

Alert | Massachusetts Government Law & Policy



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Massachusetts House Approves Tax Reform Bill with Significant Individual, Corporate Tax Changes

On April 13, the Massachusetts House of Representatives approved a tax reform bill that includes significant changes for both individuals and corporations. The engrossed bill now goes to the Senate for its consideration.

The bill largely includes tax legislation that the House engrossed during the summer of 2022. That legislation did not get enacted, as 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 the House legislation, a proposal to amend Chapter 62F (described briefly below).

Most changes proposed by the House are effective for tax year 2023 but some will be phased in over a period of several years.

Effective for Tax Year 2023

- **Rental Deduction** – The House bill 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.

- **Short-Term Capital Gains** – The House bill decreases the income tax rate on short-term capital gains (those held less than one year) to 8% for tax year 2023, then to 5% (the current income tax rate, which also applies to long-term capital gains) for tax year 2024.
- **Earned Income Tax Credit** – The House bill increases from 30% to 40% the match of the federal earned income tax credit that Massachusetts recognizes.
- **Senior Circuit Breaker Tax Credit** – The House bill doubles the cap on the senior circuit breaker tax credit, from \$1,200 to \$2,400. This is a refundable credit for senior citizens paid on owned or rented Massachusetts residential property.
- **Child and Dependent Tax Credit** – The House bill increases to \$600 the child tax credit, and eliminates the current two-dependent per family cap on that credit. The size of the credit would become \$310 in tax year 2023, \$455 in tax year 2024, and \$600 in tax year 2025.
- **Estate Tax** – The House bill increases from \$1 million to \$2 million the threshold at which the Massachusetts estate tax applies, and eliminates the so-called “cliff effect” by providing that only the amount of the estate that exceeds \$2 million is subject to tax. This is accomplished by subtracting \$2 million from each estate.

Effective for Tax Year 2025

- **Single Sales Factor Apportionment** – Under the House bill, Massachusetts would join the majority of other states in adopting single sales factor apportionment for all corporations, which would base Massachusetts taxes on the percentage of a company’s sales within the Commonwealth. Currently, most multistate corporations that operate in Massachusetts apportion their net income using a three-factor apportionment known as a “double-weighted sales factor” that is based on the percentages of the corporation’s payroll, property and sales that are located in Massachusetts. The current methodology arguably penalizes corporations that choose to bring jobs and development to Massachusetts. Manufacturing corporations and mutual fund service corporations are already able to use single sales factor apportionment. Multistate corporations affected by this change should analyze and understand their own Massachusetts tax liability, as the change may reduce the liability of some corporations and increase the liability for other corporations.

Other State Finance Initiatives

- **Stabilization Fund** – The House bill raises the cap on the Stabilization Fund (the Commonwealth’s “rainy day fund”) from 15% of budgeted revenues to 25.5% of budgeted revenues.
- **Chapter 62F** – The House bill proposes to change the voter-approved law’s requirement that tax refunds be distributed “on a proportional basis” according to tax liability. Instead, the House bill would require that the refund be distributed evenly in a uniform amount to all personal income taxpayers who filed in the preceding taxable year.

[View the text of the engrossed bill.](#) The Senate has not yet scheduled debate on this bill.

[Click here to read more about legislative trends in other states and local tax that emerged during the first quarter of 2023.](#)

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