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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 12

SHORT TITLE: Physician Tax Credit

SPONSOR: Duhigg/Nava/Berghmans/Hickey

LAST UPDATE: 1/22/2026 **ORIGINAL DATE:** 01/21/2026 **ANALYST:** Francis

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Personal income tax		(\$13,500)	(\$13,700)	(\$13,900)	(\$14,100)	Recurring	General Fund

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		35.9			Nonrecurring	General Fund
DOH		Indeterminate but minimal			Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 90 and Senate Bill 13

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

Taxation and Revenue Department

SUMMARY

Senate Bill 12 (SB12) creates a \$4,000 income tax credit for qualified physicians. The credit is not refundable (i.e., it cannot be in excess of tax liability), but it can be carried forward for up to three years if it exceeds tax liability. The Department of Health will determine eligibility and issue a certificate to the taxpayer. The credit can be used with the rural health care practitioner tax credit (RHPTC). Qualified physicians are licensed in New Mexico and provided at least 1,584 hours of healthcare services in New Mexico in the taxable year. Inclusion in the tax expenditure budget is required.

The effective date of this bill is January 1, 2026.

FISCAL IMPLICATIONS

According to Taxation and Revenue Department (TRD), using data from the U.S. Bureau of Labor Statistics Occupation Employment and Wage Statistics (OEWS), there were approximately 3,860 eligible physicians in 2024. Adjusting for those that are part-time reduces the number of eligible taxpayers to 3,200. As physicians typically earn in excess of \$250,000, it is assumed all would qualify for the full \$4,000 credit without any remaining to carry forward. The number of future physicians can be estimated using a 1.6% growth rate to bring the population to 2026. The fiscal impact is estimated to be a \$13.5 million reduction in personal income tax revenue, growing each year by TRD's estimate of physician population.

This bill creates or expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

New Mexico faces a shortage of medical professionals. The 2025 workforce report¹ estimates the state needs an additional 334 primary care physicians, 59 obstetricians/gynecologists, and 10 general surgeons to bring all New Mexico counties to the benchmark provider-to-population ratio. The shortage of medical professionals is not unique to New Mexico and not limited to physicians.

The bill provides a significant benefit to eligible taxpayers, potentially incentivizing physicians to move their practices to New Mexico. A recent survey² of physicians by LFC identified compensation as one of the reasons physicians left the state, along with malpractice punitive damage risk and quality of life.

The bill complements the rural healthcare practitioner tax credit (RHPTC), which provides an income tax credit of \$3,000 to physicians who operate in rural areas.³ Combined, physicians in rural areas would be eligible for \$7,000. According to the 2025 tax expenditure report, the RHPTC provided \$14 million in benefits to 4,592 healthcare practitioners but physicians were not separately broken out.⁴

TRD notes that those claiming the RHPTC do not always have incomes sufficient to claim the whole credit (\$3,000 for physicians) because of lower salaries in rural areas. For these taxpayers, the additional credit is not as much of a benefit, and they will carry more forward to future years.

Some physicians may have already planned to practice in the state or were attracted by the

¹ [New Mexico Health Care Workforce Committee Report 2025](#)

² [ALFC 011926 Item 2 Policy Brief Physician Survey.pdf](#)

³ Section [7-2-18.22](#) NMSA 1978 (being [Laws 2007, Chapter 361, Section 2](#))

⁴ [RSTP 121525 Item 2 B Tax Expenditure Report.pdf](#)

RHPTC, meaning this credit may not significantly change behavior. An effective tax incentive passes the so-called “but for” test, where a desired activity would not have occurred but for the incentive. Additional research of the credit contemplated by SB12 is needed to conclude whether SB12 passes the but-for test.

The healthcare workforce shortage includes dentists and other health care professionals that are not eligible for this credit. Targeting narrow sections of the healthcare workforce leads to inequity. As TRD notes:

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.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met because the Taxation and Revenue Department (TRD) is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers, taking the credit and other information to determine whether the credit is meeting its purpose. It will be included in the annual report on tax expenditures.

It will be helpful for comprehensive analysis if TRD would report taxpayers claiming both the proposed credit and the RHPTC.

ADMINISTRATIVE IMPLICATIONS

The bill will increase the administrative burden on TRD for programming the credit into the personal income tax filing process and DOH to certify eligible taxpayers.

Per TRD:

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 $\frac{1}{2}$ 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).

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 90 is an income tax credit for preceptor physicians.

Senate Bill 13 provides a gross receipts tax deduction for coinsurance receipts.

TECHNICAL ISSUES

TRD instructions for personal income tax define physician as “a medical doctor, osteopathic physician, dentist, podiatrist, chiropractic physician or psychologist,” which is broader than the definition included in SB12 and may cause confusion⁵.

OTHER SUBSTANTIVE ISSUES

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.	✗	The bill has not been vetted by an interim tax committee.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.		The bill does not include a purpose, long term goals, or measurable targets.
Clearly stated purpose	✗	
Long-term goals	✗	
Measurable targets	✗	
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The bill does require annual reporting.
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.		The bill does not include a sunset provision.
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.		It is not certain the bill would pass the but-for test.
Fulfils stated purpose	?	
Passes “but for” test	?	
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	✗	It is not clear that this is the most cost

⁵ [2025 PIT Packet Final.pdf](#) page ADJ-6.

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		effective approach.
Key:	✓ Met ✗ Not Met ? Unclear	

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