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TRAC Testimony

Exemption for Prescribed Medical Equipment and Supplies

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SCMESA

Chairman, State Legislative Committee

Mr. Chairman and members of the Commission,

Thank you for the opportunity to speak on behalf the members of the South Carolina Medical Equipment Services Association, all the durable medical equipment business owners, and their employees. To our knowledge, our request for exemption on home medical equipment and supplies is unique to all others as we are the only business owners for whom we are required to pay a tax which we cannot pass along to our consumers. Furthermore, our charges are dictated by Medicare, Medicaid, and the third party insurance companies whose beneficiaries use our products and/or services and therefore have 'fixed' pricing with no ability to offset our tax expenditure by raising our prices.

Our effort to exempt all home medical equipment and supplies has been difficult and confusing. Although the general assembly has agreed with introducing the exemption into legislation in 2006 we fell victim to our state's diminishing economy and our exemption has yet to become a reality due to an economic growth trigger. I'm confident the facts surrounding our testimony will not only reinforce the decision of the general assembly in 2006, but it will illustrate that our exemptions require implementation sooner than later. Furthermore, we will show that our exemption request not only lines up with the overall objective of the commission but directly with the criteria of adequacy, equity, and efficiency.

The last scoring our association received of the currently paid tax is less than \$15m/annually. Although we understand the static nature of the budget and the purpose of this commission we feel it's necessary to briefly address the dynamic fall out if this exemption is not granted. If companies are able to stay in business at all, there will be an estimated 25%+ cut in the remaining workforce which would result in much greater than the \$15m annual tax contributions provided by the employers and the employees who contribute to the state's economy through various channels.

Adequacy –

As compared to other states, South Carolina remains one of the very few states with such a limited tax exemption on medical equipment providers. More damaging, our bordering states of Georgia and North Carolina, have advantageous exemptions and they compete in our marketplace every day with significant advantages over South Carolina providers (more on this later). Through the American

Association for Home Care (AAHC), we have been able to confirm only one other state which has similar tax structure like ours, the state of Washington. In the past several years, the states of Ohio and Kentucky have been successful at putting themselves back in a competitive posture by approving prescribed medical equipment and supply exemptions. We are hopeful the same will happen in our state.

To the point of volatility, our industry and our business fortunately see very little 'seasonality' and therefore our revenues are not highly cyclical. The majority of our business requires servicing patients and equipment in their home monthly and as services are discontinued by some, new services are required by others yielding a stable month to month revenue stream.

Equitable

Obviously, we believe that our current requirement to bear the burden of the state tax is the definition of 'unfair.' In what other health care arena are South Carolina businesses required to pay a tax for which they are federally prohibited to collect?

Moreover, our products and services require prescriptions just as pharmacy and other medical providers who are exempt from such tax requirements.

Finally, with respects to equity, South Carolina medical equipment providers run their businesses at a competitive disadvantage to our bordering states of North Carolina and Georgia as these providers compete for referrals at a 6%-7% advantage over our state's providers simply because they have the tax exemption and we do not. Today, both North Carolina and Georgia medical equipment providers will be side by side with our businesses fighting for referrals and bids for which we cannot compete at their level. We can buy the same products at the same price, we can provide a higher level of service and response in our own communities, and then we cycle the revenues back into our own state yet we cannot compete in our own backyard as well as they can because their state has given them an advantage over our state's providers.

Efficiency –

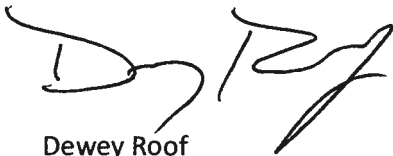
Not only is the relative cost to the state low, the extremely small burden to the system (in the event the exemption is granted) is more than offset by the contributions provided by our providers back into the system. With respects to the healthcare continuum, home medical equipment is the lowest cost alternative. We all know it's more cost efficient to take care of patients in the home than in facilities. We, as medical equipment providers, are a significant partner in the discharge process and keeping people, caregivers, loved ones in the preferred location of care, their home. When there are disincentives to be part of the process, the system will get backed up and the timeline for higher cost alternatives will, at a minimum, be extended. Additionally, approximately 10% of discharge activity is for the indigent or uninsured; the medical equipment provider takes care of this population without reimbursement and no government subsidy. Where will the system turn for these services?

Time is of the essence:

Over the past several years CMS has instituted a series of reimbursement cuts and added other expenditures via required accreditation and surety bonds to our providers. Additionally, round one of competitive bidding has already begun and South Carolina providers are once again targeted as Charlotte's MSA (Metropolitan Statistical Area) includes the bordering counties in our state. Not only will reimbursement be cut again, but our providers will be forced to compete at an extreme disadvantage due to our tax. Round two will begin next year and will then encompass the nearly all of the providers in South Carolina. This coupled with cuts in state and third party programs has dramatically reduced margins to an unsustainable level without the tax exemptions. We have already seen many small businesses begin to close their doors and the large majority of the remaining employers are cutting jobs. Without this unfair tax being exempted, even the ones fortunate enough to remain in business will be forced to cut their payroll by 25+%.

In conclusion, I'd like to once again thank you for the opportunity to present our case to the Commission. We are hopeful that not only you will agree with our plight just as the General Assembly has, but encourage immediate action to exempt all prescribed medical equipment to ensure a competitive opportunity for the current business owners as well as other companies looking to establish themselves in South Carolina.

Respectfully submitted,



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