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## House Ways and Means Committee

### Written Testimony on Equity and Administrative Issues with the Margins Tax

#### June 5, 2012

Mr. Chairman and members of the Committee, together representing more than 48,000 physicians in Texas, the Texas Medical Association, Texas Pediatric Society and Texas Academy of Family Physicians wish to thank you for the opportunity to submit comments on the state franchise tax. We understand the difficult task ahead of balancing the revenue needs of Texas to meet the minimum responsibilities of government for infrastructure, education, and the health of our population while keeping the burden on a free market at a minimum.

As you likely know, physician practices are primarily small businesses and women. While some physicians prefer large group practices or employment venues, many Texas physicians still practice privately either in solo or as a small group. In many of these cases, they are professional associations, and therefore required to pay taxes under the state franchise tax.

We wish to raise one concern regarding physicians' practices and the current franchise tax structure, which conflicts with sound economic and healthy policy for the state.

- Vaccines are one of medicine's greatest achievements. Millions of Texans are alive and healthy today because of vaccines. Vaccines prevent disabilities and fatal diseases. Texas ranks 37 in the nation in our ability to fully vaccinate children 19 to 35 months of age. Even though this is an improvement over past rankings, there is still much work to be done.
- A fully vaccinated population is critical to the prevention of disease. It is only when all children are vaccinated that we can protect children and adults who can't be vaccinated because of a particular illness or treatment regimen. These patients' health and wellness depend on a healthy, disease-free environment. Today, the number of vaccines available to children and the cost of those vaccines have never been higher. In 1980, it cost only about \$23, or \$59 adjusted for inflation, for the seven shots and four oral doses needed to fully immunize a child according to Thomas Saari, MD, a professor of pediatrics at the University of Wisconsin and chairman of the Wisconsin Council for Immunization Practices. In contrast, today a child who receives all the recommended vaccines would receive as many as 37 shots and three oral doses by their 18th birthday at a cost exceeding \$1,600.
- According to the Medical Group Management Association (MGMA), facility costs are the second largest expense after wages and compensation for most physician practices. **For pediatricians and many family physicians who administer vaccines, the second largest expense is vaccines.**
- The state's current franchise tax allows physicians to deduct either compensation or the cost of goods sold. Physicians, like most service industry businesses, choose to deduct compensation expenses and pay a 1-percent tax on all other costs, including the purchase cost of vaccines. Physicians must place vaccine orders 9 to 12 months before the vaccine will be used. Physicians

pay for the vaccine out of pocket, not knowing if they will use the vaccine or not, or what payment will be allowed by insurance companies and government payers. This tax falls more heavily on physicians who provide vaccines for their patients because their businesses are a combination of “physician services” and “vaccination sales”.

- For example, the typical influenza vaccine costs \$15. The labor cost incurred in administering the vaccine is deductible but the vaccine cost is not. Even if the insurer pays enough to cover the purchase cost, a 1-percent tax means that a physician loses money every time he or she administers the vaccine. Administering vaccines is one of the most critical health care services physicians can provide the patients, but one of the riskiest services from a business perspective.
- Some Texas physicians are contemplating if they can continue vaccinating patients. If fewer physicians provide immunization services it will have an adverse effect on Texans. **Vaccines are the only medical service physicians administer that actually impacts society as a whole. In the absence of a network of physicians able to administer vaccinations, the risk for outbreaks of vaccine-preventable diseases could increase.**
- Vaccines are central to preserving public health, and our membership believes in the importance of immunizing all Texans. We fully support efforts to ensure vaccines make good business sense, and know providing a vaccine-cost deduction within the margins tax will improve access to vaccination services for all Texans.