

On October 4, 2023, Governor Healey signed into law the Massachusetts tax relief bill ("[a]n Act to improve the Commonwealth's competitiveness, affordability, and equity"). The bill contains many tax relief provisions, including changes to the state estate tax and changes to the short-term capital gains tax. The bill also adds a provision that may impact married couples who file their federal income tax returns jointly.

Relevant Changes:

Estate Tax:

- Previously, Massachusetts was tied for the lowest state estate tax threshold in the country, at \$1 million per person. The tax was also more aggressive than other states' due to the so-called "cliff effect", whereby estates valued at over \$1 million were subject to tax on the entire value of the estate. This differs from the federal estate tax, which only taxes assets over the federal exemption (currently \$12.92 million per person).
- Under the Massachusetts tax relief bill, the estate tax threshold is increased to \$2 million per person for estates of decedents dying on or after January 1, 2023. In addition, the bill grants a state estate tax credit, which relieves the "cliff-effect" discussed above. The estate tax marginal rates will remain the same.
- The bill also changes how the tax on out-of-state real estate and tangible personal property is calculated. To address a constitutional issue with the prior tax, the new bill provides a proportional reduction when a decedent owned out-of-state real estate or tangible personal property. Likewise, the bill is more generous than prior law to out-of-staters who own Massachusetts real estate or tangible personal property.

Short-Term Capital Gains Tax:

- Previously, Massachusetts taxed any gain from the sale or exchange of capital assets held for 1 year or less (i.e., short-term capital gains) at a rate of 12%.
- The Massachusetts tax relief bill reduces the short-term capital gains tax to 8.5%, retroactive to January 1, 2023.

Married Couples Filing Jointly for Federal Tax Returns:

- As you may know, Massachusetts voters approved the adoption of an amendment to the Massachusetts Constitution to establish an additional 4% state income tax ("surtax") on the portion of the taxpayer's annual income that exceeds \$1 million. The surtax is imposed on income earned beginning January 1, 2023.
- The Massachusetts tax relief bill contains a provision that requires married couples to file a joint income tax return in Massachusetts for any year in which they file a joint federal income tax return, beginning with income earned on or after January 1, 2024.
- This provision is aimed at removing a possible loophole, by which married couples in Massachusetts seek to avoid the 4% surtax by filing separate, rather than joint, Massachusetts income tax returns.

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ALERT**Contact Us**

For more information, please contact a member of our Private Client Group, or the authors of this advisory:

Charles R. Platt

Chair of the Private Client Group
617.557.9757
cplatt@hembar.com

Kevin M. Ellis

Partner
617.557.9736
kellis@hembar.com

Sarah M. Waelchli

Partner
617.557.9733
swaelchli@hembar.com

Paul M. Cathcart JR

Counsel
617.557.9737
pcathcart@hembar.com

Shannon M. Nelson

Associate
617.557.9741
snelson@hembar.com

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