



Gross receipts taxes and the pharmaceutical distribution industry

**Prepared for the
Healthcare Distribution Alliance**

June 2025



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Gross receipts taxes and the pharmaceutical distribution industry

Executive summary

Background

Gross receipts taxes, also referred to as “turnover” taxes, are imposed at each stage of the supply chain (e.g., on the manufacturer, distributor, and the retailer). These taxes have been adopted by states to supplement or replace other business taxes. Unlike a value-added tax, a gross receipts tax may subject the same value added to multiple taxation (i.e., double or triple taxation or more), which is referred to as “pyramiding” of the tax.

State gross receipts taxes proliferated after the Great Depression, when state tax revenue fell significantly. Over time, most states have replaced gross receipts taxes with alternative revenue systems. Similarly, in many European Union countries, as well as Canada and Australia, turnover taxes have been replaced with value-added taxes. As of 2024, Delaware, Nevada, Ohio, Oregon, Tennessee, Texas, and Washington imposed a broad-based tax on gross receipts with limited deductions for business expenses.¹ Two of these states—Nevada and Oregon—adopted gross receipts tax regimes in the last 10 years, and two others—Ohio and Texas—adopted gross receipts tax regimes in the mid-2000s.² In 2005, Kentucky adopted a gross receipts based “alternative minimum tax” to supplement its corporate income tax revenues.³ In 2016, Tennessee began applying its gross receipts taxes to any entity with “substantial economic nexus.”⁴

The individual structures of these gross receipts taxes vary in complexity. For example, the Texas margins tax is calculated as the lowest of the following figures: 70 percent of total revenue, revenue minus cost of goods sold, revenue minus compensation, revenue minus \$1 million.⁵ The Washington Business & Occupation tax has nearly 50 different tax rates depending on sector and business type.

In light of the continuing interest in gross receipts taxes in some states, the Healthcare Distribution Alliance (“HDA”) commissioned PwC US Tax LLP (“PwC”) to update its 2015 study of these taxes, including their effect on pharmaceutical distributors.⁶

Policy issues affecting all industries

As a result of tax pyramiding, gross receipts taxes are widely viewed by economists as inefficient, i.e., imposing large costs on the economy relative to the revenues raised. For example, former National Tax Association Executive Director 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.”⁷ Former Editor-in-Chief of Budgeting and Public Finance and Indiana University professor John Mikesell wrote that “[g]ross receipts taxes should never be seen as an element of positive tax reform. They were abandoned for good reason.”⁸

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, PwC estimates that the Oregon Corporate Activity Tax imposes an effective tax rate that is 12.7 times the statutory tax rate for the wholesale trade industry and 2.6 times the statutory tax rate for the agriculture, forestry, fishing and hunting industry.

¹ Pennsylvania, Virginia, and West Virginia permit localities to impose gross receipts taxes at the local level. The Virginia Business, Professional, and Occupational License (“BPOL”) tax is applied to companies’ gross receipts and is administered at the local level. Minnesota imposes a narrower tax on gross receipts that health care providers receive for providing patient services.

² Of these two states, only Ohio taxes total gross receipts. Texas allows deductions for certain costs.

³ New Jersey also adopted an alternative tax on gross receipts, but it was repealed for most taxpayers beginning in July 1, 2006.

⁴ See <https://revenue.support.tn.gov/hc/en-us/articles/360057599671-BUS-3-Substantial-Nexus-for-Business-Tax>

⁵ See <https://comptroller.texas.gov/taxes/publications/98-806.php>

⁶ PwC, Gross Receipts Taxes and the Pharmaceutical Distribution Industry, March 2015.

⁷ J. Fred Giertz, “The Illinois Gross Receipts Tax Proposal,” State Tax Notes, Mar. 26, 2007, p. 899

⁸ John L. Mikesell, “Gross Receipts Taxes in State Government Finances: A Review of their History and Performance,” Tax Foundation, January 2007, No. 53, p. 15.

Gross receipts taxes discriminate against small companies that need to purchase, rather than self-supply, certain goods and services (e.g., legal or IT services). Because part of the burden of the tax may be passed on to purchasers, a small company will pay more for these services purchased from another provider than if it supplied those services internally, in which case the gross receipts tax would not apply. Gross receipts taxes may also competitively disadvantage in-state companies relative to out-of-state competitors that are based in states without such taxes. As a result, states that impose gross receipts taxes create a tax incentive to move production activities elsewhere. (The effect on distribution activities may be more limited.)

Pharmaceutical distribution industry

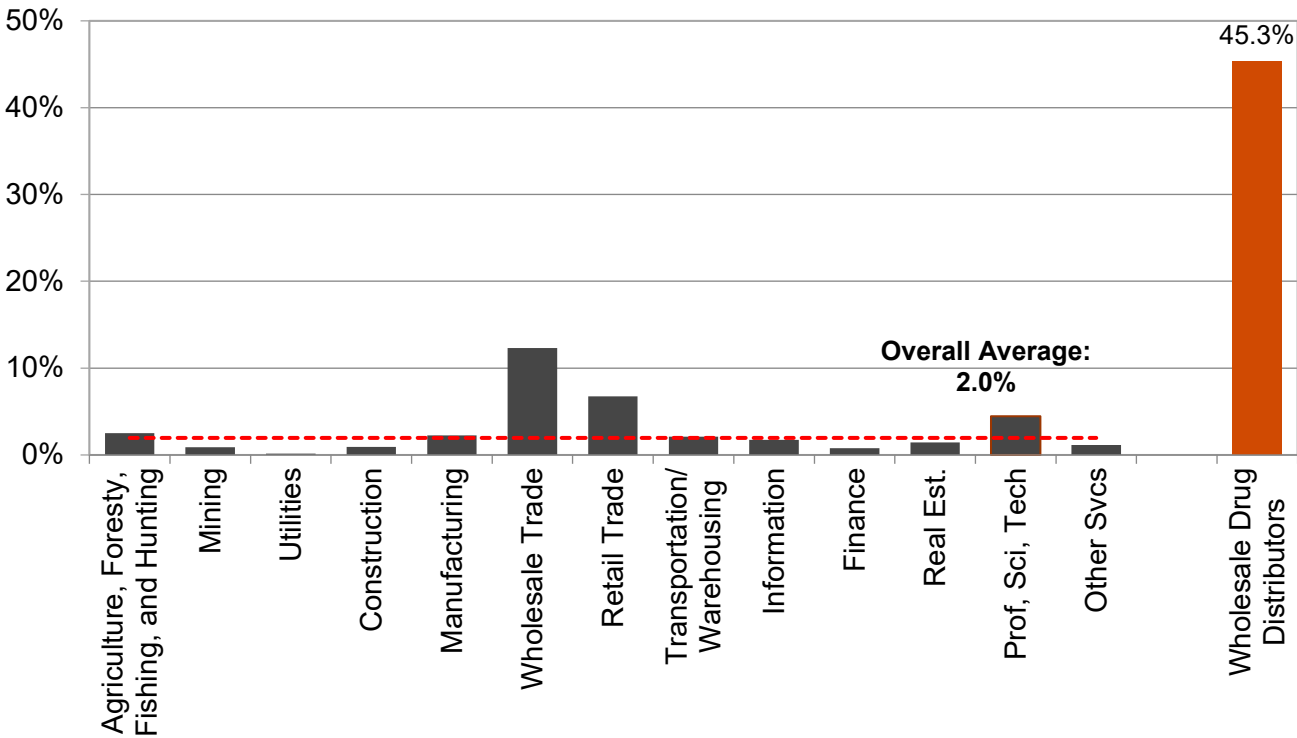
In 2023, total U.S. pharmaceutical sales were over \$790 billion, of which sales by pharmaceutical distributors were approximately \$758 billion (95 percent). Profit margins in the pharmaceutical distribution industry are very low – just 1.7 percent (on a pretax basis) for HDA members in 2023, on a weighted average basis.⁹

The pharmaceutical distribution landscape has seen a reduction, with the number of primary full-service distributor¹⁰ members in the HDA dropping by 60 percent from approximately 100 distributors in the early 1990s to 37 distributors in 2025.¹¹ Most prescription medicine sales are to nationwide chains (as shown in **Table III-1**), meaning that distributors compete with each other in a national marketplace.

Policy issues affecting pharmaceutical distributors

Due to the industry’s thin net profit margins, imposition of even low-rate gross receipts taxes can result in significant tax burdens relative to the industry’s profits and net worth. For example, a national 0.57 percent gross receipts tax would on average amount to 2.0 percent of pretax income for all industries as compared to 45.3 percent for pharmaceutical distributors (see **Figure E-1** below). Thus, relative to income, which measures ability to pay, imposition of a relatively low-rate gross receipts tax would subject the pharmaceutical distribution industry to a tax burden that is over 22 times the average for all industries.

Figure E-1. National 0.57 Gross Receipts Tax as a percent of pretax income by industry, 2021-23



Source: Compustat®, HDA, and PwC calculations. See Appendix for underlying data.

⁹ Center for Healthcare Supply Chain Research, 2024-2025 HDA Factbook: The Facts, Figures & Trends in Healthcare.
¹⁰ Full-service healthcare distributors conduct the purchasing, warehousing, storage, order preparation, sale, and delivery of medicines.
¹¹ See <https://www.hda.org/about/>

Another feature of gross receipts taxes is that firms in loss positions still must pay the tax. Thus, gross receipts taxes have the effect of reinforcing economic downturns.

Combining the effect of a national 0.57 percent gross receipts tax with the federal corporate income tax (with a 21-percent rate) would result in a total tax burden on pharmaceutical distributors of 57 percent of pretax income (after accounting for the deduction of state taxes against federal income tax). Distributors frequently enter into supply agreements with terms that potentially require them to absorb increased costs over multi-year agreements resulting from imposed taxes due to limitations on price adjustments.

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

In addition, the competitive nature of the pharmaceutical distribution market implies that, over time, gross receipts taxes are likely to result in higher prices. These taxes would impose a heavier burden on low-income families that spend a higher percentage of their income on drugs than more affluent households. For example, relative to household income, families earning between \$15,000 and \$29,999 in 2023 spent over four times more on drugs than families earning \$150,000 to 199,999.¹²

Finally, gross receipts taxes on pharmaceutical distributors may be fiscally counterproductive because state and local governments purchase large amounts of drugs for Medicaid beneficiaries and public hospitals. Imposition of a national 0.57 percent gross receipts tax would increase government spending on pharmaceuticals in 2023 by an estimated \$3.16 billion at the state and federal levels.¹³ Taxation of pharmaceuticals thus runs counter to public policies to reduce the growth in healthcare costs.

¹² U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*, 2023.

¹³ Estimates assume taxes are passed along in the form of higher prices and are based on National Health Expenditure Accounts (winter 2024 release) and PwC Calculations.

Gross receipts taxes and the pharmaceutical distribution industry

I. Introduction

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 value-added tax (“VAT”) where businesses can receive credit for VAT paid on inputs, the gross receipts tax may be applied multiple times to the same value added (i.e., double or triple taxation, or more). Further, unlike corporate income taxes, 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 alternative revenue systems. However, some states continue to utilize the tax, and others have recently considered adopting them for specific purposes. In the last 10 years Nevada and Oregon have introduced wholly new gross receipts taxes.

In light of the continuing interest in gross receipts taxes, the Healthcare Distribution Alliance (“HDA”) commissioned PwC to update its 2015 study of gross receipts taxes, including their effects on pharmaceutical distributors and their customers.¹⁴

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 pharmaceutical distribution industry. Section IV analyzes policy issues raised by gross receipts taxes generally as well as the specific effects of the tax on pharmaceutical distributors. Section V summarizes the conclusions.

II. Gross receipts taxes

A. Definition

Gross receipts taxes generally refer to taxes on all gross receipts of a business that are situated, or assigned, to the taxing jurisdiction. Gross receipts taxes, whether imposed on “gross income,” “gross proceeds,” “gross business,” or “gross sales,” effectively tax the total receipts of the business, with limited or no deductions for business expenses.¹⁵ Gross receipts taxes may be imposed broadly, for the “privilege” of engaging in business in a state,¹⁶ or may be imposed narrowly on specific industries.¹⁷

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 supplement declining property tax revenues.¹⁸

Over time, most states replaced gross receipts taxes with alternative revenue systems that are less economically distortive than gross receipts taxes. Similarly, European countries that had once adopted turnover taxes have replaced them with VATs. For example, former National Tax Association Executive Director 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

¹⁴ PwC, Gross Receipts Taxes and the Pharmaceutical Distribution Industry, March 2015.

¹⁵ John T. Piper and Catherine A. Eggen, “Gross Receipts Taxes: General Principles,” *BNA Tax Management Multistate Tax Portfolios*, 1610 T.M., 1610.03.A.2.

¹⁶ 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.”

¹⁷ 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.

¹⁸ John L. Mikesell, “Gross Receipts Taxes in State Government Finances: A Review of their History and Performance,” Tax Foundation, January 2007, No. 53.

inefficient tax.”¹⁹ According to former Indiana University professor John Mikesell, gross receipts taxes were abandoned for good reason:²⁰

“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.²¹ 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. West Virginia subsequently repealed its general gross receipts (“business and occupation”) tax (although the tax is still levied on the gross receipts of public utilities).

As of 2024, only the states of Delaware, Nevada, Ohio, Oregon, Tennessee, Texas, and Washington imposed state-level broad-based gross receipts taxes.²² Examples of states that permit localities to impose local gross receipts taxes but do not assess gross receipts taxes at the state level²³ include Pennsylvania, Virginia, West Virginia, and California. In California, San Francisco increased their gross receipts tax rates and decreased the exemption threshold in November 2024.²⁴

Over the last 10 years, several states have begun to impose taxes on gross receipts in addition to states that already had them in place. In 2019 Oregon introduced a Corporate Activity Tax (“CAT”) of \$250 plus 0.57 percent on commercial activity in excess of \$1,000,000 minus a deduction of 35 percent of cost of goods sold or payroll expenses. Ohio continues to impose a CAT of 0.26 percent on gross receipts. However, in 2024, the annual minimum tax was repealed, and the exclusions threshold was increased to \$3,000,000.²⁵ Gross receipts are broadly defined as the total amount realized without deductions for the cost of goods sold or most other expenses incurred.

In May 2015, the Nevada Commerce Tax was enacted, imposing rates ranging from 0.051 to 0.331 percent on gross receipts across different sectors on businesses with total revenue in excess of \$4,000,000.²⁶ It allows for deductions of payroll expenses or Cost of Goods Sold, but also interacts with Nevada’s Modified Business Tax (“MBT”) by allowing deductions to MBT liability of half of the Commerce Tax paid over four quarters.²⁷ This rule may create an incentive for more costly transactions with the reward of decreased payroll taxes. The Commerce Tax came on the heels of a 2014 rejection by Nevada voters of a tax modelled after the Franchise Tax in Texas. That ballot measure would have imposed a 2 percent margin tax on business entities in Nevada with total revenue in excess of \$1,000,000.²⁸ Proceeds from the tax would have been allocated to public schools. Approximately 79 percent of voters rejected the ballot initiative.²⁹

Starting in January 2016, Tennessee began imposing gross receipts tax rates ranging from 0.02 percent to 0.3 percent on taxpayers with “substantial economic nexus.”³⁰

Texas substantially revised its business income/net worth tax, the Franchise Tax, in 2006. It has since undergone several adjustments to tax rates and maximum deductions. The revised Franchise Tax as of 2024, also commonly referred to as

¹⁹ J. Fred Giertz, “The Illinois Gross Receipts Tax Proposal,” *State Tax Notes*, Mar. 26, 2007, p. 899

²⁰ Mikesell, p. 15.

²¹ 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)).

²² Classification of a tax as a gross receipts tax is an inexact undertaking: for example, New Mexico’s gross receipts tax is widely regarded as being akin to a broad-based sales tax. It is thus omitted from this report as a state with a gross receipts tax.

²³ Minnesota imposes a narrower tax on gross receipts that health care providers receive for providing patient services.

²⁴ See <https://sftreasurer.org/proposition-m-2024-business-tax-reform>

²⁵ See https://tax.ohio.gov/business/ohio-business-taxes/commercial-activities/changes_to_ohios_commercial_activity_tax.

²⁶ Joseph Henchman, Liz Malm, & Jared Walczak, The 13 Million Percent Tax: Nevada Considers Complex, Arbitrary BLF Proposal, Tax Foundation Fiscal Fact No. 459, Mar. 26, 2015, <https://taxfoundation.org/article/13-million-percent-tax-nevada-considers-complex-arbitrary-blif-proposal>.

²⁷ See <https://tax.nv.gov/Commerce/MBTCreditFAQs/>

²⁸ See PwC Tax Insight, “Nevada – Ballot question may create 2% margin tax on entities doing business in the state,” October 15, 2014, http://www.pwc.com/en_US/us/state-local-tax/newsletters/salt-insights/assets/pwc-nevada-ballot-question-may-create-2-percent-margin-tax.pdf.

²⁹ See http://ballotpedia.org/Nevada_Margin_Tax_for_Public_Schools_Initiative,_Question_3_%282014%29.

³⁰ See <https://revenue.support.tn.gov/hc/en-us/articles/360057599671-BUS-3-Substantial-Nexus-for-Business-Tax>

the Texas Margins Tax, is imposed at a rate of 0.375 percent for taxable entities primarily engaged in retail and wholesale trade businesses, and 0.75 percent for all other taxpayers.³¹ However, unlike the Ohio CAT, the Texas Margins Tax is imposed on modified gross revenue (“taxable margin”), which equals the least of 70 percent of a taxable entity’s total revenue, 100 percent of an amount equal to the entity’s total revenue less either cost of goods sold or compensation, or total revenue minus \$1,000,000.³² As a result, the Texas Margins Tax limits the multiple taxation of value added.³³

Washington has a business and occupation (“B&O”) tax that is imposed on the gross receipts of businesses, with the tax rate dependent on a business’s tax classification. Business tax classifications (with tax rates) include manufacturing (0.484 percent), retailing (0.471 percent), services and other activities (1.5 percent), and wholesaling (0.484 percent). In December 2024, outgoing Governor Jay Inslee proposed a 20-percent increase, from October 2025 to December 2026, in the B&O tax rate for service business earning more than \$1 million annually.³⁴ In 2027, the B&O tax rate would increase by 10 percent for all businesses. The Washington Tax Structure Work Group has made multiple proposals to repeal the B&O tax by 2027, replacing it with a margins tax similar to Texas.³⁵

In addition to these broad-based gross receipts taxes, New Jersey³⁶ and Kentucky have “alternative minimum taxes” based on gross receipts to supplement their corporate income taxes.

Kentucky’s “Alternative Minimum Calculation” (“AMC”) was added to its corporate income tax system 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,³⁷ the experiences in Kentucky, Nevada, New Jersey, Ohio, Oregon, Tennessee, Texas, and Washington show continued interest in gross receipts taxes as a means of replacing or supplementing taxes on business income.

III. Pharmaceutical distribution industry

U.S. healthcare distributors deliver prescription medicines and other products to medical providers. HDA members ensure that more than 10 million essential prescription medicines and healthcare products are delivered to pharmacies, hospitals, and other healthcare providers across the United States on a daily basis.

In 2023, total U.S. pharmaceutical sales were over \$790 billion, of which sales by pharmaceutical distributors were approximately \$758 billion (95 percent). In 2024, HDA members included 40 local, regional, and national distributors with approximately 130 strategically located distribution centers. Deloitte Consulting LLP estimates that pharmaceutical distributors save the nation’s healthcare system \$33 to 53 billion per year by providing daily delivery, high service levels, and business efficiencies in an advanced supply chain.³⁸

Chain, independent drug stores, and specialty pharmacies account for 60.6 percent of the pharmaceutical distribution industry’s sales; hospitals, health maintenance organizations (“HMOs”) and clinics account for an additional 20.4 percent; and the remaining 19.0 percent is sold to mail order fulfillment centers and other customers (see **Table III-1**).

³¹ See <https://comptroller.texas.gov/taxes/franchise/>.

³² See <https://comptroller.texas.gov/taxes/publications/98-806.php>.

³³ Texas Taxpayers and Research Association, “Understanding the Texas Franchise – or ‘Margin’ – Tax,” October 2011. Available at: <http://www.ttara.org/files/document/file-4ea5bda9239ef.pdf>

³⁴ See Laura Mahoney, “Washington Governor Proposes Wealth Tax on His Way Out of Office,” Bloomberg Law News, December 12, 2024.

³⁵ Tax Structure Work Group, Draft Proposal: Replace the Business and Occupation Tax with a Margin Tax (Dec. 9, 2022), https://static1.squarespace.com/static/5fc92c4eb6a6dd36b144ba73/t/63937c1aa733694401be9855/1670609946437/E0235-3+Margin+Tax_12092022.pdf.

³⁶ The New Jersey, alternative minimum tax assessment expired for corporate 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.

³⁷ 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.

³⁸ Deloitte Consulting LLP, The role of distributors in the US health care industry, 2019.

Table III-1. Pharmaceutical distribution industry, customers by category, 2022-23

Customers	2022		2023		2023/2022
	\$ bn	%	\$ bn	%	(% Change)
Chain drug stores	\$222.7	40.5%	\$227.3	36.4%	2.1%
Food stores & food/drug combos	\$30.3	5.5%	\$37.0	5.9%	22.2%
Chain sales (total)	\$252.9	46.0%	\$264.3	42.3%	4.5%
Hospitals, HMOs & clinics	\$85.60	15.6%	\$127.08	20.4%	48.5%
Independent drug stores	\$68.76	12.5%	\$81.41	13.1%	18.4%
Mail order	\$50.95	9.3%	\$77.80	12.5%	52.7%
Specialty pharmacies	\$50.40	9.2%	\$32.50	5.2%	-35.5%
Long term care	\$26.76	4.9%	\$21.59	3.5%	-19.3%
Other distributors	\$11.65	2.1%	\$14.41	2.3%	23.7%
Other customers	\$3.24	0.6%	\$5.05	0.8%	55.9%
Physicians/physicians' offices	\$0.16	0.0% ^a	\$0.19	0.0% ^a	18.8%
Total Sales	\$549.6	100%	\$623.9	100%	13.5%

Notes: May not sum to totals due to rounding; Total sales figure excludes sales from specialty distributors or specialty divisions.

^a Values are less than 0.05%.

Source: Center for Healthcare Supply Chain Research, 2024-2025 HDA Factbook: The Facts, Figures & Trends in Healthcare.

The pharmaceutical distribution industry provides various types of sales contracts to meet specific needs of different customers. These may include annual contracts and long-term (3-5 year) national contracts. In the event that annual or longer-term contracts include certain price protections, pharmaceutical 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 pharmaceutical distribution industry is a high-volume industry with low profit margins. In 2023, the weighted average pretax profit margin for these sales was only 1.7 percent.³⁹ For U.S.-based public pharmaceutical distributors, the average pretax profit margin was 1.0 percent. Across the economy overall, pretax income relative to sales for public companies averaged 10.3 percent.⁴⁰ With the exception of the educational services and arts sectors, wholesalers generally have the lowest overall margin on sales (see **Table III-2**, below).

³⁹ Center for Healthcare Supply Chain Research, 2024-2025 HDA Factbook: The Facts, Figures & Trends in Healthcare. Employment figures separately provided by HDA.

⁴⁰ Compustat®, PwC calculations.

Table III-2. Pretax income over net sales for U.S.-based public companies by industry, 2022 and 2023

NAICS Code	Industry	2022	2023
11	Agriculture, Forestry, Fishing and Hunting	6.1%	8.2%
21	Mining	26.5%	24.6%
22	Utilities	11.5%	13.1%
23	Construction	12.3%	10.8%
31	Manufacturing	13.2%	10.3%
42	Wholesale Trade	2.7%	2.9%
44	Retail Trade	4.0%	4.8%
48	Transportation and Warehousing	13.5%	8.7%
51	Information	12.6%	15.3%
52	Finance and Insurance	16.3%	13.0%
53	Real Estate and Rental and Leasing	14.4%	11.5%
54	Professional, Scientific, and Technical Services	7.8%	6.7%
56	Administrative and Support and Waste Management and Remediation Services	11.0%	10.0%
61	Educational Services	0.2%	0.3%
62	Health Care and Social Assistance	1.0%	3.6%
71	Arts, Entertainment, and Recreation	0.3%	1.6%
72	Accommodation and Food Services	11.2%	14.0%
81	Other Services (except Public Administration)	9.3%	6.4%
99	Nonclassifiable Establishments	N/A ^a	21.5%
Total		11.4%	10.3%

Source: Compustat®, PwC calculations.

^a Negative value of pretax income was reported for the year, and the year was omitted from calculations.

A. Competitive environment

1. Internal competition

HDA has seen the number of primary full-service pharmaceutical distributor members decrease by 60 percent, from approximately 100 distributors in the early 1990s to 37 distributors in 2025.⁴¹

Most distributors attempt to locate distribution centers strategically so that they may provide their customers with the efficiency of next day delivery. Gross receipts taxes discourage this 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. Both Washington and Tennessee have established that entities with \$100,000 or more in sales qualify as having “economic nexus” whether they are based in-state or out-of-state, and are therefore subject to the tax.

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

⁴¹ See <https://www.hda.org/about/>

2. External competition

Pharmaceutical distributors face disruptions from direct distribution by manufacturers. Alternative distribution channels operate with a lower tax burden than traditional pharmaceutical distributors under a gross receipts tax. In instances where consumers purchase pharmaceutical products directly from out-of-state suppliers, gross receipts tax may be completely avoided. Where retailers purchase directly from manufacturers, one level of tax pyramiding is eliminated. Consequently, in-state pharmaceutical distributors are at a competitive disadvantage under a gross receipts tax.

B. Government regulation

The pharmaceutical distribution industry is heavily regulated at both the federal and state levels. At the federal level, the industry is regulated by various agencies, including the Food and Drug Administration and the Drug Enforcement Administration. 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 can add significant administrative burdens on pharmaceutical 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 gross receipts taxes, states do not want to impose a greater burden on their lower-income residents. On the other hand, some states impose narrow gross receipts taxes that only apply to health-related industries. Examples of differential tax treatment of pharmaceuticals are highlighted below.

Sales Tax: States have imposed sales and use taxes 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 effect of this tax on the pharmaceutical 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 facilitated the pass through of the tax to the ultimate consumer.

IV. Policy issues

Gross receipts taxes lower economic efficiency by causing consumers and producers to alter purchasing and production decisions. 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 the specific effects of gross receipts taxation on the pharmaceutical 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 effects accumulate, often referred to as “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. This may create distortions based on the degree of vertical integration in the supply 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 0.57 percent gross receipts tax and a hypothetical 5 percent mark-up at the distributor and retailer stages, the total gross receipts tax would be \$17.97 if the tax is absorbed by sellers (see **Table IV-1**). In this example, the gross receipts tax amounts to 1.63 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 \$1,000 manufacturing value and double taxation of the distributor's \$50 mark-up.

Table IV-1. Pyramiding under a 0.57% Gross Receipts Tax: Example

Stage of Production	Tax absorbed by seller		Tax passed through to buyer	
	Price	GR tax	Price	GR tax
Manufacturer	\$1,000.00	\$5.70	\$1,005.73	\$5.73
Distributor	\$1,050.00	\$5.99	\$1,062.07	\$6.05
Retailer	\$1,102.50	\$6.28	\$1,121.57	\$6.39
Total		\$17.97		\$18.18

If the tax is passed through to buyers, rather than borne by sellers, the total gross receipts tax in the above example would be \$18.18, or 1.62 percent of the final sales price of \$1,111.14. 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.⁴² Using the same methodology as the 2002 Washington State Commission Report, PwC estimates that the effective rate of the Oregon CAT is on average 6 times the statutory rate in tax year 2021.

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.⁴³

2. Disparities in tax liabilities between and within industries

As discussed below, a gross receipts tax has differential effects 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 and how many times the inputs trade before purchase by the final consumer. The larger the in-state share of a good's supply chain, the greater the total tax collected relative to the final sales price.

Using the same methodology as the 2002 Washington State Commission Report,⁴⁴ PwC estimated the degree of pyramiding under the Oregon CAT by industry for tax year 2021, which includes figures in fiscal year 2022 and some in fiscal year 2023. Data on taxable gross receipts and gross receipts tax liabilities by industry are available from the Oregon Department of Taxation.⁴⁵ The 2022 IMPLAN economic model for the state of Oregon was used to calculate tax pyramiding by industry.⁴⁶

The wholesale sector has the highest level of pyramiding, where the effective tax rate on value added is 12.7 times the statutory gross receipts tax rate. The lowest level of pyramiding occurs in the real estate, utilities, and retail trade sectors. Across all industries, the Oregon CAT pyramids an average of 6 times, meaning that goods consumed by Oregon residents are on average taxed 6 times under the CAT (see **Table IV-2**)

⁴² 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 effects of vertical integration.

⁴³ 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.

⁴⁴ Washington State Tax Structure Study Commission, *Tax Alternatives for Washington State: A Report to the Legislature*, Appendix C-12, November 2002.

⁴⁵ Oregon Department of Revenue, Oregon Corporate Activity Tax Statistics: CAT Receipts FY 2022-2023 CAT Returns Tax Year 2021, Available at: https://www.oregon.gov/dor/gov-research/pages/corp_activity_tax.aspx

⁴⁶ IMPLAN is a well-known modeling system developed by the IMPLAN Group LLC for estimating economic effects and is similar to the Regional Input-Output Modeling System developed by the U.S. Department of Commerce. The model is primarily based on government data sources.

Table IV-2. Pyramiding under the Oregon Corporate Activity Tax by industry, tax year 2021

Industry	Tax/Value added ^a	Degree of pyramiding
Agriculture, Forestry, Fishing and Hunting	0.78%	2.6
Mining, Quarrying, and Oil and Gas Extraction	1.66%	9.3
Utilities	0.99%	6.4
Construction	0.80%	3.1
Manufacturing	1.12%	7.0
Wholesale Trade	0.95%	12.7
Retail Trade	0.86%	6.4
Transportation and Warehousing	0.84%	5.9
Information	0.99%	6.2
Finance and Insurance	1.04%	11.4
Real Estate and Rental and Leasing	0.77%	2.9
Professional, Scientific, and Technical Services	0.88%	5.3
Management of Companies and Enterprises	1.45%	8.1
Administrative, Support, and Waste Management Services	0.91%	5.7
Educational Services	0.83%	4.0
Health Care and Social Assistance	0.78%	4.9
Arts, Entertainment, and Recreation	0.90%	4.0
Accommodation and Food Services	0.88%	8.0
Other Services (except Public Administration)	0.81%	4.8
Total	0.81%	6.0

^a Tax collections by industry relative to value added.

Source: PwC calculations based on 2022 Oregon input-output table in the IMPLAN modeling system and the effective Oregon CAT burden by industry. Calculation methodology is provided in the Washington State Tax Structure Study Commission, *Tax Alternatives for Washington State: A Report to the Legislature*, Appendix C-12, November 2002.

b. Differences within industries

A gross receipts tax can have varying effects 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 \$17.97 to \$12.27, a 32 percent reduction in tax burden (see **Table IV-3**).

Table IV-3. Pyramiding under a 0.57% Gross Receipts Tax: Vertical integration example

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	\$5.70	\$1,000.00	--
Distributor	\$1,050.00	\$5.99	\$1,050.00	\$5.99
Retailer	\$1,102.50	\$6.28	\$1,102.50	\$6.28
Total		\$17.97		\$12.27

Note: Table assumes tax is absorbed by the seller.

Gross receipts taxes raise fairness issues because the same good is taxed at different effective rates depending on whether the supply chain is under common ownership. For example, gross receipts taxes discriminate against small companies that need to purchase, rather than self-supply, certain goods and services (e.g., legal or IT services). Because part of the burden of the tax may be passed on to purchasers, a small company will pay more for these services purchased from another provider than if it supplied those services internally, in which case the gross receipts tax would not apply.

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 have the effect of subsidizing 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 \$11.69 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 \$6.28 compared to \$17.97 for in-state production and distribution.⁴⁷

Table IV-4. Treatment of imports under a 0.57% Gross Receipts Tax: Example

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	\$5.70	\$1,000.00	--
Distributor	\$1,050.00	\$5.99	\$1,050.00 ^a	--
Retailer	\$1,102.50	\$6.28	\$1,102.50	\$6.28
Total		\$17.97		\$6.28

Note: Table assumes tax is absorbed by the seller.

^a This calculation is based on the assumption that the distributor does not have nexus in the state that imposes the gross receipts tax and therefore is not subject to the 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 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 \$5.70 in gross receipts tax, but the out-of-state manufacturer would be exempt. As a result, in-state distributors would suffer a \$5.70 tax disadvantage relative to out-of-state competitors when marketing to out-of-state retailers.

⁴⁷ The example assumes the out-of-state manufacturer and distributor do not have nexus to the state imposing the gross receipts tax.

Table IV-5. Treatment of exports under a 0.57% Gross Receipts Tax: Example

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	\$5.70	\$1,000.00	--
Distributor	\$1,055.70	--	\$1,050.00 ^a	--
Retailer	\$1,108.20	--	\$1,102.50	--
Total		\$5.70		\$0.00

Note: Table assumes tax is absorbed by the seller.

^a This calculation is based on the assumption that the distributor does not have nexus in the state that imposes the gross receipts tax and therefore is not subject to the tax.

B. Issues specifically affecting pharmaceutical distribution industry

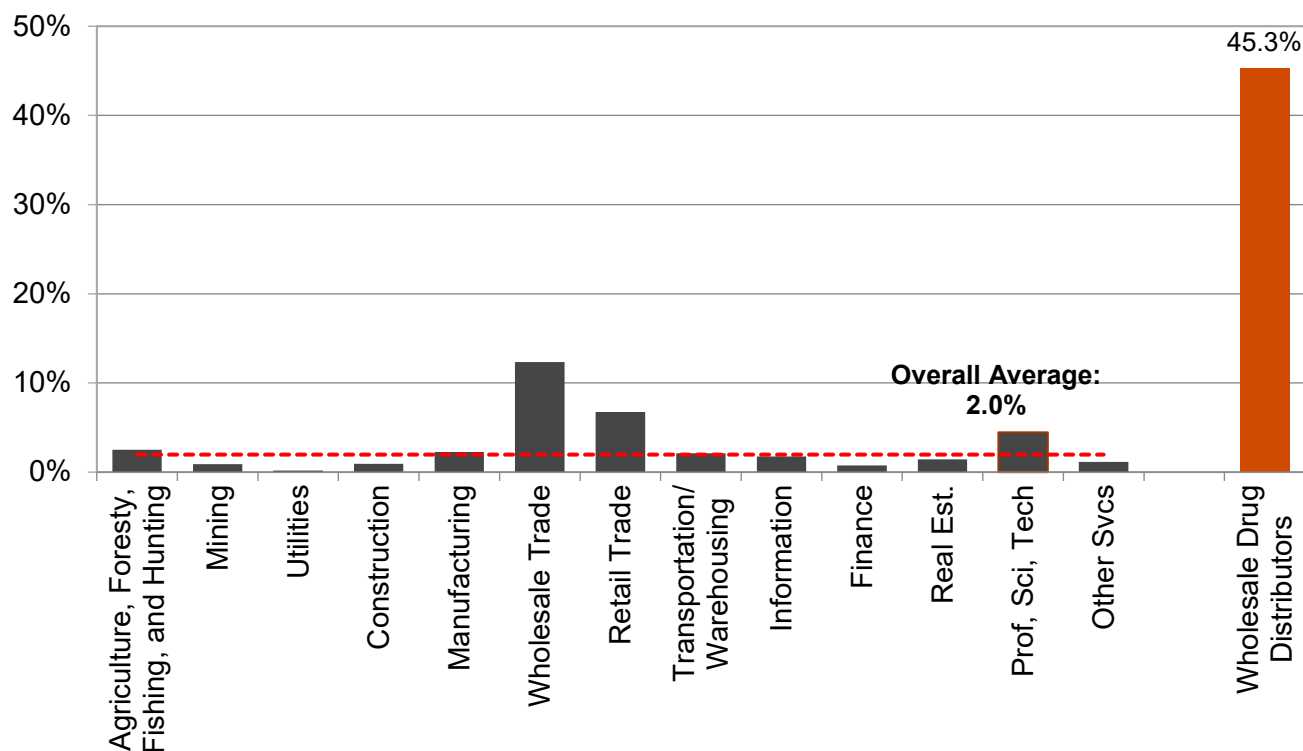
1. Low margins

The pharmaceutical distribution industry operates with extremely low margins. For such low-margin 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 2021-2023 period, a national 0.57 percent gross receipts tax would have been equivalent to a 2.0 percent tax on the pretax income of the average industry (see **Figure IV-1**). Among the major industrial classifications, a 0.57 percent gross receipts tax would range from a low of 0.2 percent of pretax income in utilities to a high of 17.7 percent of pretax income in the educational services industry, followed by 12.3 percent in the wholesale trade industry. By contrast, within the pharmaceutical distribution industry, a 0.57 percent gross receipts tax amounts to 45.3 percent of pretax income. Thus, relative to income, which measures ability to pay, the effect of a gross receipts tax on the pharmaceutical distribution industry is over twenty-two times greater than that for the average major industrial classification. Combining the effect of a 0.57 percent gross receipts tax with the 21-percent federal corporate income tax rate results in a total pharmaceutical distribution industry tax burden of 56.8 percent of pretax income (after deduction of state taxes against federal income tax).⁴⁸

⁴⁸ Because state taxes are deductible from federal income taxes, the effective tax rate is less than the sum of the federal marginal rate of 21 percent and the effective gross receipts tax rate on income of 37.3 percent. The overall burden is calculated as: $45.3\% + (1 - 45.3\%) \times 21\% = 56.8\%$.

Figure IV-1. National 0.57% Gross Receipts Tax as a percent of pretax income by industry, 2021-23



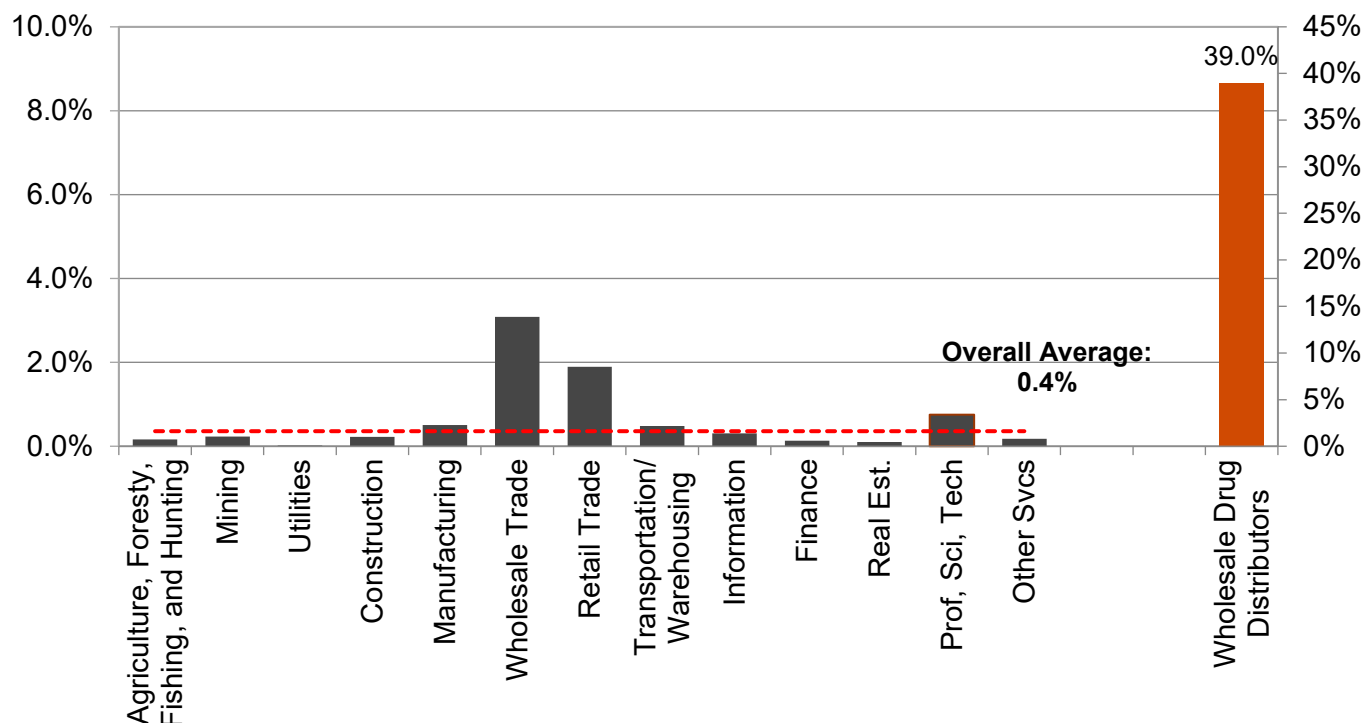
Source: Compustat®, HDA Factbook, and PwC calculations. See Appendix for underlying data.

Another feature of gross receipts taxes is that firms in loss positions still must pay the tax. Thus, gross receipts taxes have the effect of reinforcing economic downturns.

Figure IV-2 compares the burden of a 0.57 percent gross receipts tax relative to shareholder equity by industry. On average, a 0.57 percent gross receipts tax annually would represent 0.4 percent of shareholders' equity for all industries but would have a significantly different effect (299.5 percent of shareholders' equity) on the pharmaceutical distribution industry due to surges in demand for critical drugs after 2020 and the COVID-19 breakout. After 2020, asset to net worth ratios of HDA members decreased by over 50 percent and remained at these levels up to 2023.⁴⁹ The specific effect on members who specifically align with the NAICS code 424210, Drugs and Druggists' Sundries Merchant Wholesalers, was likely even more exaggerated. The tax burden for this sector is nearly one hundred times greater than the average of 0.4 percent when averaging net worth from 2021 to 2023 (see **Figure IV-2**)

⁴⁹ Center for Healthcare Supply Chain Research, 2024-2025 HDA Factbook: The Facts, Figures & Trends in Healthcare. Employment

Figure IV-2. National 0.57% Gross Receipts Tax as a percent of net worth by industry, 2021-23



Source: Compustat®, HDA, and PwC calculations. See Appendix for underlying data.

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

2. Multi-year fixed price contracts

Pharmaceutical distributors frequently enter into multi-year (3-5 year) national contracts. In the event that annual or longer-term contracts include certain price protections, pharmaceutical distributors generally will be required to absorb any new taxes during the contract term. As profit margins in the industry are exceptionally low (pretax margin of 1.7 percent for HDA members in 2023 on a weighted average basis),⁵⁰ imposition of even a low-rate gross receipts tax can result in losses on fixed-price supply contracts and may force pharmaceutical distributors to cease operations in states that impose gross receipts taxes in this manner. Tax pyramiding magnifies these negative effects.

3. Sales to government

Based on estimates of national health spending, the federal government spent \$195 billion and, state and local governments spent \$27 billion, on prescription drugs in 2023 (approximately 43 percent and 6 percent of all drug spending, respectively).⁵¹ 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 hypothetical 0.57 percent national gross receipts tax rate and 2.5 taxable turnovers, federal drug costs would have been \$2.78 billion higher and state and local government drug costs would have been \$381 million higher in 2023 (see **Table IV-7**). Overall, government drug costs would have been \$3.16 billion higher.

⁵⁰ Center for Healthcare Supply Chain Research, 2024-2025 HDA Factbook: The Facts, Figures & Trends in Healthcare.

⁵¹ U.S. Centers for Medicare and Medicaid Services (CMS), National Health Expenditure Amounts by Type of Expenditure and Source of Funds: Calendar Years 1960 – 2023, Released November 2024; PwC Estimates.

Table IV-7. Effect of hypothetical national 0.57% Gross Receipts Tax on government pharmaceutical spending, 2023

[Dollar amounts in billions]

Government	Total spending	GR Tax ^a
Federal	\$195.4	\$2.78
State and local	\$26.8	\$0.38
Total	\$222.1	\$3.16

^a Assumes pyramiding of 2.5 times.

4. 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 increases reliance on out-of-state distributors, pharmacies 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 could experience slower response times in emergency situations. 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.

5. Regressivity

Drug spending varies little by household income level.⁵² 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 if gross receipts taxes are passed through to consumers. For example, the burden of a gross receipts tax on pharmaceuticals would be more than four times greater relative to family income for households earning between \$15,000 and \$29,999 per year as compared to households earning \$150,000 to \$199,999.

⁵² John A. Poisal and Lauren Murray, “Growing Differences Between Medicare Beneficiaries with and Without Drug Coverage,” *Health Affairs*, March/April 2001.

Table IV-8. Average household drug spending and pretax income, 2023

Pretax income	Average drug spending	Average pretax income ^a	Drug spending/income
Pretax income of less than \$15,000	\$267	\$7,265	3.7%
\$15,000 to \$29,999	\$433	\$22,684	1.9%
\$30,000 to \$39,999	\$446	\$34,918	1.3%
\$40,000 to \$49,999	\$494	\$44,781	1.1%
\$50,000 to \$69,999	N/A ^b	\$59,346	N/A
\$70,000 to \$99,999	\$571	\$83,578	0.7%
\$100,000 to \$149,999	\$681	\$121,816	0.6%
\$150,000 to \$199,999	\$619	\$171,339	0.4%
Pretax income of \$200,000 and over	\$762	\$335,248	0.2%
All consumer units	\$591	\$101,805	0.6%

^a Pretax 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.

^b Data are suppressed due to the Relative Standard Error being greater than or equal to 25 percent. See www.bls.gov/cex/tables-getting-started-guide.htm for more information.

Source: U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*, 2023.

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 taxation multiple times (i.e., double or triple taxation or more). Unlike a corporate income tax, businesses must pay gross receipts tax whether or not they are profitable.

As a result of tax pyramiding, gross receipts are widely viewed by economists as inefficient, imposing large costs on the economy relative to the revenues raised and distorting business decisions.⁵³

Gross receipts taxes discriminate against small companies that need to purchase, rather than self-supply, certain goods and services (e.g., legal or IT services). Gross receipts taxes may also competitively disadvantage in-state companies relative to out-of-state competitors that are based in states without such taxes. As a result, states that impose gross receipts taxes create a tax incentive to move production activities elsewhere. (The effect on distribution activities may be more limited.) Gross receipts taxes have a particularly adverse effect on pharmaceutical distributors. The industry has extremely small profit margins (weighted average of 1.7 percent for HDA members in 2023 on a pretax basis). Relative to income, which measures ability to pay, pharmaceutical distributors would be subject to a tax burden that is over 22 times the average industry rate.

In the short run, pharmaceutical distributors must absorb much of the burden of a new or increased gross receipts tax because distributors frequently enter into multiyear fixed-price supply agreements that can potentially impose price protections requiring distributors to absorb increased costs for the contract term.

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

Gross receipts taxes on pharmaceuticals impose a heavier burden on low-income families who spend a higher percentage of their income on drugs than more affluent households when those taxes are passed through to consumers

⁵³ For example, see Giertz, p. 899 and Mikesell, p. 15.

in the form of higher prices. For example, relative to household income, families earning between \$15,000 and \$29,999 in 2023 spent over four times more on drugs than families earning between \$150,000 and \$199,999 and thus would be expected to bear four times the tax burden as a result of a gross receipts tax on pharmaceuticals.⁵⁴

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 0.57 percent gross receipts tax would have increased government spending on pharmaceuticals in 2023 by an estimated \$2.78 billion at the federal level and \$381 million at the state and local levels.

⁵⁴ U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*, 2023.

Appendix –Effect of gross receipts tax relative to industry profits and net worth

Table A-1. Effect of national 0.57% Gross Receipts Tax on pretax income, by industry, 2021 – 2023

NAICS Code	Description	0.57 GR tax/shareholder equity ^a				Income & GR tax burden
		2021	2022	2023	Avg	
	Total	1.7%	2.0%	2.2%	2.0%	22.6%
11	Agriculture, Forestry, Fishing and Hunting	1.8%	3.6%	2.6%	2.5%	23.0%
21	Mining	1.3%	0.8%	0.8%	0.9%	21.7%
22	Utilities	0.2%	0.2%	0.2%	0.2%	21.1%
23	Construction	0.9%	0.8%	1.0%	0.9%	21.7%
31-33	Manufacturing	2.0%	2.1%	2.7%	2.3%	22.8%
42	Wholesale Trade	16.4%	11.4%	11.0%	12.3%	30.7%
424210	Drugs and Druggists' Sundries Merchant Wholesalers	N/A ^b	65.3%	35.6%	45.3%	56.8%
44-45	Retail Trade	6.3%	7.5%	6.5%	6.7%	26.3%
48-49	Transportation and Warehousing	2.5%	1.6%	2.6%	2.1%	22.7%
51	Information	1.4%	2.2%	1.8%	1.7%	22.4%
52	Finance and Insurance	0.5%	0.7%	1.1%	0.8%	21.6%
53	Real Estate and Rental and Leasing	1.3%	1.3%	1.7%	1.4%	22.1%
54	Professional, Scientific, and Technical Services	4.5%	4.2%	4.7%	4.5%	24.5%
55-81	Other Services					
55	Management of Companies and Enterprises	---	---	---	---	---
56	Administrative and Support and Waste Management and Remediation Services	2.7%	2.4%	2.9%	2.7%	23.1%
61	Educational Services	5.6%	109.9%	70.4%	17.7%	35.0%
62	Health Care and Social Assistance	0.3%	1.4%	0.4%	0.4%	21.3%
71	Arts, Entertainment, and Recreation	N/A ^b	51.0%	11.4%	17.3%	34.7%
72	Accommodation and Food Services	1.7%	1.9%	1.5%	1.7%	22.3%
81	Other Services (except Public Administration)	2.1%	3.0%	4.1%	2.9%	23.3%
99	Other	0.2%	N/A ^b	0.3%	0.4%	21.2%

^a The combined income and gross receipts tax burden was calculated assuming a federal income tax rate of 21 percent and gross receipts taxes are deductible from federal taxable income. The combined tax rate is calculated as: 21% * (1 - Gross Receipts Tax/Pretax Income) + Gross Receipts Tax/Pretax Income.

^b Negative value of pretax income was reported for the year, and the year was omitted from average and tax burden calculations for the sector.

Source: Compustat®, HDA, and PwC calculations.

Table A-2. Effect of National 0.57% Gross Receipts Tax Relative to Shareholder Equity, by Industry, 2021 – 2023

NAICS Code	Description	0.57 GR tax/shareholder equity ^a			
		2021	2022	2023	Avg
	Total	0.3%	0.4%	0.4%	0.4%
11	Agriculture, Forestry, Fishing and Hunting	0.1%	0.2%	0.2%	0.2%
21	Mining	0.2%	0.3%	0.2%	0.2%
22	Utilities	0.0% ^b	0.0% ^b	0.0% ^b	0.0% ^b
23	Construction	0.2%	0.2%	0.2%	0.2%
31-33	Manufacturing	0.5%	0.5%	0.5%	0.5%
42	Wholesale Trade	2.8%	3.3%	3.1%	3.1%
424210	Drugs and Druggists' Sundries Merchant Wholesalers	39.0%	N/A ^c	N/A ^c	39.0%
44-45	Retail Trade	1.8%	2.0%	1.9%	1.9%
48-49	Transportation and Warehousing	0.5%	0.5%	0.5%	0.5%
51	Information	0.3%	0.3%	0.3%	0.3%
52	Finance and Insurance	0.1%	0.1%	0.2%	0.1%
53	Real Estate and Rental and Leasing	0.1%	0.1%	0.1%	0.1%
54	Professional, Scientific, and Technical Services	0.7%	0.7%	0.8%	0.8%
55-81	Other Services				
55	Management of Companies and Enterprises	---	---	---	---
56	Administrative and Support and Waste Management and Remediation Services	0.6%	0.5%	0.6%	0.5%
61	Educational Services	0.2%	0.3%	0.3%	0.3%
62	Health Care and Social Assistance	0.1%	0.1%	0.1%	0.1%
71	Arts, Entertainment, and Recreation	0.3%	0.4%	0.4%	0.4%
72	Accommodation and Food Services	1.1%	2.5%	2.2%	1.8%
81	Other Services (except Public Administration)	0.5%	0.6%	0.7%	0.6%
99	Other	0.0% ^b	0.1%	0.1%	0.1%

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

Source: Compustat®, HDA, and PwC calculations.

^b Values are less than 0.05%.

^c Negative value of shareholder equity was reported for the year, and the year was omitted from average and tax burden calculations for the sector.

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