

Texas SB 1318: Changes to Healthcare Non-Competes Effective September 1, 2025

Update

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Healthcare employers in Texas face new requirements for non-competition agreements following the passage of Senate Bill 1318. The Texas Legislature passed this legislation on May 28, 2025, and on June 20, 2025, Governor Abbott signed the bill into law.

The legislation modifies existing requirements for physician non-competes under Section 15.50 of the Texas Business & Commerce Code and creates a new Section 15.501, which extends certain non-compete restrictions to dentists, nurses, and physician assistants for the first time.

Key Takeaways

- **Effective Date:** September 1, 2025 – applies to non-competes entered into or renewed on or after September 1, 2025.
- **New Coverage:** Dentists, nurses, and physician assistants are now subject to certain non-compete restrictions.
- **Buyout Cap:** All non-compete buy-outs are capped at annual salary and wages.
- **Geographic Limit:** Maximum five-mile radius restriction.
- **Duration Limit:** Maximum one-year non-compete period.
- **“Good Cause” Voidance:** Physician non-competes are “void and unenforceable” if the physician is involuntarily discharged without good cause.

Related People

Brian G. Patterson

Partner

HOUSTON

+1.713.221.1209

brian.patterson@bracewell.com

Brett W. Rector

Partner

DALLAS

+1.214.758.1680

brett.rector@bracewell.com

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When Does SB 1318 Take Effect?

The law takes effect September 1, 2025, and applies only to non-compete agreements “entered into or renewed” on or after that date. Non-compete agreements entered into or renewed before September 1 are governed by the law in effect on the date the covenant was entered into or renewed. The statute does not define what constitutes a “renewal.”

What Does SB 1318 Change for Physicians?

SB 1318 makes several significant modifications to existing Texas law in Section 15.50 of the Texas Business & Commerce Code regarding physician non-compete agreements:

New Buyout Cap and Geographic Limits: The law now requires all physician non-competes to include a buyout provision capped at the physician’s total annual salary and wages at the time of termination. Previously, the law allowed buyouts at a “reasonable price” or at an amount determined through arbitration. The geographic scope is also now strictly limited to no more than a five-mile radius from the location where the physician primarily practiced before termination.

New Duration Cap: The duration of physician non-competes is now capped at one year from the date of contract or employment termination. The previous law did not specify a maximum duration.

New Automatic Voidance Provision: SB 1318 establishes a provision that renders non-compete agreements “void and unenforceable” if a physician is involuntarily discharged from contract or employment “without good cause.” This is an entirely new requirement. The statute defines “good cause” as “a reasonable basis for discharge of a physician from contract or employment that is directly related to the physician’s conduct, including the physician’s conduct on the job or otherwise, job performance, and contract or employment record.”

New Writing Requirement: The “terms and conditions” of a physician non-compete must now be “clearly and conspicuously stated in writing.” The previous law contained no such writing requirement.

Administrative-Role Exception: SB 1318 adds a new provision in Section 15.50(b-1) stating that “managing or directing medical services in an administrative capacity for a medical practice or other health care provider” does not qualify as the “practice of medicine” for purposes of triggering the physician non-compete requirements in Section 15.50(b) of the Texas Business & Commerce Code. These administrative activities still remain subject to the

broad non-compete requirements that apply to all employees under Section 15.50(a).

The existing exception in Section 15.50(c) exempting a physician's "business ownership interest" in hospitals or ambulatory surgical centers from the non-compete requirements in Section 15.50(b) is unchanged.

Unchanged Requirements: SB 1318 maintains the existing requirements for patient access provisions, including access to patient lists and medical records, and continues to prohibit restrictions on providing continuing care during acute illnesses.

Who Is Covered Under the New § 15.501?

Senate Bill 1318 creates Section 15.501 to Texas Business & Commerce Code, which extends certain non-compete restrictions to non-physician "health care practitioners" for the first time in Texas. Health care practitioners include:

- Dentists licensed by the State Board of Dental Examiners
- Professional and vocational nurses licensed under Chapter 301 of the Texas Occupations Code
- Physician assistants licensed under Chapter 204 of the Texas Occupations Code

SB 1318 Non-Compete Requirements for Other Practitioners: Non-competes for these healthcare practitioners are now subject to some of the same core restrictions placed on physician non-competes, including:

- Buyout options capped at their annual salary and wages at termination
- One-year maximum duration limit
- Five-mile geographic restriction
- Terms that must be clearly and conspicuously stated in writing

Previously, Texas law contained no specific restrictions on non-compete agreements for dentists, nurses, or physician assistants.

Preemption of Other Law (§ 15.52)

Expanded Preemption: SB 1318 amends Section 15.52 to make the criteria in both Sections 15.50 and 15.501 exclusive, displacing any common-law or equitable bases for enforcing healthcare non-competes. The procedures and remedies in Section 15.51 also remain exclusive.

Cross-Reference Updates: Various sections of the law have been updated to reference both the existing Section 15.50 and the new Section 15.501, ensuring

the new healthcare practitioner restrictions are integrated into Texas's overall non-compete framework.

Conclusion

Senate Bill 1318, effective September 1, 2025, amends § 15.50 and adds § 15.501 to impose buy-out caps, geographic and duration limits, voidance rules, and writing requirements on non-competes for physicians and selected healthcare practitioners.