



TEXAS MAKES MAJOR MODIFICATIONS TO ITS NONCOMPETE STATUTE FOR HEALTH CARE PROVIDERS

July 02, 2025

Takeaways

- New noncompete requirements apply to physicians, dentists, nurses and physician assistants.
- Revised noncompete buyout amounts, time limits and geographical area limitations take effect on September 1.
- Noncompete restrictions are required to be clearly and conspicuously written.

Legislative Intent

On June 20, Governor Greg Abbot signed Senate Bill 1318 (SB 1318) into law. The bill amends the Texas Covenants Not to Compete Act (the "Act"), codified at Section 15.50 of the Texas Business & Commerce Code, by placing stricter requirements on the enforceability of noncompetes for physicians and expands those requirements to govern noncompetes for dentists, nurses and physician assistants. SB 1318's amendments to the Act are set to take effect on September 1.

SB 1318 is meant to restore the occupational freedom of health care providers, honor health care providers' responsibility to patients and improve health care access. SB 1318's implementation will mean more mobility for health care providers in a high health care demand market while respecting the time and effort health care employers put into building patient relationships and marketing their services.

Key Provisions of SB 1318

- **Who is Covered?** Along with physicians, SB 1318 expands the Act's protection to cover dentists, professional and vocational nurses, and physician assistants. Excluded from the Act's protection are health care managers and directors working in an administrative capacity or other health care providers not specifically named in the bill.

- **Buyout Provision Cap:** The buyout provision in a noncompete agreement is capped at the health care provider's total annual salary and wages at the time of termination of the contract or employment. This provision replaces the "reasonable price" standard for buyouts and the option to have the buyout amount determined by an arbitrator.
- **Time Limit:** The noncompete agreement cannot last for more than one-year starting from the date the contract or employment was terminated.
- **Geographic Area Limit:** The noncompete agreement cannot cover more than a five-mile radius from the location at which the health care provider primarily practiced before the provider's contract or employment was terminated.
- **Clear Terms:** The terms and conditions of the noncompete agreement must be "clearly and conspicuously" stated in writing in the health care provider's contract or employment agreement. Clear and conspicuous language should be free of ambiguous language and be easy for a reasonable person to discover and locate, such as being bolded or capitalized.
- **Involuntary Discharge without Good Cause (Physician-Only):** A noncompete agreement will be voided and unenforceable against a physician licensed by the Texas Medical Board if the doctor is involuntarily discharged from his or her contract or employment without good cause. SB 1318 defines good cause to mean a reasonable basis for discharge based on a physician's conduct, job performance, and contract or employment record.

Steps Toward Compliance

The amendments to SB 1318 apply only to noncompete agreements entered into or renewed on or after September 1, 2025. Noncompete agreements entered into before September 1, 2025, will be governed by the law previously in effect.

With the passage of SB 1318, employers should:

- **Review Contracts or Employment Agreements Set to be Renewed:** Health care employers should review any existing contracts or employment agreements they maintain with physicians, dentists, nurses and physician assistants that are set to be renewed after September 1, 2025, and revise those agreements to comply with SB 1318.
- **Revise Future Contract and Employment Agreements:** Health care employers should draft new contracts that include updated noncompete agreements complying with the requirements of SB 1318.
- **Clarify Primary Practice Location:** When covered health care providers work at multiple locations, employers should ensure that a primary practice location is documented for the health care provider to avoid geographic limit disputes.
- **Clear Protocols on "Good Cause" Termination:** Employers should establish clear protocols for good cause terminations to minimize the risk of voiding noncompete agreements with physicians.

Related Practices

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Practice Area Contact

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