FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 133
SHORT TITLE: Health Equipment GRT Deduction
SPONSOR: Steinborn/Hickey/Wilson/Hamblen
LAST UPDATE: 2/2/2026 **ORIGINAL DATE:** 2/2/2026 **ANALYST:** Faubion

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Gross GRT	$0	($3,600.0)	($3,900.0)	($4,100.0)	($4,300.0)	Recurring	General Fund
Gross GRT	$0	($2,400.0)	($2,600.0)	($2,700.0)	($2,900.0)	Recurring	Local Governments
Hold Harmless	$0	($2,400.0)	($2,600.0)	($2,700.0)	($2,900.0)	Recurring	General Fund
Hold Harmless	$0	$2,400.0	$2,600.0	$2,700.0	$2,900.0	Recurring	Local Governments
Net GRT	**$0**	**($6,000.0)**	**($6,500.0)**	**($6,800.0)**	**($7,200.0)**	**Recurring**	**General Fund**
Net GRT	**$0**	**$0**	**$0**	**$0**	**$0**	**Recurring**	**Local Governments**

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	$230.0	$14.6	$0.0	$244.6	Nonrecurring	General Fund
Total	$230.0	$14.6	$0.0	$244.6	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information
LFC Files
Taxation and Revenue Tax Expenditure Report

Agency or Agencies Providing Analysis
NM Counties
Health Care Authority
NM Municipal League
Taxation and Revenue Department

Agency or Agencies that Declined to Respond
Department of Health

SUMMARY

Synopsis of Senate Bill 133

Senate Bill 133 (SB133) creates a new gross receipts tax (GRT) deduction for receipts from the sale of certain in-office equipment and nonprescription in-office medications sold to healthcare practitioners or associations of healthcare practitioners, when the equipment or medication is used within the practitioner's scope of practice to treat patients. The bill also establishes a new hold-harmless distribution to municipalities and counties to offset local GRT revenue losses associated with the new deductions. There is no sunset. The effective date of this bill is July 1, 2026.

FISCAL IMPLICATIONS

Estimating the full fiscal impact of this bill is challenging due to significant gaps in available data regarding healthcare practitioner purchasing behavior and the taxation of in-office medical supplies and equipment. There is no comprehensive dataset that captures the volume or value of in-office equipment and nonprescription medications purchased by eligible healthcare practitioners, the tax districts in which those purchases occur, or the applicable state and local gross receipts tax (GRT) rates. Key missing information includes practitioner type, practice size, purchasing channels, geographic distribution of vendors, and the extent to which these items are currently subject to gross receipts taxation. Without detailed, transaction-level data linking medical supply sales to specific healthcare practitioners and tax jurisdictions, it is difficult to determine how much taxable gross receipts would become deductible under the bill and how that would translate into foregone state and local revenues. Additionally, purchasing patterns may change over time in response to pricing, consolidation within medical practices, and shifts in care delivery models, further increasing uncertainty around any fiscal estimate.

To estimate the fiscal impact of this on the general fund and local governments, LFC staff relied on a combination of existing tax expenditure data, GRT data, and national healthcare research and data on durable medical equipment and nonprescription drug use in office settings. Baseline estimates were informed by the Taxation and Revenue Department's *Tax Expenditure Report* and by existing gross receipts tax deductions related to healthcare activities, including existing deductions for certain medical services and supplies. LFC staff used national data on physician and outpatient practice expenditures and the share of medical equipment and nonprescription drugs used in office settings to approximate the share of operating costs attributable to in-office equipment and nonprescription medical supplies that are likely to be purchased from taxable vendors. These estimated amounts were then adjusted to reflect New Mexico's relative share of healthcare practitioners and grown forward using S&P Global's forecast for healthcare spending growth to capture expected increases in utilization and input costs over the forecast period. This approach assumes purchasing behavior remains generally consistent over time and that the deduction is claimed in proportion to existing patterns of medical practice expenditures, subject to the statutory limitations in the bill.

This bill also establishes a hold harmless distribution to municipalities and counties to fully offset local GRT revenue losses resulting from the new deductions. Unlike other GRT deductions that are only partial offsets and subject to the phase-down provisions in Sections 7-1-6.46 and 7-1-6.47 NMSA 1978, the hold harmless mechanism created in this bill is tied directly to the amount of deductions claimed and the local option GRT rates in effect in each jurisdiction, as specified in the Tax Administration Act.

The Taxation and Revenue Department (TRD) used data from the RP80 GRT report and retrieved taxable GRT by NAICS codes to identify the taxpayers that might claim the deduction for selling medical equipment and drugs to healthcare practitioners. TRD indicates this deduction does not apply to the sale of medical equipment and nonprescription drugs to a hospital, hospice, nursing home, and out-patient or intermediate care facilities. Because these entities are not eligible for the credit, their receipts were excluded from the associated tax base. The fiscal impact was calculated using the consensus revenue estimating group's (CREG) December 2025 GRT forecast and the 6.94 percent statewide effective GRT rate, with a split between the general fund and local governments. The revenue impact includes the effects of this deduction on additional distributions made to municipalities under Section 7-1-6.4 NMSA 1978 because the majority of the taxable base will be in municipalities.

This bill creates or expands 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. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

Under current law, existing gross receipts tax deductions for medical-related transactions are based on the nature of the item and the manner in which it is dispensed—such as prescription drugs or deductible medical services—rather than on whether the item is used at home or in a clinical setting. As a result, many nonprescription medications and in-office medical equipment purchased by healthcare practitioners for use during treatment are treated as taxable business inputs. This bill addresses this gap by creating a new deduction for qualifying in-office equipment and nonprescription medications sold to healthcare practitioners, while excluding receipts already deductible under Sections 7-9-73.2 and 7-9-73.3 NMSA 1978 to avoid duplication.

The Legislature faces significant tradeoffs with respect to healthcare taxation. On one hand, targeted deductions boost provider incomes and may support access to and affordability of care if they encourage more providers to practice in the state and those providers pass savings onto patients. On the other, deductions narrow the GRT base, erode revenue stability, and add complexity to taxpayer compliance and tax administration.

While GRT relief or simplicity may improve provider margins, tax policy alone is not yet proven to resolve physician shortages, which are also influenced significantly by limited training pipelines, medical malpractice issues, quality of life concerns, and national competition for healthcare workers (see LFC brief, Physician Survey to Address Shortages). Furthermore, every deduction adopted in the healthcare sector has ripple effects in other parts of the economy. As the GRT base narrows, pressure builds to increase the rate in the future, shifting costs onto other businesses and consumers without special interest deductions. Policymakers must weigh the benefits of targeted relief against the simplicity of taxpayers and administrators to follow the tax code and the risks of eroding one of the state's most stable revenue sources.

LFC analysis of Health Care Authority (HCA) and federal Centers for Medicare and Medicaid Services (CMS) data suggests that, of the nearly 19 thousand individual physicians practicing in the state, only about 5,000—roughly 26 percent—operate as sole proprietors. A sole proprietor is

an individual who owns and operates their medical practice independently and is not employed by, or practicing through, a separate legal entity, such as a corporation, partnership, hospital system, or group practice. Because the gross receipts tax deduction applies not only to individual practitioners but also to qualifying "associations of healthcare practitioners," many physicians who practice within larger organizational structures—including physician groups, management service organizations, and private equity-backed practices—may benefit from the deduction.

Healthcare practitioners that would benefit from this bill already receive substantial gross receipts tax relief under current law. According to the LFC analysis of tax data, healthcare-related deductions and exemptions are among the largest in the tax code, costing the general fund approximately $657 million and local governments about $331 million annually, with between 55 and 65 percent of the healthcare tax base deducted before tax is applied. For offices of physicians specifically, about 55.5 percent of gross receipts are currently deducted, reflecting the long-standing deduction for commercial contract services and Medicare Part C payments enacted in 2004, as well as more recent temporary deductions for patient co-payments and deductibles. As a result, the effective gross receipts tax rate on healthcare services statewide is approximately 3.25 percent, below the statewide average. These existing provisions already significantly reduce tax liability for practitioners—particularly those operating under managed care and commercial insurance contracts—and the bill would build on this framework by further expanding deductible costs.

Additionally, Medicaid receipts are now fully reimbursed to practitioners for gross receipts tax following legislation enacted during the 2025 session. Beginning in calendar year 2026, Medicaid payments must separately itemize and reimburse providers for the full amount of GRT owed on Medicaid-covered services, ensuring that practitioners are no longer required to absorb the tax within negotiated reimbursement rates. This change effectively removes Medicaid GRT as a cost to providers, while preserving the tax base and associated state and local revenues.

TRD notes the following policy considerations:

> The U.S. health system has been facing significant challenges related to persistent workforce shortages and severe fractures in the supply chain for drugs and equipment, increasing health service costs for patients. New Mexico is not immune from these challenges. The state has implemented a series of social and tax policies to improve healthcare coverage and attract healthcare workers while reducing healthcare practitioners' financial constraints. Theoretically, lower effective tax rates might actively minimize the tax burden for healthcare practitioners through tailored tax incentives, thereby helping recruit and retain healthcare workers and making healthcare service for New Mexicans more affordable.
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> While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of incentives complicate the tax code. Introducing additional 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. This proposal adds an additional incentive for sales of medical equipment already existing in Sections 7-9-77.1 and 7-9-93 NMSA 1978, increasing complexity for taxpayers and the administration of the tax code. Increasing complexity and exceptions in the tax code does not align with sound tax policy.

> The intricate diversity of distributions across the Tax Administration Act makes tax distribution management more complex. The proliferation of new distributions implies a fragmentation of the existing boundaries that determine service obligations and the parameters for intergovernmental relationships between state and local governments. The addition of new hold harmless distributions created in this bill adds to the complexity of distributions and for the service relationship with local governments. While the amount estimated to be distributed under this proposal is relatively small, the complexity remains as every municipality and county impacted by the deduction will receive the distribution monthly. Current hold-harmless distributions are made to municipalities and counties to partially offset the cost of food and health care practitioner deductions. Simplicity and fairness are important considerations in tax policy, and the proliferation of general and special distributions undermines those principles. New Mexico's tax code is unique because it permits more complex tax distribution formulas than those used by most states. The more complex the tax code's distributions, the costlier it is for TRD to maintain the GenTax system, and the greater the risk of programming changes.

The Municipal League notes this bill includes a hold harmless provision designed to fully offset municipal gross receipts tax revenue losses associated with the proposed deduction, resulting in an expected revenue-neutral impact for municipalities. However, the Municipal League cautions that this neutrality is contingent on the hold harmless distribution remaining in place indefinitely. The Municipal League cites past legislative actions in which hold harmless distributions associated with GRT deductions were later reduced or phased out, creating long-term fiscal exposure for municipalities. Given that GRT revenue accounts for more than two-thirds of municipal general fund revenues and is critical for funding essential services such as public safety and employee compensation, the Municipal League emphasizes that any future reduction or elimination of the hold harmless distribution could result in significant fiscal stress for cities with limited alternative revenue options.

This bill narrows the gross receipts tax (GRT) base. Many New Mexico tax reform efforts over the last few years have focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state's largest general fund revenue source. Higher rates compound tax pyramiding issues—when a tax is assessed on multiple steps and results in a tax on a tax —and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

[Section 2] Page 6, Lines 13 and 16. The use of the word "primarily" is subject to interpretation and TRD suggests "primarily" be deleted. Based on the broad scope of the deduction and the variety of items that would fall under the definitions, TRD suggests requiring a nontaxable transaction certificate (NTTC) or other alternative evidence.

[Section 2] Page 6, lines 19 through 20. It is unclear what non-prescription substances are dispensed to patients. Non-prescription substances could include over the counter medicines, vitamins, and topical gels. TRD suggests specifically identifying the nonprescription substances included for the deduction.

TRD will update forms, instructions, and publications to amend this deduction, costing an estimated $244.6 thousand across FY26 and FY27.

OTHER SUBSTANTIVE ISSUES

Current Healthcare Gross Receipts Taxation

Payment/Service Type		Current Law
Private Insurance for Healthcare Practitioners	Private insurance contracted service payments (managed care, PPO, HMO; including coinsurance)	✗ Deductible from GRT
	Private insurance and patient fee-for-service payments	☑ Taxable (Subject to GRT)
	Patient copays and deductibles	✗ Deductible from GRT
	Patient coinsurance	☑ Taxable (Subject to GRT)
	Direct-pay health care services (no insurance)	☑ Taxable (Subject to GRT)
Medicaid and Medicare for Healthcare Practitioners	Medicaid-covered services	☑ Taxable (Subject to GRT, providers reimbursed)
	Medicare-covered services	✗ Deductible from GRT
	Patient-paid Medicare or Medicaid coinsurance, copays, and deductibles	☑ Taxable (Subject to GRT)
	Medicare part B "medigap" paid by private secondary insurance	☑ Taxable (Subject to GRT)
	Medicare part C/Medicare advantage paid by private secondary insurance	✗ Deductible from GRT
Hospitals and Medical Equipment and Supplies	Hospital services regardless of payer	☑ Taxable (Subject to GRT with 60 percent deduction)
	Medical equipment, supplies, and drugs (sold to providers)	☑ Taxable (Subject to GRT)
	Medical equipment, supplies, and drugs (sold to patients)	✗ Deductible from GRT

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
Vetted: 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.	?	No interim committee hearing could be found, but extended discussion was had on

		healthcare GRT in the Revenue Stabilization and Tax Policy Committee.
Targeted: 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	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The deductions must be reported publicly in the TER. The deductions do not have an expiration date.
Accountable: 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	✗	
Effective: 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	?	There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

JF/ct/hg/sgs/hg