

New Mexico Taxation of Healthcare

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Introduction

- Taxation of healthcare services in New Mexico is complex
 - Different types of healthcare services receive different treatment
 - Generally speaking, one set of rules applies to hospitals, and another set of rules applies to other types of healthcare services
- Taxation of healthcare services is reduced by several tax incentives
- 2019 legislation (HB6) impacted healthcare taxation
 - Treatment of non-profit and government hospitals' receipts changed

Taxation of Hospitals

Basic Principles of Healthcare Gross Receipts Taxation

- New Mexico imposes gross receipts tax on *all goods and services*
 - The default is that receipts from all services are subject to GRT
 - Deductions, exemptions may remove receipts from the GRT base
 - New Mexico's approach is different from most states', who only tax goods and specific services
 - New Mexico is one of very few states that imposes GRT/sales tax on healthcare services
 - Most states do tax Medicaid receipts – as does New Mexico - to support the State share of Medicaid

Gross Receipts Taxation of Hospitals

- Taxation of hospitals is different than taxation of other healthcare services
- HB6 (2019) reformed gross receipts taxation of hospitals
 - For profit hospitals were subject to GRT all along. HB6 increased an existing hospital GRT deduction from 50% to 60% of receipts
 - Non-profit hospitals became newly subject to GRT and claim the 60% deduction
 - Government hospitals became newly subject to governmental gross receipts tax (GGRT) and claim the 60% deduction
- The result of HB6 was to tax hospitals equitably, regardless of ownership structure
- HB6 raises about \$120 million per year by broadening the tax base to include non-profit and government hospitals, despite increasing the deduction from 50% to 60%
- In FY2025, the 60% deduction totaled \$214 million to the State and \$31 million to local governments

Gross Receipts Taxation of Hospitals

- Technical details of HB6:
 - Made receipts of government hospitals licensed by the Department of Health (DOH) subject to the GGRT, with a 60% deduction. Sections 7-9-3.2 and 7-9-4.3 NMSA; deduction under Section 7-9-73.1 NMSA
 - Removed the State exemption from gross receipts tax of non-profit hospitals licensed by DOH. Section 7-9-29 NMSA
 - Receipts of non-profit hospitals are only subject to state GRT, not local options. Section 7-9-41.5 NMSA
 - Increased from 50% to 60% the deduction available to for-profit hospitals; deduction became applicable to non-profit hospitals. Section 7-9-73.1 NMSA

Additional GRT Deductions for Hospitals

- Additional GRT deductions are available for costs of constructing certain public health care facilities (Sections 7-9-99 and 7-9-100 NMSA 1978)
 - **These deductions have not been claimed for many years as no eligible facilities have recently been built in New Mexico**
 - Facility must be a “sole community provider hospital” located in a federally designated health professional shortage area
 - Receipts from engineering, architectural, and construction services may be deductible
 - Receipts from construction equipment and construction materials used in the facility may be deductible

Taxation of Other Healthcare Services

Receipts of Other Healthcare Providers

- Receipts of healthcare providers are generally subject to GRT and GGRT
 - Exception: Receipts of government-owned entities licensed by DOH, other than hospitals, are not subject to the GGRT (Section 7-9-4.3 NMSA)
 - Receipts of 501(c)(3) organizations, other than hospitals licensed by DOH, may be exempt from GRT (Section 7-9-29 NMSA)
 - Compensating tax exemption applies to all 501(c)(3) organizations, including hospitals licensed by DOH (Section 7-9-15 NMSA)
 - Compensating tax exemption for government hospitals and other healthcare providers only applies to tangible personal property (Section 7-9-14 NMSA)

Prescription Drug, Oxygen, and Medical Cannabis Deduction

- Receipts from the sale of prescription drugs, medical cannabis, or oxygen/oxygen services provided by a licensed Medicare durable medical equipment provider are deductible from GRT and GGRT (Section 7-9-73.2 NMSA)
- Enacted 1998 and expanded over time
- Taxpayers are required to separately report this deduction as of July 1, 2025 – estimated cost of the deduction will be more accurate

	Fiscal Year	2023	2024	2025
Prescription Drugs, Oxygen and Medical Cannabis GRT and GGRT Deduction	State General Fund Expenditure (thousands)	\$10,700	\$9,400	\$9,100
	Local Government Expenditure (thousands)	\$6,900	\$6,300	\$6,100

Medical and Health Care Services Deduction

- Certain receipts of health practitioners or associations of health practitioners for provision of healthcare services by a healthcare practitioner, hospices, or nursing home are deductible (Section 7-9-77.1 NMSA)
 - Receipts under Title 18 of the Social Security Act – Medicare
 - Payments from a third-party administrator under the TRICARE program
 - Receipts from the Indian Health Service
 - Receipts of clinical laboratories
 - Receipts of home health agencies from Medicare

Healthcare Practitioner Deduction – Estimated Foregone Revenue

Fiscal Year		2023	2024	2025
Taxpayers		1,328	1,491	1,337
Medical and Health Care Services GRT Deduction	State General Fund Expenditure (thousands)			
	Medicare	\$23,290	\$38,012	\$42,813
	Tricare	\$1,589	\$4,319	\$2,786
	Indian Clinical	\$628	\$976	\$958
	Home	\$1,181	\$770	\$748
	Dialysis	\$2,052	\$3,095	\$2,705
	Hospice	\$3,932	\$5,273	\$3,664
	Total	\$780	\$3,107	\$3,232
Local Government Expenditure (thousands)				
Medicare	\$14,890	\$25,341	\$28,542	
Tricare	\$1,016	\$2,880	\$1,857	
Indian Clinical	\$402	\$650	\$639	
Home	\$755	\$513	\$498	
Dialysis	\$1,312	\$2,063	\$1,803	
Hospice	\$2,514	\$3,515	\$2,442	
Total	\$499	\$2,071	\$2,154	
Total	\$21,388	\$37,034	\$37,937	

Health Practitioner Deduction

- Receipts of a healthcare practitioner or association of healthcare practitioners from commercial contract services or Medicare Part C services paid by a managed healthcare provider or insurer are deductible (Section 7-9-93 NMSA)
- Deduction was expanded in 2023 to include patient copays and deductibles through FY2028
- Deduction may only be taken after all applicable deductions are taken. Generally, deductions under Section 7-9-48 (sale of services for resale) and Section 7-9-77.1 must be taken before this deduction applies.
 - Receipts from fee-for-service payments made by an insurer are not deductible

Health Practitioner Deduction: Local Hold Harmless Distributions

- Hold harmless distributions partially compensate counties and municipalities for revenue forgone as a result of the health care practitioner services deduction (Sections 7-1-6.46 and 7-1-6.47 NMSA)
 - Hold harmless distributions are a percentage of the deductions claimed under Section 7-9-93
 - Deductions under Section 7-9-93 can only be taken after all other applicable deductions are taken to limit hold harmless distributions (such as Sections 7-9-48 and 7-9-77.1 NMSA)
 - Hold harmless distributions are being phased out, with final payments to be made in July 2029, with the exception of certain smaller local governments

Health Practitioner Deduction – Estimated Foregone Revenue

	Fiscal Year	2022	2023	2024
Health Care Practitioner Services GRT Deduction and Hold Harmless Distribution	State General Fund Expenditure from Local Hold Harmless Distributions (thousands)	\$15,819	\$15,282	\$16,565
	State General Fund Expenditure from Deduction (thousands)	\$36,527	\$37,203	\$44,239
	Local Government Expenditure from Deduction (thousands)	\$24,351	\$24,103	\$28,993

Sale of Vision and Hearing Aids Deduction

- Receipts from the sale of vision aids or hearing aids or related services are deductible (Section 7-9-111 NMSA)
 - Only available if receipts are not deductible pursuant to another provision of the GRT Act
 - Additional limitations exist, based on patient medical condition

	Fiscal Year	2023	2024	2025*
Hearing and Vision Aids GRT Deduction	State General Fund Expenditure (thousands)	\$912	\$880	\$180
	Local Government Expenditure (thousands)	\$583	\$587	\$120

*Note: A recent NAICS code revision by the federal Office of Management & Budget is reflected in FY25 estimates

General GRT Deductions May Also Apply to Healthcare

- Deduction for sale of tangible personal property to manufacturers (Section 7-9-46 NMSA)
- Deduction for sale of administrative and accounting services (Section 7-9-69 NMSA): Services must be performed by an affiliate on a nonprofit or cost basis
- Deduction for uncollectible debts (Section 7-9-67 NMSA): Taxpayer must use accrual method of accounting
- Sale-for-resale deductions (Sections 7-9-47 and 7-9-48 NMSA)
- Deduction for sale of tangible personal property to a governmental unit, or instrumentality thereof (Section 7-9-54 NMSA)
- Deduction for sale of tangible personal property to 501(c)(3) organizations (Section 7-9-60 NMSA)

Income Taxation on Healthcare Income

Rural Health Care Practitioner Personal Income Tax Credit

- Up to \$5,000 or \$3,000 credit against PIT for practitioners in rural areas, depending on type of health care practitioner
- Practitioner must have provided at least 1,584 hours of services in a rural health care underserved area in the taxable year for full credit; at least 792 hours for half-credit
- See Section 7-2-18.22 NMSA for details

Credit, Rural Healthcare Practitioner	Tax Year (Calendar)	2021	2022	2023
	Claims	2,049	2,000	1,640
	Expenditure (thousands)	\$7,149	\$6,953	\$5,675
	Fiscal Year	2022	2023	2024
	Claims	2,029	2,092	2,044
	Expenditure (thousands)	\$7,042	\$7,246	\$7,172

What Remains in the Tax Base from Healthcare?

What healthcare is still taxed in New Mexico? GRT

- 40% of receipts of hospitals are still subject to GRT/GGRT
- Health care practitioner services (7-9-93 NMSA)
 - Direct-payments from patients to health practitioners
 - Estimated \$160 million per year State and local GRT
 - Fee-for-service payments by private insurers to health practitioners
 - Payments from Medicaid (state share and federal match subject to GRT)
 - Sales of medical equipment, supplies and drugs to health practitioners
 - Estimated \$3 million per year State and local GRT
 - Home health services and nursing home care unless under a managed care contract
 - Payments for dental services
 - Medicare coinsurance payments made by Medicaid
 - Medicare Part A & B service payments and coinsurance (Medicare Part C is deductible)
 - Note: Patient copays, co-insurance and deductibles are only deductible from GRT through FY2028

Health Care Quality Surcharge

- Enacted in 2019 and made permanent through 2022 legislation
- Surcharge on skilled nursing facilities and intermediate care facilities based on non-Medicare bed days
- Appropriated to the New Mexico Healthcare Authority and fund the Medicaid program
- About \$30 million per year distributed to the Health Care Facility Fund and the Disability Health Care Facility Fund
- State funding is used in the Medicaid program, where it results in about \$96 million per year federal match
- New federal H.R. 1 will phase out federal "state directed payments" to Medicaid, will reduce this federal match gradually over time

Health Care Delivery and Access Assessment

- Enacted in 2024 (SB17)
- Assessment on hospitals based on non-Medicare hospital utilization
- Appropriated in the New Mexico Healthcare Authority and fund the Medicaid program
- About \$330 million per year is distributed to the Health Care Delivery and Access Fund
- State funding is used in the Medicaid program, where it results in about \$1.2 billion per year federal match
- New federal H.R. 1 will phase out federal "state directed payments" to Medicaid, will reduce this federal match gradually over time

Thank you!

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