

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

February 2, 2026

Bill:
SB-133

Sponsor:
Senators Jeff Steinborn, Martin Hickey, Rex Wilson, and Carrie Hamblen

Short Title:
Health Equipment GRT Deduction

Description:
This bill creates a new gross receipts tax (GRT) deduction for the sale of certain in-office equipment and medications to health care practitioners. This bill also creates a new hold-harmless distribution for municipalities and counties ” equal to 100% of the gross receipts tax deducted for the sale of certain in-office equipment and medications to health care practitioners. In-office equipment, not including desks, chairs or computers, must be used to provide medical treatment in the health practitioner’s office setting. In-office medication means saline or other non-prescription substances provided to a patient in the health care practitioner’s office setting. Deductions associated with Sections 7-9-73.2 and 7-9-73.3 NMSA 1978 are to be taken first. This deduction is required to be separately reported.

Effective Date, Applicability, and Contingency Language:
July 1, 2026

Taxation and Revenue Department Analyst:
Pedro Clavijo

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$1,200)	(\$1,200)	(\$1,200)	(\$1,300)	R	Section 2 - General Fund
--	(\$1,300)	(\$1,300)	(\$1,400)	(\$1,400)	R	Section 2 - Local Governments
--	(\$1,300)	(\$1,300)	(\$1,400)	(\$1,400)	R	Section 1 - General Fund – Hold Harmless distributions
--	\$1,300	\$1,300	\$1,400	\$1,400	R	Section 1 - Local Governments – Hold Harmless distributions

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

Methodology for Estimated Revenue Impact:

The bill provides a GRT deduction for receipts for sales to healthcare practitioners’ for medical equipment, and non-prescription drug purchases that must be used during the course of treatment by the medical professional at the medical professional’s clinical setting. Tax & Rev 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 health care practitioners. Tax & Rev interprets that this deduction does not apply to the sale of medical equipment and non-prescription 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% 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, as the majority of the taxable base will be in municipalities.

Section 1 of the bill creates new hold-harmless distributions to municipalities and counties for the GRT deduction taken for sales of medical equipment and in-office medication. Currently, municipalities and counties receive partial hold-harmless distributions for the GRT deductions for food and health care practitioner services. Hold harmless provisions, such as these, compensate municipalities and counties for revenue losses from this deduction.

Policy Issues:

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 health care service for New Mexicans more affordable.

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 Tax & Rev. 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 (\$1.3 million per year), 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 Tax & Rev to maintain the GenTax system, and the greater the risk of programming changes.

Technical Issues:

None.

Other Issues:

[Section 2] Page 6, Lines 13 and 16. The use of the word "primarily" is subject to interpretation and Tx & Rev suggests "primarily" be deleted. Based on the broad scope of the deduction and the variety of items that would fall under the definitions, Tax & Rev suggests requiring a non-taxable 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. Tax and Rev suggests specifically identifying the non-prescription substances included for the deduction.

Administrative & Compliance Impact:

Tax and Rev will update forms, reports, instructions, and publications, and make information system changes.

This bill will have a low impact on Tax & Rev’s Administrative Services Division (ASD). The bill will require business user testing, consisting of 240 hours dedicated to one existing FTE at pay band level 10.

Implementing this bill will have a high impact on Tax & Rev’s Information Technology Division (ITD), approximately 1,000 hours or just over 6 months, and \$230,000 in contractual costs. This high impact primarily reflects the programming necessary to implement monthly hold-harmless distributions to every county and municipality.

Tax & Rev’s Revenue Processing Division anticipates that this bill could be handled with the current staff.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$14.6	--	\$14.6	NR	ASD - Operating
\$230	--	--	\$230	NR	ITD - Contractual costs

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