FISCAL IMPACT REPORT

SPONSOR Gonzales/Thomson/Anaya/Lundstrom **LAST UPDATED** 03/04/25
ORIGINAL DATE 02/19/25
BILL NUMBER House Bill 395/a HEC
SHORT TITLE Health Care Preceptor Tax Credit
ANALYST Graeser

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0	Up to ($2,690.0)	Up to ($2,690.0)	Up to ($2,690.0)	Up to ($2,6900.0)	Recurring	General Fund

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

Sources of Information

LFC Files
FIRs for Senate Bill 138 (2020), Senate Bill 62 (2021) and Senate Bill 173 (2022).

Agency Analysis Received From
Health Care Authority (HCA)
Department of Health (DOH)
Higher Education Department (HED)
University of New Mexico/ Health Sciences Center (UNM-HSC)
Taxation and Revenue Department (TRD)

Agency Analysis was Solicited but Not Received From
Burrell College of Osteopathic Medicine (BCOM)

SUMMARY

Synopsis of HEC Amendment to House Bill 395

The House Education Committee amendment to House Bill 395 (HB395) significantly broadens coverage of the preceptor tax credit. A health professional may be a volunteer for a certified higher educational institution in New Mexico. The list of eligible preceptors now includes nurse-midwives.

Synopsis of House Bill 395

House Bill 395 provides a $1,000 personal income tax credit for licensed healthcare professionals on staff at a New Mexico college or university who mentor or function as preceptor to graduate students studying to become healthcare professionals. These mentorships must exceed four weeks in duration and must be unpaid.

Unlike previous versions of this proposal, which were limited to five preceptor tax credits in a tax year, this version is not limited. However, this version requires the preceptor to be unpaid for their mentorship services.

This bill:

- Allows a preceptor employed by any accredited New Mexico institution of higher education, and who has performed a preceptorship of not less than four weeks in New Mexico, to apply for, and use a credit against the taxpayer's tax liability;
- Provides up to $1,000 credit for an unlimited number of preceptorships performed in the taxable year in which the credit is claimed;
- Requires the taxpayer apply to the department on forms and in the manner prescribed by the department. The application shall include a certification made by the institution for which the taxpayer is employed and for which the preceptorship was performed;
- Allows any unused portion of the tax credit to be carried forward until the credit is exhausted;
- Requires the Taxation and Revenue Department (TRD) to include the costs and coverage in the annual tax expenditure report required by 7-1-84 NMSA 1978;
- Defines "eligible professional degree" as a degree or certificate that fulfills a requirement to practice as a medical doctor, osteopathic physician, advanced practice nurse, *nurse-midwife,* [per HEC amendment] physician assistant, dentist, pharmacist, psychologist or social worker;
- Defines "preceptor" to mean an individual licensed as a medical doctor, osteopathic physician, advanced practice nurse, *nurse-midwife,* [per HEC amendment], physician assistant, dentist, pharmacist, psychologist or social worker; and
- Defines "preceptorship" to mean an uncompensated period of supervised clinical training during which a preceptor provides a program of personalized instruction, training, and supervision to an eligible graduate student to enable the student to obtain an eligible professional degree.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The provisions are applicable to taxable years beginning on or after January 1, 2025

FISCAL IMPLICATIONS

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.

TRD has analyzed the potential impact of this bill:

The Taxation and Revenue Department (TRD) gathered graduate enrollment counts from the University of New Mexico (UNM) Health Sciences Center. In the Fall 2024 enrollment reports, there were approximately 1,160 graduate students who met the eligibility requirements for the preceptorship program. From a New Mexico State enrollment report, there were 143 graduate level nurses enrolled in the Fall 2023, the most recent year available. TRD estimates another 42 graduate level students would be participating in preceptorships programs through other accredited New Mexico institutions.

Burrell College of Osteopathic Medicine pays their preceptors, and these preceptors would not be eligible for the tax credit.

TRD assumes there is one preceptor per graduate student and two preceptorship rotations of at least four weeks each year of enrollment, keeping the enrollment count flat. TRD also assumes all preceptors would be eligible per Section 1(A). At UNM, summer clinical rotations were a minimum of six weeks. The medical professionals participating in preceptorships are assumed to have personal income tax (PIT) liability amounts that can absorb their associated credit amounts ($1,000 per preceptorship) leaving a minimal amount to be carried over.

SIGNIFICANT ISSUES

Currently, faculty at University of New Mexico, Health Sciences Center (UNM-HSC) and New Mexico State University's College of Nursing are expected to mentor graduate students and are compensated for this preceptorship as part of their regular salary. The preceptorship tax credit would be a modest bonus. Preceptors without a direct appointment are not compensated at all. As noted above, preceptors serving students at Burrell College of Osteopathic Medicine are compensated and would not be eligible for the tax credit. If preceptor were compensated at $1,000 per student mentored through the proposed tax credit, this would, in effect, allow the state to pick up a small part of the costs of a medical education. It should be noted, however, that the very modest compensation is not likely to induce more preceptors to volunteer.

This preceptorship proposal was introduced in 2020, 2021, and 2022.

UNM-HSC points out that the proposed preceptorship tax credit may be limiting:

The University of New Mexico School of Medicine, and Colleges of Nursing and Pharmacy have long used community providers as preceptors to provide clinical learning experiences to students. Preceptors are at the core of the clinical education of physicians, pharmacists, physician assistants, and advanced practice registered nurses.

Faculty at the UNM Health Sciences Center and staff at the Hospital routinely provide instruction, supervision and mentorship to learners as part of their jobs. UNM also utilizes community-based preceptors who are considered volunteer faculty. Volunteer preceptors are not compensated for the time they spend working with learners, which diminishes the time they can spend on other aspects of their jobs.

To be effective, a preceptor tax credit should target community-based clinicians who serve as preceptors. Such a credit could encourage more clinicians to become preceptors by offsetting some of their costs [The HEC amendment to HB395 addresses this issue].

In recent years, some private institutions have instituted the practice of paying for preceptors. UNM and other public institutions do not have the ability to pay for community preceptors and may thus encounter difficulties in securing clinical training sites and preceptors, particularly in rural parts of the state. Rural rotations are critical because they expose students to parts of New Mexico that sorely need health care providers.

A preceptorship education is a time-limited, focused experience in which a practicing clinician volunteers to give personal instruction, training, and supervision to a student in a clinical setting. Preceptorship is a critical component of clinical education. New Mexico has a limited supply of preceptors. A tax incentive may encourage more clinicians to become preceptors.

The Health Care Authority (HCA) also suggests broadening the coverage:

> The current bill language limits eligibility for the preceptor tax credit to individuals employed by a New Mexico institution of higher education. However, the majority of health care preceptors do not work in higher education institutions but instead serve in clinical settings such as hospitals, private practices, community health centers, and other health care facilities. As currently structured, the bill excludes the majority of preceptors who provide hands-on training to students and residents in real-world clinical environments. Expanding eligibility beyond higher education employees would more accurately reflect the composition of the preceptor workforce and increase the impact of this tax credit in strengthening New Mexico's health care workforce [the HEC amendment largely addresses this recommendation and conclusion].

The Department of Health (DOH) provides some background information:

> New Mexico continues to experience a shortage of medical providers, particularly in rural areas. According to the most recent data from 2021, published in a 2024 study by the University of New Mexico, the state needs an additional 334 primary care providers, 59 OB-GYNs, 10 general surgeons, 119 psychiatrists, and 88 dentists to meet national benchmarks for provider-to-population ratios. Additionally, New Mexico faces a nursing shortage. Based on 2023 data, the state requires 5,822 more nurses and clinical nurse specialists to reach national benchmarks.[1]
>
> As with any effort to increase the number of any type of provider, tax incentives are one potential strategy that can be used with an array of options to increase the number of individuals providing clinical services. Increasing incentives for preceptorships can encourage more medical professionals to train students, thereby expanding the pool of available clinicians. A study on nurse practitioners demonstrated the success of incentivization in growing the number of preceptors.[2]
>
> Georgia was the first state to establish a Preceptor Tax Incentive Program (PTIP) in 2014. Georgia providers are given tax credits **per rotation** of precepting. Providers earn $500 per rotation for the first 1-3 rotations, and $1,000 per rotation for 4-10 rotations. The maximum credit a provider can receive is $8,500. To qualify for the tax credit, providers must complete rotations at a list of approved institutions, all of which are non-profit organizations. As a result of this initiative, Georgia has become the leading model for Preceptor Tax Credit programs nationwide.[3]
>
> Colorado offers the Rural and Frontier Health Care Preceptor Tax Credit, a program similar to HB395. However, this program operates on a **first-come, first-served basis** and is **limited** to 300 primary healthcare preceptors. Each qualifying preceptor can receive a $1,000 tax credit.[4]

---

[1] New Mexico Health Care Workforce Committee 2024 Annual Report: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=1012&context=nmhc_workforce

[2] https://pmc.ncbi.nlm.nih.gov/articles/PMC9022679/

[3] Preceptor Tax Incentive Program (PTIP

[4] https://tax.colorado.gov/rural-and-frontier-health-care-preceptor-tax-credit

Arizona's program is similar to HB395 but operates **through a grant system**. Preceptors receive a $1,000 grant per academic fiscal year, regardless of the number of preceptorships they provide during that period.[5]

There are at least eight states that [have] enacted legislation addressing preceptor tax incentives.[6]

Without these types of incentives, providers are often recruited away from non-profits to for-profit organizations because they pay more for the services. Additionally, with the current reimbursement models for health care, some providers are limiting the number of students they can precept. The time and loss of revenue could be offset by higher incentives.[7]
Lastly, under the Rural Practitioner Tax Credit, these same providers could qualify for an additional tax credit. There is no language that prevents a provider from receiving both tax credits.

TRD contributes an analysis of the effectiveness and utility of income tax credits:

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 statues in the federal tax code. This is referred to as "conformity" to the federal tax code. 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 this 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 TRD. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

Preceptors are medical doctors, nurses, dentists, physician assistants, pharmacists, psychologists, or social workers. These professions are in high demand and often work well over the average 40-hour week.[8] Becoming a preceptor requires significant personal expense. Preceptorships are primarily unpaid and necessitate hundreds of hours of volunteer work, often incurring financial costs. This tax credit would help defray this cost.

---

[5] Preceptor Grant | Arizona Medical Association
[6] https://www.healthworkforceta.org/wp-content/uploads/2023/12/Preceptor-Tax-Credits.pdf
[7] https://mrinetwork.com/hiring-talent-strategy/why-medical-providers-are-leaving-major-hospital-chains-impacts-on-hiring-in-healthcare
[8] https://www.statista.com/statistics/1534917/us-physician-working-hours-by-specialty/

The bill currently offers a $1,000 tax credit for preceptorships of not less than four weeks. This sets a baseline but does not account for longer periods of service. A preceptor working four weeks receives the same credit as someone working 30 weeks.

The tax deduction does not include a sunset date. TRD supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient time frame is allotted for tax incentives to be measured.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to include the costs and coverage in the annual Tax Expenditure Report required by 7-1-84 NMSA 1978.

HCA notes that:

> Creating the health care preceptor tax credit may encourage workforce development and improve access to health care for Medicaid-enrolled members and all New Mexicans. Improving access to health care is a key priority for HCA. HB395 aligns with HCA's efforts to support, increase, and expand the health care provider workforce.

ADMINISTRATIVE IMPLICATIONS

HCA notes:

> [HCA] currently oversees residency expansion through the "Graduate Medical and Expansion Grant Program Act" established in HB480 (2019). HCA receives $1 million in general funds annually for this grant. There are currently four physician and one psychiatry rural residency programs in development who are receiving this funding. The preceptor tax credit may help recruit and retain staff contributing to more sustainability of the programs.

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

TECHNICAL ISSUES

TRD suggests two changes:

> In Section 1(B) on page 2, the credit shall not exceed $1,000. However, the amount is not based on a percentage or a match criterion. If the intent of this bill is to provide a $1,000 tax credit, TRD suggests replacing "shall not exceed" with "shall be" on page 2, line 2.
>
> In Section 1(C), page 2, lines 9-12, a New Mexico institution of higher education must provide documentation to certify the taxpayer, but there is no prescribed method or consistency in the certification process. This lack of standardized criteria could lead to inconsistencies and potential discrepancies in the application of tax credit. TRD recommends inserting a sentence after the ending sentence of Subsection C, line 12: "The certification must be done in a manner prescribed by the department." Adding this will allow TRD to prescribe the certification format for the institution and taxpayer.

DOH suggests several technical changes and one alternative:

There needs to be further clarification on what would classify as a "eligible graduate student" (page 2 line 25). Is it a newly licensed provider within a year (or other time frame) of obtaining license or only within the first month of receiving license?

There is no proportional tax credit award to recognize time spent as a preceptor. The credit is the same for a clinician who acts as a preceptor for one month as for another who acts as a preceptor for 12 months. A sliding credit schedule based upon months' precepting could be more equitable.

This bill defines preceptorship as "an uncompensated period of supervised clinical training during which a preceptor provides a program of personalized instruction, training and supervision to an eligible graduate student to enable the student to obtain an eligible professional degree" (page 3, lines 16-20). This would appear to exclude preceptors working with post-graduate residency programs, such as medical residency programs, including rural residencies. It would also exclude preceptors who receive any monetary incentive for acting as preceptors. Expanding the eligibility to cover residency preceptoring, including compensated preceptoring, could expand the incentive to these efforts.

OTHER SUBSTANTIVE ISSUES

DOH also comments on healthcare disparities that this preceptorship tax credit is intended to ameliorate:

Rural areas struggle with a shortage of healthcare professionals, including administrative staff. Attracting and retaining healthcare providers in rural communities can be challenging due to factors such as limited career opportunities, lower reimbursement rates, and a lack of infrastructure. Consequently, programs to deal broadly with issues must first assess the abilities at each level – state, county and local – to overcome them.[9]

Providing health care and public health services in rural areas poses challenges such as the ability to hire and maintain health care providers. Rural communities throughout the country, but especially in the West, face challenges in health care due to many factors including aging populations, closure and/or downsizing of hospitals,[10] aging out of local health providers,[11] and loss of younger people and changes in local economies away from extractive and agricultural economies. Rural and frontier communities face transportation and isolation. These and other issues create circumstances in which every community is unique in the strength of each of the factors and which ones affect unique health care issues especially health workforce shortages.

1. Health workforce shortages: Rural areas struggle with a shortage of healthcare professionals, including doctors, nurses, and specialists. Attracting and retaining healthcare providers in rural communities can be challenging due to factors such as limited career opportunities, lower reimbursement rates, and a lack of infrastructure.[12] The labor force participation rate shows a more robust effect on healthcare spending,

[9] https://pubmed.ncbi.nlm.nih.gov/37214231
[10] https://pubmed.ncbi.nlm.nih.gov/33011448
[11] https://pubmed.ncbi.nlm.nih.gov/36205415/
[12] https://pubmed.ncbi.nlm.nih.gov/35760437/

morbidity, and mortality than the unemployment rate.[13]

2. Financial constraints: Rural communities have limited financial resources, making it challenging to invest in healthcare infrastructure, recruit healthcare professionals, and offer affordable healthcare services to residents.

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.	?	**Previously introduced in 2020, 2021 and 2022.**
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	 X X X	It is not clear what the purpose of this preceptorship is. It is likely to function as a "pat-on-the-back" rather than a recruitment tool.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.	✓	
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	 X X	
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	 X X	No purpose stated nor can one be inferred.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

LG/rl/SD/hg/SL2

[13] https://pubmed.ncbi.nlm.nih.gov/24652416/