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Massachusetts Enacts Tax Relief Package

Changes to the Estate Exemption, Tax Rates, Credits, and More

While Anchor Capital works with families across the country, we recognize our Boston headquarters has naturally led to a significant number of client families with ties to Massachusetts. As we continue to advise on all financial matters for families in ever-changing markets and legislative environments, we wanted to provide a quick update for those who live in Massachusetts.

Earlier today, Governor Healey signed a new tax package into law that is set to provide $1 billion in relief for taxpayers by 2027. While there are a number of provisions included within the bill, we wanted to highlight the below key changes.

Expansion of the Estate Tax Exemption. In a long-awaited move, the bill will double the state's punitive $1 million estate tax exemption amount to $2 million. The state will also begin offering a tax credit to end the estate tax's historic "cliff" effect, whereby the tax was being applied to the entire estate once the exemption amount was exceeded. Going forward, only amounts above the $2 million threshold will be taxed.

Reduction in the Short-Term Capital Gains Rate. The bill will reduce the state's short-term capital gains rate from 12% to 8.5%.

New Child & Dependent Tax Credit. Massachusetts taxpayers will see a new tax credit which combines two existing child care and dependent credits into one expanded version. Taxpayers will be able to take a $310 credit per dependent in 2023, up from $180. This figure is also set to subsequently increase to $440 per dependent in 2024 & beyond.

Earned Income Tax Credit. The state's earned income tax credit ("EITC"), which aims to provide relief for low-income families, will be increased from 30% to 40% of the federal credit amount.

Housing Credits & Investment. A target goal of the state legislature was to alleviate the rising housing costs in the state. As such, the bill makes a number of investments into housing programs and increases related tax provisions. On the tax side, the rental deduction is set to increase from $3,000 to $4,000, and the tax credit for eligible seniors will double from $1,200 to $2,400. With regards to program investments, new build production via the Housing Development Incentive Program will rise from $10 million annually to $57 million annually in the first year, followed by a steady state investment of $30 million per year. Additionally, the annual authorization for the Low Income Housing Tax Credit will increase 50% from $40 million to $60 million.

Tax Rebate Calculations. Due to a unique law created in 1987, known as Chapter 62F, Massachusetts has historically been required to rebate any net state tax revenue excess back to taxpayers proportionately. This provision was triggered last year when approximately $3 billion was returned to taxpayers, with some residents receiving tens of thousands of dollars and others receiving less than a hundred dollars. This bill will change the rebate calculations so that all taxpayers receive an equal amount of the revenue excess.

Filing Status. Historically, Massachusetts has allowed taxpayers to "decouple" their filing status from their federal returns. In other words, couples could file jointly at the federal level, but separately at the state level. The bill now requires married couples who file jointly at the federal level to do the same at the state level. While this may seem minor, there are significant implications for those who may be subject to the Massachusetts Millionaires Tax ("MMT"), the new 4% surtax for income over $1 million. As currently written, the law enacting MMT stated the tax would be levied on income over $1 million shown per return. This led most in the planning community to believe couples could then file separately at the state level, providing each taxpayer with a fresh $1 million exemption. This change essentially closes that loophole.

Source: https://malegislature.gov/Bills/193/H4104