



CUMMINGS & LOCKWOOD ANALYZES MASSACHUSETTS' RECENT \$1 BILLION TAX RELIEF PACKAGE

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MASSACHUSETTS ENACTS \$1 BILLION TAX RELIEF PACKAGE

On October 4, 2023, the Governor of Massachusetts signed into law the first tax cuts in Massachusetts in more than 20 years. The tax relief package is designed to deliver more than \$561 million in tax relief to individuals and companies during the 2023-2024 fiscal year and top \$1 billion in tax relief by the 2027 fiscal year when the package is fully phased in. Among its provisions, the law closes a loophole in the additional 4% surtax on income exceeding \$1 million (commonly referred to as the “millionaire’s tax”), reduces the short-term capital gains tax rate and changes the formula for calculating Massachusetts corporate taxes. A summary of the tax relief package can be found at <https://media.wbur.org/wp/2023/09/Tax-Relief-Fact-Sheet-.pdf> and the full text of the enacted legislation can be found at <https://malegislature.gov/Laws/SessionLaws/Acts/2023/Chapter50>.

Provisions of the tax cuts include:

- **Estate Tax:** The threshold for Massachusetts estate tax is increased from \$1 million to \$2 million dollars for individuals dying on or after January 1, 2023. In addition, the law eliminates the “cliff” aspect of the Massachusetts estate tax which subjected a resident’s entire estate to the estate tax if the estate’s value exceeded \$1 million. Under the new law, only the portion of the estate which exceeds \$2 million in value will be taxed. For estates valued in excess of \$2 million, the tax saving from this change is \$99,600. An estate that has already filed a 2023 Massachusetts estate tax return prior to the enactment of the tax relief package should consider amending the return to benefit from the change in law.
- **Millionaire’s Tax:** The law requires married couples who file a joint federal income tax return for a given tax year to also file a joint Massachusetts income tax return for that same year starting with the 2024 tax year. This change is meant to close a perceived loophole which allowed married couples to divide their income by filing their Massachusetts income tax returns on a “married filing separately” basis to avoid or minimize the impact of the millionaire’s tax. A separate Massachusetts tax return filing is still possible for 2023.
- **Short-Term Capital Gains Tax Rate:** The gain from sales of capital assets held for 1 year or less are treated as short-term capital gains. The law reduces the Massachusetts tax rate applied to short-term capital gains from 12% to 8.5% for tax years beginning on or after January 1, 2023. The Massachusetts long-term capital gains tax rate of 5% remains unchanged.
- **Single Sales Factor Apportionment for Corporations:** Effective January 1, 2025, multistate corporations will be required to apportion a share of their taxable income to Massachusetts based solely on their sales revenue derived from Massachusetts sources (e.g., single sales factor formula). This is a shift from the three factor apportionment system Massachusetts previously applied based on a company’s property, payroll and sales in Massachusetts. The change is intended to remove a disincentive for Massachusetts companies to hire employees or grow in-state and make it more attractive for companies to move their headquarters to Massachusetts.

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■ Other Tax Relief Provisions:

- The earned income credit is increased from 30% to 40% of the federal credit.
- The tax credit for dependent children, disabled adults and seniors is increased from \$180 to \$310 in 2023 and to \$440 for 2024 and beyond.
- The cap on the rental deduction is increased from \$3,000 to \$4,000.
- Public transit fare, as well as ferry and regional transit passes and bike commuter expenses, are now eligible for the commuter expense tax deduction.
- The Massachusetts Department of Revenue is required to study the potential impact of implementing an additional 4% tax on the income of pass-through entities (e.g., S corporations and partnerships) which elect to be subject to the Massachusetts pass-through entity tax. This is being considered because the pass-through entity tax rate is a flat 5% and the addition of a 4% surtax on pass-through entity income above \$1 million may help Massachusetts taxpayers obtain a federal tax deduction for the payment of the millionaire's tax.

If you have any questions regarding this alert, please contact your Cummings & Lockwood private clients attorney.