

COMMITTEE ON REVENUE ~ HOUSE BILL SUMMARY

Bill Number: S.1954 (similar to H.3231)

Name: AN ACT RELATIVE TO NATIONAL GUARD STATE TAX EXEMPTION

Sponsor(s): Sen. Julian Cyr (Truro)

Hearing Date: June 24, 2025

Reporting Date: August 23, 2025

Prior History: N/A

CURRENT LAW:

M.G.L. c. 62 § 5(a) – No Tax Status: If a taxpayer’s Massachusetts adjusted gross income falls below certain thresholds for the taxable year (\$8,000 for an individual; \$14,400 for head of household; and \$16,400 to married filing jointly), they qualify for No Tax Status (NTS) and aren’t required to pay any Massachusetts income tax.

M.G.L. c. 62 § 3 – Taxable income; adjusted gross income less deductions and exemptions:

- **Massachusetts taxable income** equals adjusted gross income from § 2(c) less deductions and exemptions listed in § 3. A tax deduction reduces a taxpayer’s overall taxable income before the applicable rate is applied. An exemption precludes certain types or amounts of income from taxation.

Generally, a discharged debt is taxable income. However, The IRS exempts discharged debt from gross income if it is debt reduced or discharged through a mortgage restructuring agreement. The federal exemption applies to debt forgiven in calendar years 2007 through 2014.²⁷

Deductions and Exemptions

Massachusetts taxation of contributions and distributions (income) from selected retirement plans²⁸:

<u>Retirement plan</u>	<u>Contribution to retirement plan</u>	<u>Distribution (income) from retirement plan</u>
Federal Employee Contributory Pension Plan	Contribution is taxable (retirement deduction up to \$2,000)	Income is not taxable
Federal Employee Thrift Savings Plan	Contribution is deferred/not taxable	Income is taxable
Massachusetts State and Local Employee Contributory Pension Plan	Contribution is taxable (retirement deduction up to \$2,000)	Income is not taxable
U.S. Military Non-Contributory Pension Plan	N/A	Income is not taxable
Veterans’ Pension Plan	N/A	At time of retirement, lump sum distribution is not taxable; subsequent to lump sum, amount is taxable
Social Security/FICA	Contribution is taxable (deduction up to \$2,000)	Income is not taxable regardless of amounts that may be subject to tax federally
401(a) Profit Sharing Retirement Savings Plan	Contribution is deferred/not taxable	Income is fully taxable

401(k) Qualified Cash or Deferred Arrangement Plan – CODA	Contribution is deferred/not taxable	Income is fully taxable
Designated Roth Accounts in Certain Retirement Plans (401(k), 403(b) and 457(b))	Contribution is taxable (no deduction)	Income is not taxable ²⁹
IRA, Roth	Contribution is taxable (no deduction)	Income is not taxable ³⁰
IRA, Traditional	Contribution is taxable (no deduction)	Income is taxable above Mass previously taxed contributions

PROPOSED CHANGE(S):

This bill modifies Massachusetts income tax law to provide a complete income tax exemption for Massachusetts National Guard members, effective January 1, 2027.

H.3231 allows National Guard members to exclude 100% of their income from three distinct types of military service from their state taxable income. These include:

- service under Title 32 of the United States Code, which includes attending drills, annual training, military schools, and serving in active guard reserve or active duty for operational support roles.
- employment as a federal dual-status technician with the Massachusetts National Guard.
- service in a state active-duty status.

This tax exemption applies to all income from these military service categories that is already included in the individual's federal adjusted gross income.