HOUSE DOCKET, NO. 5557 FILED ON: 1/15/2026

HOUSE . . . . . No. 4975

OFFICE OF THE GOVERNOR
COMMONWEALTH OF MASSACHUSETTS
STATE HOUSE · BOSTON, MA 02133
(617) 725-4000

MAURA T. HEALEY
GOVERNOR

KIMBERLEY DRISCOLL
LIEUTENANT GOVERNOR

January 15, 2026

To the Honorable Senate and House of Representatives,

I am filing for your consideration a bill entitled "An Act to Manage Federal Tax Changes in Massachusetts."

Last summer, Congress passed the One Big Beautiful Bill Act (OBBBA), fundamentally changing our country's tax code and adding $4 trillion to the national deficit. This legislation was signed by the President on July 4, 2025, the same day I signed our state's Fiscal Year 2026 budget.

Unlike the federal government, Massachusetts must balance its budget each year. However, the timing of the OBBBA meant that neither the Legislature nor our administration could adequately plan and budget for the revenue impacts - $442 million - of the many federal tax policy changes to which our state automatically conforms under statute. And we are not alone. States around the country are facing and have made similar choices about if and when to implement OBBBA tax changes.

Because of these circumstances, this bill lays out a thoughtful, phased-in approach to implementing a number of key OBBBA tax reforms at the state level that will ensure our current Fiscal Year 2026 (FY26) budget -- and the critical services it provides -- remains intact while also delivering a predictable, competitive tax environment in which our residents, economy and workers can thrive.

This proposal is based on the recognition that many of our businesses, including our vital research and innovation ecosystem, stand to benefit from the new tax rules, and Massachusetts, in general, will be in a better competitive position compared to our competitor states if these

provisions are allowed to take effect. It balances that goal against the reality that our ability to deliver the programs and services paid for through the budget that our communities, schools, workers and most vulnerable residents rely on would be at risk if the revenue impacts are not mitigated.

Under this proposal, I am recommending to phase in the implementation of the five costliest OBBBA provisions with which the state automatically conforms over two years, beginning on January 1, 2026 with OBBBA Section 70302. This provision enables businesses to fully deduct domestic research and experimental (R&E) expenditures within the year that those expenses are incurred. That is tax relief that is particularly important to Massachusetts' innovation economy. Under this plan, businesses will be able to utilize the R&E change on their payments for tax year 2026, and the state will avoid losing $288 million in FY26.

Additionally, the legislation proposes a start date of tax year 2027 for Massachusetts to implement four additional OBBBA provisions:

- Section 70303: Modification of limitation on business interest
- Section 70306: Increased dollar limitations for expensing of certain depreciable business assets
- Section 70307: Special depreciation allowance for qualified production property
- Section 70421: Permanent renewal and enhancement of opportunity zones

This approach will allow Massachusetts to spread the tax revenue impact of the OBBBA provisions over multiple fiscal years while beneficiaries will immediately see the tax benefit of OBBBA at the federal level and realize the full benefits at the state level in one to two years.

This bill also proposes to expand the PTE excise to include the 4 percent surtax on high-income earners. The PTE excise currently is an elective 5 percent entity-level excise created in Massachusetts 2021 in response to the cap on the federal deduction for State and Local Tax (SALT) imposed in 2017.

The PTE excise provides an option for eligible taxpayers to use pass-through entities to pay their state and federal taxes. Because pass-through entities are not subject to the cap on the SALT deduction, this approach enables eligible residents to maximize their federal deduction of state tax payments, despite the cap on the SALT tax deduction, without impacting state collections.

When the PTE excise was created in 2021, the surtax had not yet become law. This bill proposes to update this popular and successful tool beyond the current 5 percent standard state income tax rate to apply to the 4 percent surtax rate as well, thereby unlocking additional federal tax relief for residents without impacting surtax collections that fund critical education and

transportation investments. It also has the added benefit of generating additional revenue for the state, estimated to be over $100 million annually.

Finally, the bill contains several additional reforms related to OBBBA policy changes and a measure to safeguard against future mid-year revenue shocks. Based on a model used in Maryland, the bill proposes to automatically delay by up to one year implementation of federal tax policy changes that exceed a $20 million impact on state revenue collections. The bill also proposes to increase the threshold for gamblers to file form W-2G for slot machine winnings from $1,200 to $2,000, in alignment with new federal policy, adjusts the composition of employer contributions to the DFML trust fund in recognition of new Internal Revenue Service guidance and requires in-state investment to qualify for state Opportunity Zone tax benefits.

I look forward to partnering with the Legislature to deliver this tax relief to our businesses and residents and in a thoughtful and responsible manner that protects all our constituents, and I urge you to give this bill swift consideration so that we can provide clarity and certainty around our tax code as soon as possible this filing season.

Respectfully Submitted,

Maura T. Healey,
Governor

HOUSE . . . . . No. 4975

The Commonwealth of Massachusetts

In the One Hundred and Ninety-Fourth General Court
(2025-2026)

An Act to manage federal tax changes in Massachusetts.

Whereas, The deferred operation of this act would tend to defeat its purpose, which is to manage the impact of recent federal tax law changes to the commonwealth's finances, and to make related changes in certain laws, therefore it is hereby declared to be an emergency law, necessary for the immediate preservation of the public convenience.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

SECTION 1. Paragraph (c) of section 1 of chapter 62 of the General Laws, as appearing in the 2024 Official Edition, is hereby amended by inserting, after the word "408(q)", in line 10, the following clause:- ; and provided further that for purposes of section 1400Z, the term "qualified opportunity zone" shall mean "an area located entirely within the commonwealth that is designated as a qualified opportunity zone under said section 1400Z-2;" and provided further that "Code" shall not include reference to certain other amendments to the Internal Revenue Code pursuant to section 90 of chapter 62C.

SECTION 2. Paragraph (1) of subsection (d) of section 2 of said chapter 62, as so appearing, is hereby amended by adding the following subclause:-

(R) The deductions allowed by 70302(f) of Pub. L. 119–21.

SECTION 3. Section 2 of chapter 62B, as appearing in the 2024 Official Edition, is hereby amended by striking out the figure “$1,200”, the first time it appears, and inserting in place thereof the following words:- $2,000, adjusted for inflation as provided by subsection (h) of section 6041 of the Internal Revenue Code, as amended and in effect for the taxable year;.

SECTION 4. Said section 2 of said chapter 62B, as so appearing, is hereby further amended by the striking out the figure “$1,200”, the second time it appears, and inserting in place thereof the following figure:- $2,000.

SECTION 5. Chapter 62C, as appearing in the 2024 Official Edition, is hereby amended by adding the following section:-

Section 90. (a) Except as provided in subsection (b), an amendment of the Internal Revenue Code as would otherwise apply under chapter 62 or chapter 63, that would affect the determination of Massachusetts gross income or Massachusetts deductions under chapter 62 or gross income under paragraph 3 of section 30 of chapter 63 or net income under paragraph 4 of section 30 of chapter 63, shall not apply to:

(1) any taxable year that begins in the calendar year in which the amendment is enacted; or

(2) any taxable year that precedes the calendar year in which the amendment is enacted.

(b) Subsection (a) shall not apply to an amendment of the Internal Revenue Code if the commissioner determines within 90 days after such amendment is enacted that the impact to tax revenue collected pursuant to chapter 62 or chapter 63 is estimated to be less than $20,000,000,

adjusted for inflation as provided by subsection (f) of section 1 of the Internal Revenue Code, as amended and in effect for the taxable year, for:

(1) the fiscal year that begins during the calendar year in which the amendment is enacted; or

(2) any fiscal year that precedes the calendar year in which the amendment is enacted.

(c) For the purposes of this section, the definition of “Code” in section 1 of this chapter shall not apply.

SECTION 6. Section 30 of chapter 63 of the General Laws, as appearing in the 2024 Official Edition, is hereby amended by striking out paragraph 3 and inserting in place thereof the following paragraph:-

3. "Gross income", gross income as defined under the provisions of the Federal Internal Revenue Code, as amended and in effect for the taxable year, plus the interest from bonds, notes and evidences of indebtedness of any state, including this commonwealth; provided, however, (i) that gross income of corporations taxable under section 38B shall, in addition to the foregoing, include a deduction for losses from the sale or exchange of capital assets sustained during the taxable year to the extent allowable by the Federal Internal Revenue Code; (ii) for purposes of applying section 1400Z-2 of the Code, the term “qualified opportunity zone” shall mean “an area located entirely within Massachusetts that is designated as a qualified opportunity zone under said section 1400Z-2;” and (iii) certain Code amendments as referenced in section 90 of chapter 62C will have no force or effect.

SECTION 7. Paragraph 4 of said section 30 of said chapter 63, as so appearing, is hereby amended by inserting after the word “allowed,” the first time it appears, the following words:-

and provided further that certain Code amendments as referenced in section 90 of chapter 62C will have no force or effect.

SECTION 8. Said paragraph 4 of said section 30 of said chapter 63, as so appearing, is hereby further amended by adding the following clause:

(ix) the deductions allowed by section 70302(f) of Pub. L. 119–21.

SECTION 9. The General Laws are hereby amended by inserting after chapter 63D the following chapter:-

Chapter 63E

TAXATION OF PASS-THROUGH ENTITIES ON INCOME EXCEEDING SURTAX THRESHOLD

Section 1. As used in this chapter, the following words shall, unless the context clearly requires otherwise, have the following meanings:

"Code", the Internal Revenue Code of the United States as defined in section 1 of chapter 62.

"Commissioner", the commissioner of revenue.

"Eligible pass-through entity", an S corporation under section 1361 of the Code, a partnership under section 7701 of the Code or a limited liability company that is treated as an S corporation or partnership under said section 1361 of the Code or said section 7701 of the Code.

"Qualified income taxable in Massachusetts", the income of an eligible pass-through entity determined under chapter 62 allocable to a qualified member and included in the qualified

member's Massachusetts taxable income under said chapter 62; provided, however, that qualified income taxable in Massachusetts shall be limited to the sum of the amounts by which the amount allocated to each qualified member exceeds the surtax threshold.

"Qualified member", a shareholder of an S corporation or a partner in a partnership, including a member of a limited liability company that is treated as an S corporation or partnership under section 1361 of the Code or section 7701 of the Code, that is a natural person or trust or estate subject to tax under section 10 of chapter 62; provided, however, that a qualified member may be a resident, nonresident or a part-year resident; provided further, that “qualified member” does not include such shareholder, partner or member whose allocable share of income included in their Massachusetts taxable income under said chapter 62 does not exceed the surtax threshold.

Section 2. An eligible pass-through entity may elect to pay an excise on its qualified income taxable in Massachusetts at a rate of 4 per cent. A qualified member of an electing eligible pass-through entity shall be allowed a refundable credit against the tax imposed under this chapter. The credit shall be available to qualified members in an amount proportionate to each qualified member's share of the tax due and paid under this chapter by the eligible pass-through entity multiplied by 0.9. The credit shall be available for the member's taxable year in which the electing eligible pass-through entity's taxable year ends.

Section 3. This chapter shall not apply to any taxable year for which the federal limitation on the state and local tax deduction imposed by section 164(b)(6) of the Internal Revenue Code of the United States, as amended and in effect for the applicable year, has expired or is otherwise not in effect.

Section 4. The excise under this chapter shall be in addition to, and not in lieu of, any other Massachusetts tax required to be paid, including tax imposed by chapter 62 or chapter 63. The excise under this chapter shall be due and payable on the eligible pass-through entity's original, timely-filed return. A return that reports the excise shall be due at the same time as a partnership information return or corporate excise return would be due for the entity under chapter 62C. Nothing in this chapter shall alter any filing requirements for a qualified member under said chapter 62C.

Section 5. The collection and administration of the excise under this chapter shall be governed by chapter 62C unless expressly provided otherwise in this chapter or in regulations promulgated by the commissioner pursuant to this chapter.

Section 6. The election under this chapter shall be made by the eligible pass-through entity on an annual basis in a manner determined by the commissioner. All members of the electing eligible pass-through entity shall be bound by the election. Once an election is made for a particular year, the election shall not be revoked.

Section 7. The commissioner shall promulgate regulations or guidance to carry out the purposes of this chapter. Such regulations or guidance may: (i) make the credit available to qualified members with income from eligible pass-through entities that in turn have income from other eligible pass-through entities; (ii) provide rules on the application of this chapter to eligible trusts and estates; and (iii) require estimated payments of the excise by electing eligible pass-through entities and their qualified members in a manner consistent with chapter 62B.

SECTION 10. Section 6 of chapter 175M, as appearing in the 2024 Official Edition, is hereby amended by striking out, the figure “40”, in lines 22, 33 and 39, each time it appears and inserting in place thereof, in each instance, the following figure:- 100.

SECTION 11. Said section 6 of said chapter 175M, as so appearing, is hereby amended by striking out the figure “100”, in lines 25, 33 and 43, each time it appears, and inserting in place thereof, in each instance, the following figure:- 40.

SECTION 12. Notwithstanding subparagraph (1) of paragraph (d) of section 2 of chapter 62 of the General Laws and paragraph 4 of section 30 of chapter 63 of the General Laws, the deduction allowed by section 174A of the Internal Revenue Code, as amended and in effect for the current tax year is disallowed for taxable years beginning in 2025.

Notwithstanding subparagraph (1) of paragraph (d) of section 2 of chapter 62 of the General Laws and paragraph 4 of section 30 of chapter 63 of the General Laws, the following deductions are disallowed for taxable years beginning in 2025 and 2026: (i) the deduction allowed by section 168(n) of the Internal Revenue Code, as amended and in effect for the current tax year; (ii) the deduction described by section 179 of the Internal Revenue Code to the extent increased by amendments to sections 179(b)(1) and 179(b)(2) of said Internal Revenue Code inserted by section 70306 of Pub. L. 119–21; and (iii) the deduction described by section 163(j) of the Internal Revenue Code to the extent the definition of “adjusted taxable income” is modified by an amendment to section 163(j)(8)(A)(v) of said Internal Revenue Code inserted by section 70303 of Pub. L. 119–21.

Notwithstanding paragraph 3 of section 30 of chapter 63 of the General Laws, a taxpayer shall, for taxable years beginning in 2025 or 2026, apply section 1400Z-2 of the Internal Revenue Code as in effect for taxable years beginning prior to January 1, 2026.

SECTION 13. Sections 1, 5 through 7, inclusive, and 9 through 11, inclusive, shall apply for taxable years beginning on or after January 1, 2026.

SECTION 14. Sections 2 and 8 shall apply for taxable years beginning on or after January 1, 2025.

SECTION 15. Sections 3 and 4 shall apply beginning with payments made on or after January 1, 2026.