FISCAL IMPACT REPORT

SPONSOR	Tobiassen/Hamblen/Woods/Block/ Figueroa	**LAST UPDATED**	
		ORIGINAL DATE	2/19/2025
SHORT TITLE	Physician Income Tax	**BILL NUMBER**	Senate Bill 296
		ANALYST	Gray

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	**$0**	**($78,300)**	**($78,300)**	**($78,300)**	**($78,300)**	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	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	**$0**	**$47.8**	**$0**	**$47.8**	Recurring	**General Fund**

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

Relates to Senate Bill 298

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Taxation and Revenue Department (TRD)
Higher Education Department (HED)
Department of Health (DOH)

SUMMARY

Synopsis of Senate Bill 296

Senate Bill 296 (SB296) creates a $50 thousand refundable tax credit for physicians with medical school or dental school debt. The taxpayer must practice medicine full-time in New Mexico and have an outstanding balance of a student loan taken to defray the expenses of a medical education. The higher education department is required to certify that a taxpayer meets the eligibility requirements of the bill. The taxpayer can receive the credit for five consecutive years in which the taxpayer meets the requirements of the bill.

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 of the bill apply to tax years beginning 2025.

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure that is estimated to reduce recurring general fund revenue by $78.3 million in FY26. 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 a tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

The revenue impact for this analysis was provided by the Taxation and Revenue Department (TRD). The agency estimated the number of physicians and dentists in New Mexico using the 2024 New Mexico Health Care Workforce Committee (HCWC) Annual Report. The agency made a series of assumptions to capture the costs of the proposal. The agency's summary of those assumptions are presented here:

> Nationally, approximately 20 percent of physicians have student loan debt. However, for physicians under 55 years of age, 47 percent have student loan debt. According to the Association of American Medical Colleges, 53 percent of physicians are under the age of 55. For dentists, approximately 83 percent of dental students graduate with student loan debt. Tax & Rev assumes these percentages apply to eligible physicians or dentists in New Mexico and then calculated the number of New Mexico physicians and dentists who have a student loan debt.
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> Finally, Tax & Rev estimated the percentage of physicians and dentists that work full-time under Section 1(G)(2) which states that to be eligible, a physician must work at least 1,584 hours annually. This translates into just over 30 hours a week. According to the most recent Survey of America's Physicians, 9.9 percent of doctors work less than 30 hours per week. Approximately 12 percent of dentists work part time. Tax & Rev applied these percentages to the total estimated number of physicians and dentists resulting in 1,565 eligible taxpayers. Tax & Rev assumes each qualifying physician or dentist can get a credit for $50,000 each taxable year for 5 years.

The agency notes that it cannot determine how many taxpayers this tax credit may incentivize to claim this credit and assumes no behavior change. Accordingly, this estimate may not capture the full potential cost, and it may pose additional risks to the general fund.

Operating Budget. TRD notes the bill will create a increased cost for the agency's administrative and IT functions equal to $47.8 thousand in FY26.

SIGNIFICANT ISSUES

New Mexico faces a shortage of medical professionals. The 2024 New Mexico HCWC Annual Report estimates that the state needs an additional 334 primary care physicians, 59 OB-GYNs, 10 general surgeons, and 88 dentists to bring all New Mexico counties to the benchmark provider-to-population ratio. The shortage of medical professionals is not unique to New Mexico. As TRD points out:

> The National Institute of Health's National Center for Biotechnology Information published a study that predicts that nationwide the demand for doctors will outpace the

> supply so that by 2030, 34 of 50 states will have physician shortages. This shortage is more prominent for states in the South and West regions of which Mississippi and New Mexico will have the severest shortage. Their study predicts a shortage of 2,118 physicians in New Mexico by 2030 due in part to a higher percentage of physicians over 60 years of age compared to other states. The study discusses solutions that reach nationwide including, increasing the number of medical school graduates, increasing equitable federal funding for graduate medical education, attracting foreign-trained doctors, increasing utilization of mid-level providers, and increasing uptake of emerging medical technology.

The agency further notes that, barring a nationwide solution, New Mexico will be competing with other states like California for a smaller pool of physicians.

TRD analysis provides several estimates of average medical school and dental school debt. In 2022, the average amount of medical school debt was $206 thousand and the average amount of medical school debt was $293 thousand. Physicians and dentists must have incomes that can reasonably pay off these debts during their career, and in general, the high demand for medical providers typically meets that supportable salary. However, in economically depressed regions or in sparsely populated areas, this can lead to a limited number of physicians.

The bill provides a significant benefit to eligible taxpayers, potentially incentivizing physicians and dentists to move their practices to New Mexico. This analysis notes several potential policy considerations.

First, the bill does not provide an additional incentive for physicians or dentists to practice in underserved areas of the state. The 2023 New Mexico HCWC Annual Report indicates that Bernalillo and Santa Fe counties were at or above the provider-to-population benchmark ratio while many other parts of the state—including many rural and frontier areas—were below that benchmark. SB296 could exacerbate existing regional disparities in access to physicians and dentists.

Second, some physicians and dentists may have already planned to practice in the state, meaning the 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 SB296 is needed to conclude whether SB296 passes the but for test.

Lastly, the bill introduces potential equity concerns. This bill would provide a significant financial incentive to physicians and dentists whose incomes are considerably more than most New Mexicans, including New Mexicans who have educational debt. The bill provides a financial benefit for high-income practitioners while lower-income workers do not receive support for educational debt. There is likely a tradeoff between tax policy that preferentially treats one group and tax policy designed to incentivize a certain behavior.

The 2023 New Mexico HCWC annual report estimates that there are over 57 thousand licensed health professionals with about 33 thousand of them practicing as of 2021. However, this is only a portion of the total health care workforce. According to the Bureau of Labor Statistics, there were about 90 thousand people employed in health-related industries in 2024. SB296 contemplates providing a significant financial benefit to a small portion of this workforce.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to Senate Bill 298, which provides a 10-year income tax exemption from income tax.

TECHNICAL ISSUES

TRD notes several technical issues with the bill.

> Sections 1(A) through 1(D) are potentially ambiguous, because it is not clear that the taxpayer has to reapply for the credit for each taxable year they can claim the credit. To remove any ambiguity, Tax & Rev suggests in subsection C, on page 2, line 11, change "years" to a single "year." Then on line 12, after "claimed.", add the following sentence, "The taxpayer shall apply for certification for each year of eligibility."
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> In Section 1 (E) on page 2, the taxpayer can claim the credit within 3 years from the end of the year that HED certifies the credit. Since the application to HED isn't required to be filed within a certain time, this could go past the Statute of Limitations set in 7-1-26 NMSA 1978 which requires a refund to be applied for within 3 years from the end of the year in which the return was originally due. Tax & Rev suggests on page 2, line 22, that "three" be changed to "one" and "years" to be changed to "year" and "of" be changed to "from", so that line 22 reads: "one taxable year from the end of the year in which the higher. . ." The change will also make the fiscal impact easier to predict.

TRD also notes that the Higher Education Department (HED) may not have direct access to information about physicians who attended a university in another state, and the agency suggests references to the Department of Health or the Regulation and Licensing Department to verify physician activity and licensure as they are likely to have more direct access to such information.

Analysis from the Department of Health (DOH) notes:

> SB296 references, "A taxpayer who is a physician and has completed a medical residency may claim a credit against the taxpayer's tax liability imposed pursuant to the Income Tax Act…". This provision would exclude dentists as dentists do not complete medical residencies. Similarly, SB296 defines eligible practice as "practices medicine full-time". This definition would not cover dental practice.

This analysis notes that while the definition provided in Section 1 Subsection G item 1 includes both physicians and dentists, other parts of the bill only refer to physicians. This may create uncertainty about how the agency should administer the program.

Analysis from HED notes:

> SB296 specifies that any portion of the tax credit that surpasses a taxpayer's income tax liability in the year the credit is claimed will be refunded to the taxpayer. However, this may potentially violate the Anti-Donation Clause outlined in Article 9, Section 14, as there is no defined tracking mechanism to guarantee that the refund is allocated specifically to eligible student debt.
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> SB296 includes an outstanding student loan balance for eligible tax credit. This requirement is not specified to eligible student loan debt.

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.	✗	This 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. Clearly stated purpose Long-term goals Measurable targets	 ✗ ✗ ✗	The bill does not include a purpose, long-term goals, or 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. Public analysis Expiration date	 ✗ ✗	The bill does not include a sunset provision.
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	 ? ?	It is unclear whether this bill passes the "but for" test.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	It is unclear whether this bill is the most cost-effective approach.
Key: ✓ Met ✗ Not Met ? Unclear		

BG/hj/SR