

COMMITTEE ON REVENUE ~ HOUSE BILL SUMMARY

Bill Number: S.2050

Name: AN ACT RELATIVE TO EXEMPTING ACTIVE DUTY MILITARY PERSONNEL FROM STATE INCOME TAX WHILE BASED OUT OF STATE

Sponsor(s): Sen. Patrick O'Connor (Weymouth)

Hearing Date: June 24, 2025

Reporting Date: August 23, 2025

Prior History: N/A

CURRENT LAW:

Gross Income

M.G.L. c. 62 § 2 – Gross income, adjusted gross income and taxable income defined; classes:

- **Massachusetts gross income** is federal gross income:
 - (1) plus certain items excluded from federal gross income but included in Massachusetts gross income under § 2(a)(1); and
 - (2) minus certain items included in federal gross income but excluded from Massachusetts gross income under § 2(a)(2).
- **Adjusted gross income** is gross income divided under § 2(b) into Part A, Part B, and Part C income, minus deductions listed under § 2(c) for Part A and minus deductions listed under § 2(d) for Part B.

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:

| Retirement plan | Contribution to retirement plan | Distribution (income) from retirement plan |
|--|--|---|
| Federal Employee Contributory Pension Plan | Contribution is taxable (retirement deduction up to \$2,000) | Income is not taxable |

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| 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 would amend Section 2 of Chapter 62 of the General Laws, which governs income taxation, by adding a new tax exemption specifically for active duty military personnel. Under this proposed change, any wages received from the United States government by a Massachusetts resident who is a member of the United States military and serving on active duty outside of Massachusetts would be exempted from state income tax.