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## FISCAL IMPACT REPORT

**LAST UPDATED** \_\_\_\_\_

**SPONSOR** Tobiassen/Woods/Block/Gallegos **ORIGINAL DATE** 2/16/25

**BILL**

**SHORT TITLE** 10-Year Exempt Health Practitioners From Tax **NUMBER** Senate Bill 298

**ANALYST** Graeser

### REVENUE\* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	\$0	(\$65,400.0)	(\$68,300.0)	(\$70,800.0)	(\$73,600.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.

\*Amounts reflect most recent analysis of this legislation.

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	No fiscal impact	\$14.6	No fiscal impact	\$14.6	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.

\*Amounts reflect most recent analysis of this legislation.

Conflicts with Senate Bill 296

### Sources of Information

New Mexico Health Care Workforce Committee 2023 Annual Report  
LFC Files

Agency Analysis Received From  
Taxation & Revenue Department (TRD)  
Department of Health (DOH)

Agency Analysis was Solicited but Not Received From  
New Mexico Medical Board (NMMB)  
Department of Finance (DFA)

## SUMMARY

### Synopsis of Senate Bill 298

Senate Bill 298 (SB298) proposes a 10-year exemption from income tax for a list of health care practitioners. The exemption is for income derived from providing health care in New Mexico within the scope of the practitioner's practice.

The proposed exemptions would apply to licensed:

1. Chiropractic physicians,
2. Dentists,
3. Dental Hygienists,
4. Acupuncturists,
5. Optometrists,
6. Physicians (MDs and DOs),
7. Physician Assistants,
8. Physical Therapists,
9. Podiatrists, and
10. Psychologists

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The provisions are applicable for tax years beginning January 1, 2025. The exemption would sunset for taxable years ending December 31, 2034.

## FISCAL IMPLICATIONS

SB298 creates a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base.

TRD has provided the revenue estimate for the provisions of this bill:

The Taxation and Revenue Department (TRD) used the 2024 New Mexico Health Care Workforce Committee (HCWC) Annual Report and the New Mexico Department of Workforce Solutions' Occupational Employment and Wage Statistics (OEWS) to estimate the number of health care practitioners eligible for this exemption and the associated median incomes. When income was unavailable for New Mexico, the national median income was used. TRD was unable to obtain the number of health care practitioners for several subspecialties that would most likely be eligible. These data are either not reported or were not disclosed for confidentiality.<sup>1</sup> TRD estimates that approximately 8,350 health care practitioners would be eligible to claim this exemption.

TRD then applied the current tax rates for each income under single tax filing status given the unknown taxpayer filing status for these taxpayers and calculated the aggregate impact for each health care practitioner category. Using the University of New Mexico's Bureau of Business and Economic Research (BBER) January 2025 forecast, TRD indexed the income to tax year 2025 and then grew the aggregate estimate annually by BBER's New Mexico's wage and salary growth.

Physicians<sup>2</sup> and dentists constituted 46% of the aggregate estimated revenue impact and 31%

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<sup>1</sup> Professions included in this analysis not specifically identified in this bill and not included in the physician category in the HCWC are OB-GYNs, general and other surgeons, psychiatrists, anesthesiologists, neurologists, pathologists, and radiologists. Data for orthodontists, pediatric or orthopedic surgeons, dermatologists, ophthalmologists, and cardiologists were not available.

<sup>2</sup> As defined by the HCWC include all medical doctors (MDs) and doctors of osteopathy (Dos) that specialize in

of eligible health care practitioners. Some subspecialties have higher average incomes than physicians or dentists (for example, the estimated average annual income for a dentist is \$188 thousand, and \$335 thousand for a radiologist), and there are considerably fewer eligible practitioners for subspecialties.

Implementing this bill will have a low impact on TRD's Information Technology Division (ITD), with approximately 220 hours or just over 1 month for an estimated staff workload cost of \$14.6 thousand.

## SIGNIFICANT ISSUES

The Department of Health (DOH) supports this bill and notes that New Mexico is significantly medically underserved.

In 2024, New Mexico had an estimated total population of 2.13 million in 33 counties ([U.S. Census Bureau QuickFacts: New Mexico](#)). Since the demands for healthcare services and providers continue to increase, providing incentives such as income tax exemptions to health care providers may help stabilize and improve healthcare services. SB298 could encourage healthcare providers to stay and provide services in New Mexico if healthcare providers would be exempt from income tax.

New Mexico continues to experience a shortage of medical providers, particularly in rural areas. According to the most recent data from 2021, published in a 2024 study by the University of New Mexico, the state needs an additional 334 primary care providers, 59 OB-GYNs, 10 general surgeons, and 119 psychiatrists to meet national benchmarks for provider-to-population ratios. Additionally, New Mexico faces a nursing shortage. Based on 2023 data, the state requires 5,822 more nurses and clinical nurse specialists to reach national benchmarks. ( [New Mexico Health Care Workforce Committee 2024 Annual Report](#)).

Addressing rural healthcare workforce strategies are part of a multi-pronged approach with no one effort being capable of solving all the issues related to provider recruitment. SB298 could encourage healthcare providers to stay and provide services in New Mexico if healthcare providers would be exempt from paying income tax for the next 10 years. However, as it is written, SB298 does little to encourage providers to live and work in underserved areas of the state, which are already disproportionately affected by the overall health professional shortage.

Currently, there are no states that offer income tax exemptions specifically for healthcare providers. SB298 may offer a more competitive environment for recruiting health professionals from out-of-state as well as incentivizing current residents and students to remain in New Mexico.

DOH suggests several clarifications:

SB298 proposes an income tax exemption for full-time practitioners. There is no definition of full-time practice, unlike in similar legislation. Similarly, practice is not clearly defined in SB298. Practice could include hours spent on research, administration, or supervision rather

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family, general, pediatrics, general internal, geriatrics, adolescent, occupational, preventative practice or medicine

than direct patient care. These issues could be clarified by additional language in the bill.

Healthcare practitioners are specifically defined in SB298 as primarily doctoral level practitioners. Given the shortage across healthcare professions, it may be reasonable to include other categories of practitioners licensed at a doctoral level– e.g. Doctors of Pharmacy, and nursing practice.

TRD points out similar policy and administrative concerns:

Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16 percent of the state’s recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statutes in the federal tax code. This is referred to as “conformity” to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity ‘by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers’ ability to pay. By basing the credit on a profession, taxpayers in similar economic circumstances are no longer treated equally.

While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicate the tax code. Introducing more tax incentives has two main consequences: (1) it creates special treatment and exceptions within the code, leading to increased tax expenditures and a narrower tax base, which negatively impacts the general fund; and (2) it imposes a heavier compliance burden on both taxpayers and TRD. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

Like the nation, New Mexico is experiencing a shortage of medical professionals. The 2024 New Mexico Health Care Workforce Committee Report details the number of providers in select occupations that are needed to bring New Mexico up to the benchmark provider-to-population ratio. To bring all counties to benchmarks would require an additional 334 primary care physicians, 59 OB-GYNs, 10 general surgeons, and 88 dentists<sup>3</sup>. If the intent of this bill is to attract or retain health care practitioners to or in New Mexico, a PIT exemption may incentivize this. However, because of the nationwide shortage, these physicians may consider tax benefits offered by other states.

The National Institute of Health’s (NIH), National Center for Biotechnology Information published a study that predicts that nationwide the demand for doctors will outpace the supply so that by 2030, 34 of 50 states will have physician shortages<sup>3</sup>. This shortage is more prominent for states in the South and West regions of which Mississippi and New Mexico will have the severest shortage. Their study predicts a shortage of 2,118 physicians in New Mexico by 2030 due in part to a higher percentage of physicians over 60 years of age

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<sup>3</sup> Zhang X, Lin D, Pforsich H, Lin VW. Physician workforce in the United States of America: forecasting nationwide shortages. *Hum Resour Health*. 2020 Feb 6;18(1):8. doi: 10.1186/s12960-020-0448-3. PMID: 32029001; PMCID: PMC7006215., <https://pmc.ncbi.nlm.nih.gov/articles/PMC7006215/>

compared to other states. The study discusses solutions that reach nationwide including: increasing the number of medical school graduates; increasing equitable federal funding for graduate medical education; attracting foreign-trained doctors; increasing utilization of mid-level providers and increasing uptake of emerging medical technology. Without a nationwide solution, New Mexico will continue to compete with other states for a smaller pool of physicians. This proposal does not place any conditions of remaining in practice in New Mexico, and thus once exhausting the exemption through 2035, doctors could move out of state.

## PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability may be met. The bill does not explicitly require TRD to include data concerning this exemption in the annual Tax Expenditure Report, but 7-1-84 NMSA 1978 ([Laws 2023, ch. 85, § 1](#)) now requires TRD to analyze all tax expenditures and report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers. This PIT exemption will probably be included in the annual report.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Conflicts with Senate Bill 296, which would create a \$50 thousand physicians income tax credit.

## OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy:** Revenue should be adequate to fund needed government services.
- **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity:** Different taxpayers should be treated fairly.
- **Simplicity:** Collection should be simple and easily understood.
- **Accountability:** Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
<b>Vetted:</b> The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	<b>X</b>	
<b>Targeted:</b> The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	? <b>X</b> <b>X</b>	The implicit purpose is to provide one tactic to ameliorate the lack of health care professionals. No Targets or Goals
<b>Transparent:</b> The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	Will be included in Tax Expenditure Report
<b>Accountable:</b> The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	? ✓	
<b>Effective:</b> The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure. Fulfills stated purpose Passes “but for” test	? ?	This is only one tactic to address the problem. Other tactics may be needed.
<b>Efficient:</b> The tax expenditure is the most cost-effective way to achieve the desired results.		
Key: ✓ Met   ✗ Not Met   ? Unclear		