

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 13, 2025

Bill: SB-296

Sponsor: Senators Nicole Tobiassen, Carrie Hamblen, Pat Woods,
 Jay C. Block and Natalie Figueroa

Short Title: Physician Income Tax

Description: This bill enacts the physician income tax credit. This credit is for a physician or dentist who has completed a medical residency and may be taken for up to five consecutive taxable years in which the taxpayer practices medicine full-time in New Mexico and has an outstanding balance of student loans taken to defray the cost of a medical education. The credit is equal to \$50,000 for the taxable year that the taxpayer meets the requirements of the credit. The portion of the credit that exceeds a taxpayer’s income tax liability will be refunded to the taxpayer. A taxpayer must apply for certification of eligibility for this credit from the Higher Education Department (HED).

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025.

Taxation and Revenue Department Analyst: Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	(\$78,300)	(\$78,300)	(\$78,300)	(\$78,300)	R	General Revenue

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The Taxation and Revenue Department (Tax & Rev) used the 2024 New Mexico Health Care Workforce Committee Annual Report to estimate the number of physicians eligible for this credit. Tax & Rev estimates a total of 5,511 physicians and dentists in New Mexico¹ will be eligible.

Nationally, approximately 20% of physicians have student loan debt. However, for physicians under 55 years of age, 47% have student loan debt². According to the Association of American Medical Colleges, 53% of physicians are under the age of 55. For dentists, approximately 83% of dental students graduate with student loan debt³. Tax & Rev assumes these percentages apply to eligible physicians or dentists in New Mexico and then calculated the number of New Mexico physicians and dentists who have a student loan debt.

Finally, Tax & Rev estimated the percentage of physicians and dentists that work full-time under Section 1(G)(2) which states that to be eligible, a physician must work at least 1,584 hours annually. This translates into just over 30 hours a week. According to the most recent Survey of America’s Physicians, 9.9% of doctors work less than 30 hours per week⁴. Approximately 12% of dentists work part time⁵. Tax & Rev applied these percentages to the total estimated number of physicians and dentists resulting in

¹ New Mexico Regulation and Licensing Department (RLD) experienced a data breach in October 2022 and anticipates the absence of comprehensive data for the next one to two years. Some job numbers are from 2021.

² Medscape Physician Wealth & Debt Report 2023; www.medscape.com

³ American Dental Education Association, Survey of Dental School Seniors 2022, www.adea.org

⁴ The Physicians Foundation, 2018 Survey of America’s Physicians: Practice Patterns & Perspectives, www.physiciansfoundation.org

⁵ <https://www.dentaleconomics.com/practice/article/16391656/dental-workforce-trends-and-the-future-of-dental-practices>

1,565 eligible taxpayers. Tax & Rev assumes each qualifying physician or dentist can get a credit for \$50,000 each taxable year for 5 years. (See technical issues.)

Tax & Rev cannot determine how many taxpayers this tax credit may incentivize to claim this credit. As a result, Tax & Rev held the number of eligible taxpayers flat but recognizes that a \$50,000 refundable tax credit may result in additional claimants, and that the purpose of the bill is to incentivize physicians and dentists to practice medicine full-time in New Mexico.

Policy Issues: 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 this 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 Tax & Rev. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

According to the Association of American Medical School Colleges, the average amount of medical school debt in 2022 was \$206,924. For dentists, the average dental school graduate in 2022 had a debt of \$293,900⁶. In order to repay these debts, physicians and dentists must have incomes that can reasonably pay off these debts while building their career. The high demand for medical providers in the US healthcare market typically meets that supportable salary but in economically depressed regions or in sparsely populated areas, this can lead to a limited number of providers.

Like the nation, New Mexico is experiencing a shortage of medical professionals. The 2024 New Mexico Health Care Workforce Committee Report⁷ 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. A 5-year, \$50,000 refundable tax credit may incentivize eligible physicians and dentists to move to New Mexico; however, because of the nationwide shortage, these physicians and dentists may consider tax benefits offered by other states.

For example, the California Department of Health Care Services administers loan repayment on educational debt. Eligible physicians can apply for up to \$300,000 in loan repayment in exchange for a five-year service obligation. Eligible dentists also have this option or, under different criteria, up to \$300,000 in exchange for a ten-year service obligation⁸. Eligibility includes at least 30 percent of a physician’s or dentist’s caseload is Medi-Cal (California’s Medicaid Program) beneficiaries. In one round

⁶ American Dental Education Association, Survey of Dental School Seniors 2022, www.adea.org

⁷ [New Mexico Health Care Workforce Committee 2024 Annual Report](#)

⁸ <https://www.phcdocs.org/Programs/CalHealthCares>

of disbursements under Proposition 56, the state of California repaid medical school debt for 249 physicians and 44 dentists at a cost of \$69.4 million⁹.

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.¹⁰ 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 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 (GME); 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 like California 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 credit benefits, doctors could move out of state.

The tax deduction does not include a sunset date. Tax and Rev supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured.

Technical Issues: Sections 1(A) through 1(D) are potentially ambiguous, because it is not clear that the taxpayer has to reapply for the credit for each taxable year they can claim the credit. To remove any ambiguity, Tax & Rev suggests in subsection C, on page 2, line 11, change "years" to a single "year." Then on line 12, after "claimed.", add the following sentence, "The taxpayer shall apply for certification for each year of eligibility."

In Section 1 (E) on page 2, the taxpayer can claim the credit within 3 years from the end of the year that HED certifies the credit. Since the application to HED isn't required to be filed within a certain time, this could go past the Statute of Limitations set in 7-1-26 NMSA 1978 which requires a refund to be applied for within 3 years from the end of the year in which the return was originally due. Tax & Rev suggests on page 2, line 22, that "three" be changed to "one" and "years" to be changed to "year" and "of" be changed to "from", so that line 22 reads: "one taxable year from the end of the year in which the higher. . ." The change will also make the fiscal impact easier to predict.

Other Issues: HED may not have direct access to information about physicians who attended a university in another state. Tax & Rev suggests references to the Department of Health or the Regulation and Licensing Department to verify physician activity and licensure as they are likely to have more direct access to such information.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will need to take place. This implementation will be included in the annual tax year changes.

Tax and Rev will need to implement a memorandum of understanding (MOU) and data sharing with HED to exchange certification data.

⁹ <https://www.cadhlhf.org/state-advocacy/state-news/dhcs-calhealthcares-awards-69-4-million-to-293-providers-to-help-expand-medi-cal-access/>

¹⁰Zhang 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/>

Tax & Rev’s Administrative Services Division (ASD) will test credit sourcing and perform other systems testing. It is anticipated this work will take approximately 40 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately \$2,500. Pay band 70 hours are estimated at time and ½ due to extra hours worked required for implementation.

This bill will have a moderate impact on Tax & Rev’s Information Technology Division (ITD) of approximately 680 hours or about 4 months for an estimated staff workload cost of \$45,315. The estimate includes an electronic data exchange between Tax & Rev and HED.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	\$2.5	--	\$2.5	NR	Tax & Rev – ASD – Operating
--	\$45.3	--	\$45.3	NR	Tax & Rev – ITD – Staff workload

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: Similar to SB-296 (2025 regular session)