs because of additional hospitalization.

6. Regressivity

Drug spending varies little by household income level.²⁵ As a result, pharmaceutical purchases represent a much larger fraction of income for low-income consumers than high-income consumers. To the extent that gross receipts taxes are passed through to consumers in the form of higher prices, the tax will take a much higher percentage of the income of low-income families than of high-income families. Such a tax is “regressive” and is contrary to the principles of fairness imbedded in the federal income tax, which taxes upper income families at a higher rate than lower-income families.

Table IV-8, below, shows average household drug spending by income level. **Lower income households spend a much larger fraction of their income on drugs than wealthier households. As a result, lower income households would bear a much heavier gross receipts tax burden on pharmaceutical purchases, compared to their ability to pay, than higher income households.** For example, the burden of a gross receipts tax on pharmaceuticals would be six times greater relative to family income for households earning between \$15,000 and \$20,000 per year as compared to households earning \$70,000 or more.

²⁵ Poisal and Murray, *Health Affairs*, March/April 2001.

Table IV-8. Average Household Drug Spending and Pre-Tax Income, 2005

Pretax Income ^a	Average Drug Spending	Average Pretax Income ^a	Drug Spending / Income
Less than \$5,000	\$217	\$796	27.3%
\$5,000 to \$9,999	272	7,818	3.5%
\$10,000 to \$14,999	422	12,574	3.4%
\$15,000 to \$19,999	529	17,423	3.0%
\$20,000 to \$29,999	508	24,920	2.0%
\$30,000 to \$39,999	528	34,625	1.5%
\$40,000 to \$49,999	550	44,659	1.2%
\$50,000 to \$69,999	512	59,110	0.9%
\$70,000 and over	625	126,761	0.5%
All Households	\$521	\$58,712	0.9%

^a Cash income before taxes includes money from jobs, net income from business, farm or rent; pensions, dividends, interest, social security payments; and any other money income received by all members of the household.

Source: Consumer Expenditure Survey, 2005.

V. CONCLUSION

Gross receipts taxes, also referred to as “turnover” taxes, are imposed on sales at each stage of the supply chain, e.g., on suppliers, manufacturers, distributors, and retailers. Unlike a retail sales tax, the same inputs are subject to multiple taxation (i.e., double or triple taxation or more). Unlike a corporate income tax, businesses must pay gross receipts tax whether they are profitable or not.

As a result of tax pyramiding, gross receipts are widely viewed by economists as inefficient, i.e., imposing large costs on the economy relative to the revenues raised. For example, National Tax Association President and University of Illinois professor J. Fred Giertz has written that the gross receipts tax, “usually appears in public finance textbooks only as an example of an inefficient tax.”²⁶ Editor-in-Chief of *Budgeting and Public Finance* and Indiana University professor John Mikesell has written that “Gross receipts taxes should never be seen as an element of positive tax reform. They were abandoned for good reason.”²⁷

Gross receipts taxes discriminate against small companies that need to purchase rather than self-supply services (e.g., an in-house legal staff). Under a gross receipts tax, services provided by a company’s in-house legal department are not subject to a separate level of tax. By contrast, services provided by an outside law firm are subject to tax, a portion of which will be passed through to purchasers. Smaller companies, which are less likely to have their own in-house counsel, would face a higher tax burden under the gross receipts tax compared to larger companies.

Gross receipts taxes competitively disadvantage in-state companies relative to out-of-state competitors. As a result, states that impose gross receipts taxes create a tax incentive to move production and distribution activities elsewhere.

Gross receipts taxes have a particularly adverse effect on healthcare distributors due to their razor-thin profit margins (1.18 percent of pre-tax profits for HDMA members in 2005). Relative to income, which measures ability to pay, healthcare distributors would suffer a tax burden that is almost *ten times* higher than the average industry. The combined impact of a 0.25 percent gross receipts tax and the 35 percent federal corporate income tax would subject healthcare distributors to a total tax burden averaging almost 50 percent of income. In the short run, healthcare distributors would have to absorb much of the burden of a new gross receipt tax because distributors frequently enters into multiyear fixed-price agreements that do not permit pass through of tax.

Gross receipts taxes further discriminate against pharmaceuticals because rebates provided by manufacturers to government and health plan purchasers are not taken into account in determining tax liability. As a result, the effective tax rate on pharmaceutical sales may be more than 15 percent higher than for goods and services sold without rebates.

In addition, state gross receipts taxes may have the unintended effect of creating a tax incentive for manufacturers and distributors to use out-of-state warehouses in order to avoid an extra layer of tax. As a result, the delivery of vital medications to in-state consumers may be delayed.

Gross receipts taxes on pharmaceuticals are particularly unfair to low-income families who spend a much higher percentage of their income on drugs than more affluent households. For example, relative to household income, families earning between \$15,000 and \$20,000 in 2005 spent over six times more on drugs than families earning \$70,000 or more and thus would be expected to bear six times the tax burden as a result of a gross receipts tax on pharmaceuticals.

Finally, gross receipts taxes on pharmaceuticals may be fiscally counterproductive because state and local governments purchase large amounts of drugs for Medicaid beneficiaries and public hospitals. At a national level, imposition of a 0.25 percent gross receipts tax would increase government spending on

²⁶ Giertz, p. 899

²⁷ Mikesell, p. 15.

pharmaceuticals in 2007 by an estimated \$470 million at the federal level and \$110 million at the state and local levels. Taxation of pharmaceuticals thus runs counter to public policy to reduce the growth in healthcare costs.

Appendix A. Impact of Gross Receipts Tax Relative to Industry Profits and Net Worth

Table A-1. Impact of 0.25% Gross Receipts Tax on Pretax Income, by Industry

NAICS Code	Description	0.25% GR Tax / Pretax Income				Income & GR Tax Burden ^a
		2003	2004	2005	Avg	
	Total	2.0%	1.9%	1.7%	1.9%	36.2%
11	Agriculture, Forestry, Fishing and Hunting	2.7%	2.5%	2.8%	2.6%	36.7%
21	Mining	1.1%	0.9%	0.7%	0.8%	35.5%
22	Utilities	2.7%	2.1%	2.8%	2.5%	36.6%
23	Construction	2.4%	2.1%	1.8%	2.0%	36.3%
31-33	Manufacturing	2.0%	1.6%	1.4%	1.6%	36.1%
42	Wholesale Trade	9.8%	8.5%	7.5%	8.4%	40.5%
424210	Healthcare Distribution^b	19.4%	20.4%	17.5%	18.9%	47.3%
44-45	Retail Trade	4.2%	3.8%	3.4%	3.7%	37.4%
48-49	Transportation and Warehousing	6.6%	5.4%	22.9%	8.0%	40.2%
51	Information	1.9%	4.0%	1.9%	2.3%	36.5%
52	Finance and Insurance	1.1%	1.2%	1.1%	1.1%	35.7%
53	Real Estate and Rental and Leasing	3.3%	2.4%	2.2%	2.5%	36.6%
54	Professional, Scientific, and Technical Services	2.0%	1.9%	1.4%	1.7%	36.1%
55-81	Other Services	3.7%	2.9%	2.6%	2.9%	35.0%
55	Management of Companies and Enterprises	^c	^c	^c	^c	^c
56	Administrative and Support and Waste Management and Remediation Services	3.7%	2.5%	2.0%	2.6%	36.7%
61	Educational Services	1.4%	1.5%	1.3%	1.4%	35.9%
62	Health Care and Social Assistance	4.9%	4.2%	3.9%	4.3%	37.8%
71	Arts, Entertainment, and Recreation	10.4%	5.8%	6.0%	6.9%	39.5%
72	Accommodation and Food Services	2.7%	2.3%	2.1%	2.3%	36.5%
81	Other Services (except Public Administration)	6.5%	3.1%	3.2%	3.8%	37.5%

^a The combined income and gross receipts tax burden was calculated assuming a federal income tax rate of 35 percent and gross receipts taxes are deductible from federal income taxes. The combined tax rate is calculated as:
 $35\% * (1 - \text{Gross Receipts Tax} / \text{Pretax Income}) + \text{Gross Receipts Tax} / \text{Pretax Income}$.

^b For the Healthcare Distribution industry, the tax burden relative to Pretax Income was calculated based on the ratio of Net Profits before Taxes to Net Sales presented in *2006-2007 HDMA Factbook: Industry Overview*, Table 1.

^c Fewer than 5 observations.

Source: Compustat, HDMA, and PricewaterhouseCoopers calculations.

Table A-2. Impact of 0.25% Gross Receipts Tax Relative to Shareholder Equity, by Industry

NAICS Code	Description	0.25% GR Tax / Shareholder Equity ^a			
		2003	2004	2005	Avg
	Total	0.4%	0.3%	0.3%	0.3%
11	Agriculture, Forestry, Fishing and Hunting	0.3%	0.3%	0.4%	0.3%
21	Mining	0.2%	0.2%	0.2%	0.2%
22	Utilities	0.4%	0.4%	0.4%	0.4%
23	Construction	0.7%	0.7%	0.7%	0.7%
31-33	Manufacturing	0.4%	0.4%	0.3%	0.4%
42	Wholesale Trade	1.4%	1.4%	1.3%	1.4%
424210	Healthcare Distribution ^b	2.7%	2.7%	4.2%	3.1%
44-45	Retail Trade	0.8%	0.8%	0.8%	0.8%
48-49	Transportation and Warehousing	0.6%	0.6%	0.8%	0.6%
51	Information	0.2%	0.3%	0.3%	0.2%
52	Finance and Insurance	0.2%	0.2%	0.2%	0.2%
53	Real Estate and Rental and Leasing	0.3%	0.3%	0.3%	0.3%
54	Professional, Scientific, and Technical Services	0.4%	0.3%	0.3%	0.3%
55-81	Other Services	0.5%	0.5%	0.5%	0.5%
55	Management of Companies and Enterprises	^c	^c	^c	^c
56	Administrative and Support and Waste Management and Remediation Services	0.4%	0.3%	0.3%	0.3%
61	Educational Services	0.5%	0.5%	0.5%	0.5%
62	Health Care and Social Assistance	0.8%	0.9%	0.8%	0.8%
71	Arts, Entertainment, and Recreation	0.6%	0.7%	0.7%	0.7%
72	Accommodation and Food Services	0.5%	0.4%	0.4%	0.4%
81	Other Services (except Public Administration)	0.5%	0.4%	0.5%	0.5%

^a Shareholder Equity calculated as the difference between Total Assets and Total Liabilities.

^b For the Healthcare Distribution industry, the tax burden relative to Net Worth was calculated based on the ratio of Net Profits before Taxes to Net Worth, derived from figures presented in *2006-2007 HDMA Factbook: Industry Overview*, Table 1.

^c Fewer than 5 observations.

Source: Compustat, HDMA, and PricewaterhouseCoopers calculations.