

Estate Tax Changes Included in New Massachusetts Tax Relief Package

Article By:

Peter M. Miller

Kurt R. Steinkrauss

Alison I. Glover

Susan M. Kealy

Quinn R. Hetrick

Mirele A. Sagan

Governor Maura Healey signed a tax relief package into law on October 4, 2023, making changes to how the Massachusetts estate tax is calculated, as well as several changes to Massachusetts income tax laws.

Estate Tax Changes

The new law increases the Massachusetts asset threshold at which the estate tax is imposed from \$1 million to \$2 million and eliminates the so-called “estate tax cliff.” Previously, Massachusetts taxed Massachusetts estates with assets in excess of \$1 million, calculating the tax due on the entire value of the estate. Effective for the estates of decedents dying after January 1, 2023, only assets in excess of the \$2 million threshold are subject to the state-level estate tax.

While these changes certainly help many Massachusetts homeowners and retirees just teetering on the edge of the estate tax threshold, relative to

other states, the Massachusetts estate tax will remain one of the most onerous in the nation. Specifically, the new law moves Massachusetts from having the lowest state estate tax threshold (tied with Oregon) to having the third-lowest threshold (now higher than Oregon and, just barely, Rhode Island). Massachusetts lawmakers appear to have signaled that they plan to keep taxing estates at a relatively low threshold for the foreseeable future, unlike the 33 states with no state-level estate or inheritance taxes and other states with tax thresholds significantly above \$2 million. Query whether the continuation of the estate tax (albeit slightly modified) along with the newly imposed “Millionaires’ Tax” — which adds a 4% surtax on annual income over \$1 million — will cause Massachusetts high-income earners and high-net-worth individuals to consider moving to more tax-friendly states.

Select Income Tax Changes

Other changes in the new tax relief package include:

- Closing a perceived loophole to the Millionaires’ Tax, requiring a married couple to file a joint Massachusetts return for any year the couple files a joint federal income tax return. This prevents a married couple from filing separately for Massachusetts income tax purposes and spreading their income between them for purposes of the millionaires’ surtax.
- Lowering the short-term capital gains rate from 12% to 8.5%, effective January 1, 2023. This income remains subject to the millionaires’ surtax if the taxpayer meets the income limits, in which case the rate would be 12.5%.
- Changing the Massachusetts corporate income tax apportionment formula to a “single sales factor.” Previously, a multistate business would pay Massachusetts corporate tax based on a formula using three factors: employees, property holdings, and in-state sales. The new law changes the apportionment formula to only consider sales conducted in Massachusetts, removing a disincentive for businesses to operate in the state.
- Doubling the tax credit for seniors who rent or own in Massachusetts, raising the deduction for renters, increasing the child and dependent care tax credit, and increasing the earned income tax credit.

National Law Review, Volume XIII, Number 279

Source URL: <https://natlawreview.com/article/estate-tax-changes-included-new-massachusetts-tax-relief-package>