

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 14, 2025

Bill: SB-298

Sponsor: Senators Nicole Tobiassen, Pat Woods, Jay C. Block,
and David M. Gallegos

Short Title: 10-year Exempt Health Practitioners From Tax

Description: This bill adds a new section to the Income Tax Act creating an exemption from income tax for taxable years prior to January 1, 2035, for a resident who is a health care practitioner and practices full-time in New Mexico, for income derived from providing health care services within the scope of their practice.

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		
--	(\$65,400)	(\$68,300)	(\$70,800)	(\$73,600)	R	General Fund

* 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 (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. Tax & Rev 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 confidentiality¹. Tax & Rev estimates that approximately 8,350 health care practitioners would be eligible to claim this exemption.

Tax & Rev 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, Tax & Rev indexed the income to tax year 2025 and then grew the aggregate estimate annually by BBER’s New Mexico’s wage and salary growth.

Physicians² and dentists constituted 46% of the aggregate estimated revenue impact and 31% 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 \$188,000, and \$335,000 for a radiologist), and there are considerably fewer eligible practitioners for subspecialties.

¹ 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.

² As defined by the HCWC include all medical doctors (MDs) and doctors of osteopathy (Dos) that specialize in family, general, pediatrics, general internal, geriatrics, adolescent, occupational, preventative practice or medicine.

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 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 Tax & Rev. 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 dentists³. 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 shortages⁴. 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 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.

The exemption does include a sunset date. Tax and Rev supports sunset dates for policymakers to review the impact of a tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured.

³ [New Mexico Health Care Workforce Committee 2024 Annual Report](#)

⁴ 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/>

Technical Issues: None.

Other Issues: Taxpayers who qualify for this exemption may also be eligible for the existing rural health care practitioner tax credit, as provided in Section 7-2-18.22 NMSA 1978. As that credit is nonrefundable and can be carried forward, this exemption may lessen the incentive for work in rural areas for those practitioners eligible for the exemption.

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

Implementing this bill will have a low impact on Tax & Rev’s Information Technology Division (ITD), with approximately 220 hours or just over 1 month for an estimated staff workload cost of \$14,661.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	\$14.6	--	\$14.6	NR	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)