

Redrawing the Lines: Texas Reforms Noncompete Agreements for Healthcare Professionals

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On June 20, 2025, Governor Greg Abbott signed Texas Senate Bill 1318 (SB 1318)¹ which brings significant changes for noncompete agreements with healthcare providers beginning Sept. 1, 2025. These changes only apply to noncompete agreements that are entered into or renewed on or after Sept. 1, 2025.

Key Changes

- **Capped Buyout Amount**

The amount of the buyout of the noncompete covenant was revised so it can be no greater than the physician's total annual salary and wages at the time of termination of the contract or employment. This limit replaces the prior buyout amounts, which were to be set at a reasonable price or as determined by certain arbitration provisions.

- **Time and Geographic Area Limitations**

Noncompete covenants must expire no later than one year from the termination of a contract or a physician's employment and be limited to a five-mile radius from the location where the physician primarily practiced before termination.

- **Noncompete Terms Must Be Clear**

To be enforceable, noncompete terms and conditions must be "clearly and conspicuously stated in writing."

- **Noncompetes Are Void Against Physicians Terminated Without Good Cause**

Noncompete covenants are void and unenforceable against physicians who are involuntarily discharged from contract or employment without good cause. "Good cause" means a reasonable basis for discharge that is directly related to the physician's conduct, job performance, or contract or employment record.

- **Expansion of Certain Noncompete Limitations to Other "Healthcare Practitioners"**

The requirements for buyouts to be capped at the practitioner's total annual salary and wages at the time of termination, the one-year tail and five-mile radius limitation, as well as the requirement that the terms and conditions are clear and conspicuous now apply to dentists, physician assistants, and persons licensed under Chapter 301 of the Texas Occupations Code to engage in professional or vocational nursing (i.e., nurse practitioners, registered nurses, CRNAs etc.). Notably, there is no requirement for these other practitioners to receive access to a list of patients whom the practitioner had seen or treated within the last year or for the noncompete to be void and unenforceable if the practitioner is terminated without cause.

Applicability

The changes in law apply only to noncompete agreements with physicians, dentists, advanced practice providers and nurses entered into or renewed on or after Sept. 1, 2025. Legal counsel may need to be consulted to analyze whether “auto-renewals” or other circumstances constitute a continuation of the same agreement or a renewal for purposes of the statute. It remains unclear whether the new statutory restrictions on noncompete agreements extend to those executed in connection with the sale of a physician practice, as the law is silent on this point and appears primarily focused on employment-related arrangements. The noncompete provisions relating to the practice of medicine still do not apply to a physician’s business ownership interest in a licensed hospital or licensed ambulatory surgical center, and they do not apply to physicians managing or directing medical services in an administrative capacity (e.g., medical director agreements or certain consulting agreements).

Practical Guidance

While SB 1318 more clearly defines limitations on duration, geographical scope and buyout provisions of restrictive covenants with healthcare providers, there is significant ambiguity that remains; for example, how geographic scope limitations apply to practitioners who work out of multiple locations or who work remotely, and whether the new restrictions extend to noncompetes executed in connection with the sale of a physician practice, as the statute is silent on these points. Ultimately, SB 1318 will reduce employers’ ability to limit competition with departing physicians, dentists, nurses and other healthcare practitioners. Employers should review existing employment agreements that may renew on or after Sept. 1, 2025 to ensure any noncompete covenants comply with the new law, update contract templates, and consider any operational changes or strategies that may be beneficial given the noncompete limitations (e.g., increasing focus on retention bonuses or other financial incentives, non-solicitation provisions and confidentiality agreements, etc.).

¹ S.B. 1318, 89th Leg., Reg. Sess. (Tx. 2025) available at <https://capitol.texas.gov/tlodocs/89R/billtext/pdf/SB01318F.pdf#navpanes=0>.