Providing Meaningful Tax Relief
Cassandra Roeder, Deputy General Counsel

Introduction
In 2023, the Healey-Driscoll Administration fulfilled its promise of passing significant tax cuts, creating a more affordable, equitable, and competitive tax structure for families, seniors, renters, businesses, and commuters in Massachusetts. The historic tax legislation, signed into law on October 4, 2023, includes an expanded Child and Family Tax Credit that is now the most generous in the country; increases to the Rental Deduction, Senior Circuit Breaker Tax Credit, and Housing Development Incentive Program (HDIP); and changes to the Estate Tax and Short Term Capital Gains to address areas of the tax code where Massachusetts was an outlier. Extraordinary tax growth over the past several years, in concert with prudent fiscal management, has enabled these tax cuts to be both responsible and provide meaningful relief.

Tax Relief at a Glance
The omnibus tax relief package includes top priorities of the Healey-Driscoll Administration introduced by the Governor in her tax proposal last year, putting money back in the pockets of those who need it most and making reforms that will attract and retain more businesses and residents to Massachusetts. It delivers real benefits for families balancing caregiving responsibilities, provides relief to our most vulnerable populations, and makes our tax environment more competitive, setting the state up for economic growth – all in combination with key investments in these areas delivered through our FY25 budget recommendation.
These updates bring Massachusetts in line with other states, making it a more attractive place to live, work, and conduct business. Importantly, the majority of the newly passed tax relief is immediately available to taxpayers and will benefit residents’ bottom line now as they file their 2023 returns in the coming months.

Child & Family Tax Credit

An early centerpiece of the Governor’s agenda to make Massachusetts more affordable, competitive, and equitable, the new version of the child and family tax credit eliminates the two-dependent cap and increases the credit from $180 per dependent child, disabled adult, or senior to $310 for 2023 and to $440 on a permanent basis, starting in 2024. As the most generous universal child and dependent tax credit in the county, it will provide relief for an estimated 565,000 families. By fully funding the tax package, our FY25 budget recommendation puts more money directly in these families’ pockets. For a family of six with three children, for example, this policy will reduce their tax liability in 2024 by $1,320, dollars that the family will receive as cash to the extent they do not owe taxes.

This expanded and simplified structure provides relief for all income levels while getting the neediest families the cash benefit of a fully refundable credit. It affords support to families without requiring potentially burdensome demonstrations of expenses, and it assists the most burdened families by uncapping the count of qualifying dependents; the credit replaces two
interrelated credits that were more complex and smaller than the proposed credit and were capped at two dependents. The streamlining and boosting of this credit will make a huge difference for low-income and moderate-income families in the Commonwealth.

Affordable childcare is a key building block to a livable and equitable Massachusetts. This credit, in taking some pressure off families’ child care budgets, will help attract working professionals and aid businesses as they recruit a skilled workforce. This challenge demands a significant investment, which is why the administration is simultaneously supporting important early childhood care and education initiatives through FY25 House 2.

**Housing Tax Relief for Seniors and Renters**

The housing crisis in Massachusetts demands a multifaceted approach. The administration is committed to expanding the production of housing and assuring emergency relief supports, alongside other strategies to address this issue. As part of this approach, this tax package provides targeted relief to renters and seniors.

First, it assists many of our 880,000 residents who rent by increasing the rental deduction. Prior law allowed filers to deduct up to 50% of the cost of the rent for their primary residence, up to $3,000; with this change in law, the maximum deduction is increased to $4,000.

Further, the tax package doubles the maximum Senior Circuit Breaker credit from approximately $1,200 up to approximately $2,400. This credit, indexed to inflation, provides critical relief to low-income homeowners and renters aged 65 or older. Equal to the amount by which a homeowner’s property tax payments in the current tax year exceeds 10% of the taxpayer’s total income, up to a maximum credit amount, the expansion of this credits’ cap recognizes the rising cost of housing for many of our most vulnerable residents.

**Estate Tax Relief**

Our updated estate tax provisions eliminate all taxes on estates of up to $2 million and reduce the tax burden for larger estates that are subject to the tax. Under previous law, the estate tax applied to all estates with a value exceeding $1 million, and tax liability applied to the full value of the estate. These changes bring Massachusetts closer in line with other states that impose an estate tax and help to keep us competitive by creating a more favorable tax climate for middle-class taxpayers and their families.

**Short Term Capital Gains Rate Relief**

Under prior law, capital gains on assets held for less than one year were taxed at 12%, versus 5% for other forms of individual income in Massachusetts. At 12%, the Massachusetts rate was higher than in most states, which typically tax short term capital gains at the same rate as long term gains. The 2023 tax legislation reduces the rate applicable to short term capital gains to 8.5%. By reducing this tax liability, we are providing relief for 150,000+ taxpayers and increasing Massachusetts’ economic competitiveness.

Critically, this change is budget-neutral, as capital gains taxes above a threshold of approximately $1.4 billion are not available to the budget under current law. Therefore, this
change brings the tax on capital gains more in line with other states, without requiring any tradeoff in terms of other potential budget uses for the funds.

**Affordability, Equity, and Competitiveness – A framework for success**

The tax package also includes a variety of targeted policies that will improve our tax structure and deliver on making our state more affordable, equitable, and competitive. These investments include:

- **HDIP Cap Increase**: Under prior law, the Housing Development Incentive Program (HDIP) awarded up to $10 million per year in state tax credits – scheduled to decrease to $5 million in 2024 – to developers of market-rate housing in Gateway Cities for qualified project expenditures, expanding the supply of housing. The tax package increases the statewide cap to $57 million on a one-time basis, and thereafter to $30 million annually. This increase will provide critical relief to an oversubscribed program, allowing an initial infusion of development support, while sustainably funding an expansion in the future.

- **LIHTC Cap Increase**: Previously, the Low-Income Housing Tax Credit Program (LIHTC) awarded up to $40 million per year in state tax credits – scheduled to decrease to $20 million in 2026 – to taxpayers who invest in affordable rental housing. Under the new law, the LIHTC cap has been increased to $60 million with no scheduled decrease. Investing in this program will substantially accelerate the production of affordable housing and provide relief to some of our most vulnerable residents across the state.

- **Earned Income Tax Credit**: Increasing the available state tax credit from 30% to 40% of the equivalent federal tax credit, to provide much-needed additional support to working families and individuals.

- **Apprenticeship Tax Credit**: Expanding the occupations eligible for the Apprenticeship Tax Credit, to ensure employers in critical industries can utilize this credit to grow and modernize our economy and prepare our workforce for success.

- **Single Sales Factor Apportionment**: Moving from a three-factor apportionment system for corporate taxation based on a business’s share of sales, payroll, and property to apportionment based solely on sales.

- **Student Loan Repayment Exemption**: Creating a new exemption from taxable income for employer assistance with student loan repayment, to ensure that these benefits will no longer be treated as taxable compensation.

- **Commuter Transit Benefit Expansion**: Expanding commuter transit benefits to include regional transit passes and bike commuter expenses, which will both incentivize climate-friendly commuting alternatives and make our tax code more equitable.

- **Lead Paint Abatement Credit**: Doubling the credit for lead paint abatement to $3,000 for full and $1,500 for partial abatement, to assist residents with the expense of removing lead paint and making available housing safer for families.
Budget Brief: Providing Meaningful Tax Relief

- **Septic Tank Repair Credit:** Tripling the maximum credit for septic tank repair or replacement in a primary residence to $18,000 and allowing taxpayers to access these credits on a more accelerated schedule.
- **Property Tax Deduction for Volunteer Services:** Permitting municipalities to increase the maximum property tax abatement available to seniors who perform volunteer services from $1,500 to $2,000.
- **Dairy Farm Tax Credit:** Expanding the annual dairy farm tax credit cap from $6 million to $8 million to support local farms across the state.
- **Cider Tax Treatment:** Allowing locally produced hard cider and still wines to be taxed at a more competitive rate, comparable to similar alcoholic beverages, making our tax structure more equitable and supporting local producers.

Supported by the FY25 House 2 budget filing, the omnibus tax relief package signed into law last year is both sustainable and meaningful for our residents, and addresses the important issues of affordability, equity, and competitiveness across our state. It delivers on our promise to provide real savings for the people of Massachusetts.