Alert | Massachusetts Government Law & Policy

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Massachusetts Governor Signs Tax Reform Bill with Significant Individual, Corporate Tax Changes

The Massachusetts Legislature has enacted significant tax reform legislation, which Gov. Healey signed after the House of Representatives and Senate reconciled their versions in a conference committee report. The new legislation is Chapter 50 of the Acts of 2023. The new law, which had been before the Legislature for approximately 20 months and across two governorships, includes significant tax changes, largely in the form of reduced taxes, for both individuals and corporations.

Chapter 50 largely reflects tax legislation that the House and Senate each engrossed during the summers of 2022 and 2023. The 2022 version of that legislation did not get enacted because the Commonwealth simultaneously returned almost $3 billion to taxpayers under Chapter 62F, a voter-approved provision under which taxes above a certain threshold are returned to individual income taxpayers. That experience resulted in one of the new initiatives in Chapter 50, a proposal to amend Chapter 62F (described briefly below).

Chapter 50 includes each major initiative proposed by either the House or the Senate, in some cases with modifications, and phases in some of the proposals. The following list summarizes the major tax provisions in Chapter 50, arranged by effective date.

Effective for Tax Year 2023

- **Short-Term Capital Gains** – Chapter 50 decreases the income tax rate on short-term capital gains (those held less than one year) from 12% to 8.5%.
- **Earned Income Tax Credit** – Chapter 50 increases from 30% to 40% the match of the federal earned income tax credit that Massachusetts recognizes.
- **Senior Circuit Breaker Tax Credit** – Chapter 50 doubles the cap on the senior circuit breaker tax credit, from $1,200 to $2,400.
- **Estate Tax** – For estates in which the death occurred after Jan. 1, 2023, Chapter 50 increases the limit below which no tax is owed, from $1 million to $2 million, and creates a new tax credit, capped at $99,600, that is available to all estate tax filers. The purpose of the latter tax credit is to mitigate the so-called "cliff effect" of having a monetary threshold below which no taxes are owed.
- **Low-Income Housing Tax Credit** – Chapter 50 increases from $40 million to $60 million the limit on the amount of low-income housing tax credits that can be awarded in a given year.
- **Rental Deduction** – Chapter 50 raises the cap on the rental deduction from $3,000 to $4,000. Renters can deduct half of their rent costs up to that cap.

Effective for Tax Year 2024

- **Housing Development Incentive Program** – Chapter 50 increases from $10 million to $30 million the cap on the amount of housing development incentive tax credits that can be awarded in a given year. The law also includes a one-time increase of that cap to $57 million for tax year 2023.
- **Child and Dependent Tax Credit** – Chapter 50 increases to $440 the child tax credit, and eliminates the current two-dependent per family limit on that credit. The two-dependent per family cap is eliminated for tax year 2023, and the credit increase from $310 to $440 per dependent takes effect in tax year 2024.

Effective for Tax Year 2025

- **Single Sales Factor Apportionment** – Chapter 50 makes Massachusetts the fortieth state to adopt single sales factor apportionment for determining the net income of business corporations that is attributable to Massachusetts activity. Currently, most multistate corporations that operate in Massachusetts apportion their net income according to a "double-weighted sales factor" that is based on the percentages of the corporation's payroll, property, and sales that are located in Massachusetts. Manufacturing corporations and mutual fund service corporations are already able to use single sales factor apportionment. With this change, Massachusetts joins the majority of other states in requiring single sales factor apportionment for all corporations. Multistate corporations affected by this change should analyze and understand their own Massachusetts tax liability, as it is expected that the change will reduce the liability of some corporations and increase the liability of other corporations.

Other Policy Initiatives

- **Stabilization Fund** – Chapter 50 raises the cap on the Stabilization Fund from 15% of budgeted revenues to 25.5% of budgeted revenues.

- **Chapter 62F** – Chapter 50 changes the voter-approved law's requirement that tax refunds be distributed "on a proportional basis." Instead, Chapter 50 requires that the refund be distributed in a uniform amount to all personal income taxpayers who filed in the preceding taxable year.
- **Married Couple Check the Box** – Chapter 50 includes a section that requires married couples to take the same filing status on their state income tax return as their federal income tax return. This change, which would take effect for tax year 2024, is intended to prevent couples from filing their state taxes separately to avoid exceeding Massachusetts' new $1 million threshold, above which a surtax of an additional 4% is now imposed.
- **PTE Expansion Study** – This section of Chapter 50 requires the Department of Revenue to study and report by Feb. 1, 2024 (more than a month before the Governor files her FY2025 budget proposal) on the potential impact of expanding the state's current pass-through entity tax and credit regime. This study would evaluate increasing the current pass-through entity tax and accompanying refundable credit from the current 5% to 9%, to reflect the impact of the Commonwealth's new 4% surtax on high-income earners.

View the text of Chapter 50 here.

See our April 2023 GT Alert for more about legislative trends in other states and local tax that emerged during the first quarter of 2023.

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