



COVID-19: Tax Policy Options to Address Medical Supply Chain Concerns

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The outbreak of Coronavirus Disease 2019 (COVID-19) in the United States has drawn attention to the ways in which the U.S. economy depends on global manufacturing and supply chains. Many Members of Congress have [expressed a strong interest](#) in responding to U.S. shortages of medical supplies—particularly personal protective equipment (PPE) and pharmaceuticals—as the United States steps up efforts to contain and counter COVID-19.

This Insight summarizes the current state of U.S. reliance on foreign medical supplies and identifies potential tax policy options Congress may consider to encourage domestic production of certain medical goods. Changes to tax policies in combination with other economic policies and market forces could encourage domestic production, particularly for companies that are already looking to reshore manufacturing or diversify existing supply chains.

Current State of Reliance on Foreign Medical Suppliers

There is currently no definitive assessment of the degree to which the United States is dependent on imports in industries considered by some policymakers to be essential to U.S. public health and national security. Gaps in data on U.S. domestic industry and trade make determining the degree of U.S. import dependence in particular product categories difficult, as the U.S. government does not track domestic production of specific, individual items by quantity or value. CRS estimates based on government surveys of U.S. manufacturers and U.S. trade statistics, however, suggest that the United States seems to be heavily dependent on imports in certain product categories, particularly biological products such as vaccines (**Figure 1**).

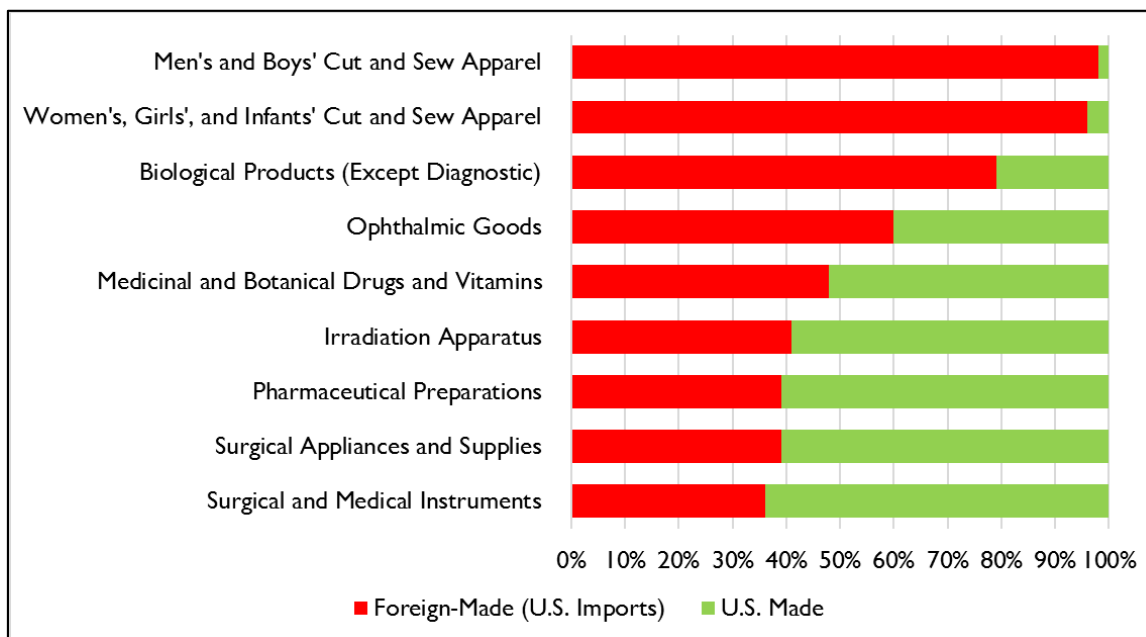
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Figure 1. Estimate of the Domestic and Imported Shares of U.S. Supply: Select Medical-Related NAICS Categories

Share of U.S. Domestic Supply (%) in 2018



Source: CRS analysis with data from the U.S. Census Bureau, the U.S. Bureau of Economic Analysis, and the U.S. International Trade Commission.

Notes: (1) Supply is calculated as domestic production minus exports plus imports. (2) For more detail, see Table 1. NAICS = North American Industry Classification System. (3) Rough estimates calculated at the NAICS 6-digit subheading level, which may cover products that are not for medical use. (4) 2018 is the most recent year for which annual data from the Census Bureau's Annual Survey of Manufactures are available.

In 2018, the [United States imported many low-end and labor-intensive manufactured medical and pharmaceutical products](#), primarily from China. Many higher-value-added and skill-intensive imported medical products, on the other hand, came mainly from Europe.

China's role as a global supplier of [PPE](#) and [certain active pharmaceutical ingredients \(APIs\)](#)—in combination with [escalating bilateral tensions](#)—has caused many to raise concerns about the potential risks of U.S. reliance on Chinese manufacturers for certain low-cost, but essential, medical supplies. Although there are no internationally agreed standards for classifying these products, overall U.S. imports of pharmaceuticals and medical supplies from China are estimated to have been approximately \$20.7 billion in 2019 (or 9.2% of U.S. total imports of these products), [according to CRS calculations](#). This number, however, likely understates U.S. reliance on Chinese manufacturers for pharmaceutical inputs and medical products, as imported products from other trading partners, such as the European Union, [are also likely](#) to contain intermediate components, such as API, sourced from China.

As the United States and other countries ramped up efforts to contain the spread of COVID-19, China [effectively nationalized](#) its production of PPE and other critical medical supplies and placed restrictions on the export of these products. Because [China was the primary source of U.S. imports of certain medical supplies](#), such as textile face masks and medical nitrile gloves, the resulting decline in its global exports of medical supplies [exacerbated critical PPE and medical supply shortages in the United States and other countries](#).

Selected Policy Options

A primary reason for internationally diversified medical supply chains is the competitive [pressure on firms to improve operational efficiencies](#). One aspect of this pressure is seen in efforts by companies to reduce the costs of production while maintaining flexibility. Factors including the availability of raw materials, labor costs, workforce requirements, and the location of final markets also affect supply chain decisions.

Current U.S. tax policy choices play a role in the cost of domestic versus foreign manufacturing in the medical supply chain, as they affect the costs and flexibility in production. The [2017 tax revision](#) (P.L. 115-97) was generally viewed as [improving the business environment for manufacturing companies](#) through a shift toward a [territorial tax system](#), a reduction in the corporate income tax rate, and the ability to immediately expense many types of investments. Other aspects of the 2017 tax revision, including [limiting interest expenses](#) and [eliminating the carryback of net operating losses](#), were viewed as negative factors for manufacturing (although losses may temporarily be carried back as a result of the CARES Act).

U.S. companies attempting to reshore from China specifically may face a heightened cost burden in the form of Section 301 tariffs imposed on the capital equipment they import back into the United States from China. The [current list](#) of U.S. imports from China subjected to additional Section 301 tariffs includes multiple categories of capital equipment. Clarifying [whether U.S. firms purchasing capital equipment from China](#) are subject to tariffs and including an exemption or refund process would potentially remove an additional barrier to reshoring medical supply chains.

Several bills have been introduced in the 116th Congress to reduce costs associated with locating medical supply chains within the United States. Among the bills are H.R. 6690 and S. 3945, which would allow accelerated depreciation of nonresidential real property acquired to relocate facilities for the manufacture of pharmaceuticals and medical devices or supplies in the United States; H.R. 6930, which would provide a tax credit for pharmaceuticals and medical devices manufactured in distressed communities; H.R. 7594, which would allow tax credits to companies that bring manufacturing equipment back to the United States from China; and H.R. 7767, which would allow a tax credit for income earned from the domestically produced medical supplies and pharmaceuticals.

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