

**Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department**

January 21, 2026

Bill:
SB-12

Sponsor:
Senators Katy M. Duhigg, Cindy Nava, Heather Berghmans, and Martin Hickey

Short Title:
Physician Tax Credit

Description:
This bill creates the physician tax credit in the Income Tax Act. If a taxpayer is a medical physician or an osteopathic physician licensed in New Mexico who provides health care in New Mexico for at least 1,584 hours during a taxable year, they may claim a credit equal to \$4,000. The physician must apply for certification from the Department of Health (DOH). An individual qualifying for this credit may also claim the rural health care practitioner tax credit. The credit is applied to the physician's tax liability, and any excess credit can be carried forward for up to three consecutive taxable years.

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026). Applicability – taxable years beginning on or after January 1, 2026.

Taxation and Revenue Department Analyst:
Sara Grubbs

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$13,500)	(\$13,700)	(\$13,900)	(\$14,100)	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 U.S. Bureau of Labor Statistics' (BLS) Occupational Employment and Wage Statistics (OEWS) to estimate the number of physicians working in New Mexico and the average income associated with eligible physician specialties. Tax & Rev assumes the following occupations are eligible: anesthesiologists, cardiologists, emergency medicine physicians, family medicine physicians, general internal medicine physicians, neurologists, obstetricians and gynecologists, pediatricians, psychiatrists, physicians (all other), and surgeons (all other). OEWS does not differentiate between physicians who work full or part time.

As the nation is experiencing a decline in private practice physicians¹, Tax & Rev assumes the effect on the fiscal impact is negligible.

From the most recent release of the OEWS (May 2024), Tax & Rev calculated that there are potentially 3,860 eligible physicians. Tax & Rev then estimated the number of each physician occupation by location, rural or non-rural as this bill allows an eligible taxpayer to claim the rural health care practitioner credit against personal income tax (PIT), Section 7-2-18.22 NMSA 1978. Tax & Rev then used the information provided by the 2025 New Mexico Health Care Workforce Committee (HCWC) annual report to estimate the percentage of these providers practicing in rural areas, at 23%.

¹ <https://www.ama-assn.org/practice-management/private-practices/private-practice-collapsing-congress-can-help-stem-tide>

This bill requires the physician to provide care at least 1,584 hours annually, or approximately 30 hours per week or 198 8-hour days annually. According to the most recent Survey of America's Physicians, 9.9% of doctors work less than 30 hours per week². Tax & Rev applied this percentage to non-rural physicians.

To estimate the number of full-time rural physicians, Tax & Rev used a sample of taxpayers that have claimed the rural health care practitioner credit against PIT (Section 7-2-18.22 NMSA 1978) between 2016 and 2020. Tax & Rev calculated that the ratio of practitioners claiming this credit between full-time and part-time credits to be 60:40. Tax & Rev applied this percentage to the estimate of rural physicians. This results in approximately 3,200 eligible physicians across the entire state (non-rural and rural). Using the 2025 HCWC annual report for physicians, Tax & Rev applied a growth rate of 1.6% to each occupation³.

The average income of these physician occupations ranges from \$248,350 to \$400,000 annually. At the lowest income, the tax liability, regardless of filing status, is over the \$4,000 non-refundable credit. Thus, all eligible physicians would have sufficient liability in one tax year to claim the entire credit and not have any carried forward, absent other credits claimed. When factoring in the rural health care practitioner credit for rural physicians, at BLS's reported average income, these physicians can claim both this proposed credit and the rural health care practitioner credit in full.

Tax & Rev cannot determine how many taxpayers this tax credit may incentivize to claim this credit but recognizes that a \$4,000 refundable tax credit may not be sufficient to result in an increase in the number of physicians in New Mexico.

Policy Issues:

PIT represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16% 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 "adjusted gross 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.

While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicates 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.

The proposed bill erodes horizontal equity in state income taxes. By basing the credit on a profession, taxpayers in similar economic circumstances are no longer treated equally. Thus, a health care worker in a similar position, such as a physician assistant or dentist, is not eligible. There is a broader public good of subsidizing medical professionals to stay or come to New Mexico for providing reliable healthcare to New Mexicans.

² The Physicians Foundation, 2018 Survey of America's Physicians: Practice Patterns & Perspectives, www.physiciansfoundation.org

³ The New Mexico Regulation and Licensing Department (RLD) experienced a data breach in October 2022. As a result, the most recent data available for physicians in this report is 2021. The next release is expected to be in 2027.

Like the nation, New Mexico is experiencing a shortage of medical professionals. The 2025 New Mexico Health Care Workforce Committee Report details the number of providers in select occupations 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, and 10 general surgeons. In light of the nationwide shortage, physicians may consider tax benefits and other factors offered by competing states when making practice location decisions.

This tax credit does not include a sunset date. Tax & Rev supports sunset dates for policymakers to review the impact of tax expenditures to evaluate the credit.

Technical Issues:

None.

Other Issues:

Some rural physicians may have incomes that do not allow for full uptake of both this credit and the rural health care practitioner credit. This may result in a carry forward of the credit. The sponsors may want to consider making this credit refundable, as certain physicians earning more would benefit from the credit where physicians that earn less will not be receiving as much benefit. In addition, approximately 71% of physicians graduated from medical school with education debt in 2024 according to the Association of American medical colleges⁴. In 2024, the average debt was over \$210,000. This tax credit, if refundable, could help alleviate the debt burden of physicians.

This issue already exists under the rural health care practitioner tax credit, where many eligible practitioners do not have sufficient tax liability to claim the full credit amount, however the rural health care practitioner tax credit includes non-physician occupations that are associated with a lower income and that credit applies to part time work.

Administrative & Compliance Impact:

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

This bill will have a low impact on Tax & Rev's Administrative Services Division (ASD). The estimated time is expected to be 40 hours split between 2.0 existing FTEs pay-band level eight and 10. Pay-band level eight hours are estimated at time and ½ due to extra hours worked.

Implementing this bill will have a moderate impact on Tax & Rev's Information Technology Division (ITD). It is anticipated that approximately 480 hours or about 3 months for an estimated staff workload cost of \$33,221 is required. The estimate assumes an electronic data exchange between Tax & Rev and the Department of Health (DOH).

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$2.7	--	\$2.7	NR	ASD – Staff Workload
--	\$33.2	--	\$33.2	NR	ITD – Staff workload

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

⁴ <https://students-residents.aamc.org/media/12846/download>