



AMERICANS FOR TAX REFORM

LEGISLATIVE ALERT

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SUPPLEMENTAL REBATES ARE POOR TAX POLICY

Americans for Tax Reform (ATR) opposes efforts by some states to impose supplemental rebates on pharmaceutical companies. Supplemental rebates are poor public policy and lead to negative long-term consequences for taxpayers and all health care consumers.

States impose supplemental rebates to force prescription drug companies to provide state Medicaid programs with discounted drugs – discounts in addition to those already mandated by the federal government – as a precondition to making those drugs available to Medicaid beneficiaries.

Taxpayers' two most important arguments against supplemental rebates are:

- When Medicaid recipients are denied access to drugs that do not appear on their state's list of available drugs, beneficiaries can suffer serious health consequences resulting from not having access to the drugs prescribed by their doctors. These consequences can result in more frequent surgeries, hospital stays, and emergency room visits – expensive services that ultimately cost the taxpayer more to finance than administering a prescription.
- Supplemental rebates do not result in reduced spending. Any additional funds generated by imposing a rebate are simply re-allocated to another government program – not returned to taxpayers via an overall spending cut, refund, or tax credit.

ATR opposes supplemental rebates for these reasons and others:

- Everyone, including Medicaid beneficiaries, should have timely access to all drugs approved by the Food and Drug Administration – not just those drugs for which states negotiate lower prices.
- Doctors should decide what drugs to prescribe to their patients – not government bureaucrats guarding the Medicaid door.
- Rebates impact the level of resources that drug companies can dedicate to research and development. Many new drugs reduce the need for expensive procedures.
- Rebates are an effort by state governments to manipulate the free market and impose price controls. Unlike the private sector (*en masse*), states can negotiate huge discounts for their public health beneficiaries that private companies cannot. Furthermore, the best way to reduce prices and encourage innovation is to spur competition between drug companies.
- Finally, rebates result in cost shifting. If drug companies lose revenues in the Medicaid market, they may increase prices to recover those costs in other markets. This will result in higher prices for those without prescription drug coverage and contribute to rapidly rising health insurance costs for the general public.