

## **Introduction**

Currently the United States has tax incentives for research and development (R&D) for pharmaceutical companies in the U.S. because R&D increases the quality of health care. R&D incentives can encourage the discovery of new drugs and can lower the cost of current pharmaceuticals. These incentives have been successful in supporting pharmaceutical companies' growth. These tax incentives, however, have recently been overused by companies in the "supporting functions" of R&D expenses, namely, marketing and advertising. (Hoang 2015) Hence, the government's tax credits for developing more effective and efficient drugs are being used beyond its original purpose. Furthermore, off-shore tax shelters enable companies to escape the high rate of taxation in U.S. To prevent biopharmaceuticals from following this same trend, we propose that there should be clear distinction between incentives for R&D marketing and incentives for actual research. American taxpayer funds should go to promote research that benefits the common good, not additional advertising.

## **Problem**

In the 2011, 70% of Americans take at least one prescription drug, while more than 50% take two. Annually, this amounts to more than 4.02 billion dollars. (May 13th) Furthermore, this trend has been increasing from year to year, therefore, more incentives will be needed to support research to continue to make new, efficient treatments. In 2013, 137 billion dollars was offered for incentives on R&D in the U.S. (Eli 2015) Unfortunately, this money is increasingly focused on advertising and marketing, specifically to market towards doctors. Excluding the 4 billion dollars spent in 2014 on direct to consumers advertisement, PhRMA, the Pharmaceutical Research and Manufacturers of America, spent over 24 billion dollars on advertising for health care providers. The pharmaceutical companies know that it is largely up to the doctors to choose appropriate drugs for customers, and that many insurance providers must consent to cover the prescribed medication. Furthermore, according to healthcare research firm GlobalData, nine out of the ten largest pharmaceutical companies spend more on marketing than R&D.



Within the top ten pharmaceutical companies, only Roche spends more on research and development, while all others fail to achieve the goal of the current tax incentive system. Driven by the profit from marketing towards health care providers, the ratio of sales and marketing to research and development is out of hand. Furthermore, the agenda of the experiments are often even based on marketing rather than clinical considerations. As a result, powerful and cheap health promoting activities within R&D are often overlooked as they are not patented and are underutilized. The chief purpose of medicine, to aid the suffering, is often neglected. On the other hand, marketing promotes the popularity of the products and it will benefit the companies' bottom lines. This unfortunate outcome creates obstacles in making quality medications available to all people, as the marketing cost is also passed on to the consumer, insurance companies, and the government.

Not only are the expenses unbalanced, the difference between marketing and R&D is also becoming increasingly blurred. In 2011, U.S. pharmaceutical companies were given \$9.24 billion in R&D tax credits with the goal of increasing workers' salaries, increasing the number of employees, and developing new pharmaceuticals. (Hoang 2015) However, the companies label marketing and advertisement expenses under "supporting functions" of the total R&D expenses. (Hoang 2015) This loophole must be closed as a matter of tax policy in order to ensure that tax payer dollars go to producing real solutions to health care problems, rather than more advertising.

## Solution

Marketing expenses are increasingly being listed as “supporting functions” of R&D tax incentives. We propose that there should be a requirement that forces pharmaceutical companies to be transparent on “marketing and advertising expenses” when claiming tax breaks as part of the “supporting functions” part of this tax break. Pharmaceutical companies should have the amount of money being spent on marketing and advertising drastically limited or eliminated entirely. This will ensure that companies are incentivized to do research, and focus on the quality and price of their product, rather than advertising. The companies, being forced to have a focused expense on R&D, will be specific and clear about the distribution of money directed towards the goal of improving public health.

## Conclusion

Through examining the processes of tax breaks and advertisement, we propose the idea of increasing transparency between “marketing and advertisement expenses” as a part of the support function portion of the tax code and more general R&D expenses. Tax breaks should place emphasis on developing new drugs, making improvements on current drugs, and making the pharmaceuticals readily available to those who need it the most. Therefore, Congress should incentivize pharmaceutical companies to focus on the expansion of the quality of care and increasing access to that care, rather than advertising.

## Bibliography

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