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Tax Expenditure Budget - Introduction

While taxes are an essential source of revenue for all state governments, the manner in which they are imposed varies widely from state to state. In its simplest form, a tax is an across-the-board levy on a base, such as income, to which a specific rate applies and for which no modifications exist. Taxes are rarely levied in this manner, however. Instead, most state tax codes incorporate a number of exemptions, deductions, credits, and deferrals designed to encourage certain taxpayer activities or to limit the tax burden on certain types of individuals or endeavors. Known as "tax expenditures", these provisions can have a significant impact on state tax revenues.

This document offers a summary of the tax expenditures affecting the taxes from which Massachusetts derives the bulk of its revenues: the personal income tax, the corporate excise and other business excises, and the sales and use tax. It also provides revenue estimate for each tax expenditure, as mandated by Massachusetts state law. Organized into five separate sections, this study analyzes all aspects of Massachusetts tax expenditures. Part I contains a detailed explanation of how we identify and estimate the costs of tax expenditure provisions in the tax code. In the next sections (Parts II - IV), we have provided detailed information about each of the three major tax types, including an explanation of how each tax is calculated and the ways in which that tax's basic structure is modified to produce the various types of tax expenditures. The tax expenditures for each tax are listed after the description of the tax.

Following the expenditure listings, Part V provides four appendices. The first lists recent law changes which affect this year's tax expenditure budget; the second is a glossary that defines terms used throughout the text; the third gives five-year tax expenditure estimates that are consistent with our most recent estimation methodology; and the fourth appendix is used for items that no longer qualify as tax expenditures due to legislative changes but are estimated for the purpose of comparisons to prior reports. In reviewing this document it is important to remember that although a tax expenditure represents a deviation from the generally agreed-upon, or basic, structure of a given tax, determining whether a provision is a tax expenditure is not the same as making a judgment about its desirability. An element of the basic structure of a tax can be inequitable or have undesirable economic effects, just as a tax expenditure can. If so, it can be changed by legislative action just as a tax expenditure can.

The estimates of the costs of tax expenditures included in this volume are revised annually. As improved methodologies and data become available over the course of the year, some estimates may be reexamined and occasionally revised.

What Are Tax Expenditures?

Tax expenditures are provisions in the tax code, such as exclusions, deductions, credits, and deferrals, which are designed to encourage certain kinds of activities or to aid taxpayers in special circumstances. When such provisions are enacted into the tax code, they reduce the amount of tax revenues that may be collected. Massachusetts General Laws (MGL), Ch 29, Sec 1 as modified by the Ch. 165 of the Acts of 2012 (section 112) defines *tax expenditures* as

“state tax revenue foregone as a direct result of any general or special law which allows exemptions, deferrals, deductions from or credits against taxes imposed on income, businesses and corporations, financial institutions, insurance and sales but excluding revenue foregone as a direct result of any general or special law which allows a personal income tax exemption. Sales that do not involve tangible personal property shall not result in tax expenditures under this definition.”

In this sense, the fiscal effects of a tax expenditure are just like those of a direct government expenditure. Some tax expenditures involve a permanent loss of revenue, and thus are comparable to a payment by the government; others cause a deferral of revenue to the future, and thus are comparable to an interest-free loan to the taxpayer. Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct expenditures, it seems reasonable to apply to tax expenditures the same kind of analysis and review that the appropriations budget receives.

It is essential to distinguish between those provisions of the tax code that represent tax expenditures and those that are part of the "basic structure" of a given tax. The basic structure is the set of rules that defines the tax; a tax expenditure is an exception to those rules. In general, most taxes have a series of features that define their basic structure. These features are:

1. A base, on which the tax is levied, such as net income, or a particular class of transactions;
2. A taxable unit, such as a person or a corporation;
3. A rate, to be applied to the base;
4. A definition of the geographic limits of the state's exercise of its tax jurisdiction; and
5. Provisions for the administration of the tax.

Defining the Basic Tax Structure

A tax expenditure is a deviation from the generally agreed-upon, or basic, structure of a given tax. For example, the base of the sales tax includes all retail sales to final consumers. The exemption for sales of energy conservation equipment is an exception, created to encourage purchases of such equipment. The sales tax that is not collected because of the existence of this exemption is tax expenditure.

While this general definition seems straightforward enough, the task of compiling a comprehensive list of tax expenditures presents many conceptual problems. For example, some of the deductions and exemptions allowed under the tax statutes are not tax expenditures. The broad category of income tax deductions allowed for business expenses is not listed as tax expenditure. Since the income tax is generally considered to be a tax on income net of the costs of producing that income, deductions for business expenses are taken against gross income and therefore occur prior to calculation of the tax base. In addition, tax provisions reflecting constitutional prohibitions, such as the prohibition on taxation of sales to the federal government, are considered parts of the basic tax structure and therefore are not properly considered tax expenditures. These distinctions are fairly simple, but more complex analytical questions quickly arise.

For example, deductions for the depreciation of property and equipment used in a trade or business are considered part of the basic tax structure because the use of productive assets is a legitimate cost of doing business. However, federal depreciation rules allow larger depreciation deductions in the early years of a property's useful life. These accelerated depreciation rules could be viewed as properly reflecting changing notions of obsolescence and thus as part of the basic tax structure; or the faster rates of depreciation could be considered a special adjustment in the tax base designed to provide an incentive for investment, and therefore a tax expenditure. Past federal tax expenditure budgets prepared by the Congressional Budget Office and versions prepared by the Treasury Department have disagreed on exactly this issue.

We have adopted the point of view that accelerated depreciation is tax expenditure. Although accelerated depreciation still allows the same total deduction for a piece of property; the rate of depreciation allowed in the early years is faster than would be permitted under traditional accounting principles. Generally, revenue cost estimates in this document for tax expenditures associated with accelerated depreciation rely on assumptions used in congressional federal tax expenditure analysis concerning ordinary depreciation rates.

We have chosen to view the rules for personal exemptions and for no tax status in the Commonwealth's personal income tax as provisions which help to define the income tax base, and thus as a part of the basic structure of the tax (much as the progressive rate structure of the federal income tax, which similarly reduces the tax burden on low-income people, is a part of its basic structure). The base of the tax is defined as net income above what is required for subsistence. Since personal exemptions help define the amount of income needed for subsistence, and therefore the base, they should not be classified as tax expenditures. According to this reasoning, exemptions allowed for dependents would also be considered part of the basic tax structure, since subsistence requirements increase with the size of the taxpayer's household. However, we note that this view of the tax structure does not always lead to easy conclusions. First, taxpayers are allowed exemptions for dependents even if those dependents have their own income and take personal exemptions for themselves. We have treated the use of the dependents' exemption as tax expenditure. Second, the fact that the no tax status amount is greater than the personal exemption suggests that the intent behind the no tax status and personal exemptions goes beyond simple definition of an income base. Although personal exemptions and the no tax status are not listed in this document as tax expenditures, estimates for the revenue losses associated with these provisions are provided in an endnote.

Many Massachusetts tax expenditures in the personal income tax and corporate tax derive from federal income tax rules and thus piggyback on many but not all, federal tax expenditures. We have chosen to include such tax expenditures in this tax expenditure budget, as Massachusetts generally has the ability legally to "decouple" from federal tax expenditures, and has done so in certain cases (e.g., bonus depreciation) from time to time. However, one can question whether federal tax expenditures should generally be included in the Massachusetts tax expenditure budget, because for the most part they simply reflect the fact that Massachusetts has generally chosen to incorporate much of the federal tax laws into the determination of Massachusetts taxable income for personal and corporate income tax purposes.

The sales tax presents the most difficult case. The sales tax statute and its legislative history indicate that the established base of the tax is all "retail" sales. At a minimum, the sales tax exemptions for business purchases of component parts and of products to be resold appear to be provisions that help define which sales are considered non-retail sales, and therefore should not be classified as tax expenditures. However, it is difficult if not impossible to decide which other sales tax exemptions might also cover non-retail sales. For example, manufacturing companies are allowed an exemption from the sales tax for purchases of machinery used in the production process. Since this machinery is not a direct component part of any product being manufactured and is not purchased simply to be resold, it could be argued that the machinery purchase is a retail sale and that the machinery exemption is a tax expenditure. Others would argue that because these purchases are not made by the final consumers of an end product, and because they represent legitimate business expenses, these sales tax exemptions should not be considered tax expenditures.

The largest proportion of Massachusetts tax expenditure dollars used to be sales and use tax expenditures. This was largely because of the exclusion (or non-taxation) of certain property and services (other than telecom) from sales and use taxation. The Center on Budget and Policy Priorities' tax expenditure survey report indicates that items such as non-taxation of services, which are so-called "implicit tax expenditures", should be included in the tax expenditure budget. They also report that about 19 states have such items in their annual tax expenditure reports (<https://www.cbpp.org/research/state-budget-and-tax/promoting-state-budget-accountability-through-tax-expenditure>). This provides a means of quantifying the cost of not taxing most services, and allows for comparison with other states that do apply their sales and use tax to various types of specified services. However, in July 2012 legislation was enacted stating explicitly that "sales that do not involve tangible personal property shall not result in tax expenditures". See St 2012, c.165, §112. Pursuant to this legislation, from fiscal year 2014 on, we remove some items, including non-taxation of services, from our tax expenditure estimates, which we regularly reported in prior years. But to facilitate comparison to tax expenditure estimates in prior years, we list these items in Appendix D.

As stated in the introduction, the most important thing to remember is that making a judgment about whether a provision is tax expenditure is not the same as making a judgment about its desirability. With this in mind, we have attempted to provide more rather than fewer tax expenditure estimates, so that necessary information is available for those charged with making policy judgments.

Description of the Data

This budget should be considered part of an ongoing effort to list tax expenditures, describe their characteristics, and estimate their revenue costs. Each year, we attempt to improve upon the analysis presented in the prior year's tax expenditure budget. For purposes of comparison, we have provided an appendix containing updated tax expenditure estimates for the past four years as well as for Fiscal Year 2026.

Information collected by the Department of Revenue (DOR) from Massachusetts tax returns was an important source of data in this budget. Estimates made from these data tend to be the most reliable. Unfortunately, many tax expenditures cannot be estimated from DOR records. When a particular category of income is excluded from taxation, amounts often do not appear on tax records. This is especially likely to be the case for those tax expenditures brought about by "coupling" the state tax code to the federal code, since exclusions and some deductions are not reported explicitly, but are simply carried over to state tax calculations as part of the reporting of federal income. In such cases we have had to estimate a Massachusetts figure using national tax data, census information, sales statistics, and other information.

You will note that in several cases, this year's tax expenditure estimates are very different from last year's. Revisions to the estimates occur for four reasons: we have new data sources; federal tax expenditure estimates on which we rely have changed; we have refined our estimation methodologies; or changes in Massachusetts tax law have modified existing estimates. In a few instances, more than one of these factors operates to explain the difference. All estimates are projections forward from a base year (which varies depending on the availability of data) to Fiscal Year 2026.

We have incorporated the economic impacts of COVID-19 into our estimates for Fiscal Year 2020 and beyond, where practical. In addition, effective taxable year 2024 Massachusetts personal income tax will adhere to the Internal Revenue Code ("Code") as amended on January 1, 2024.

Data Limitations

There are some additional caveats that the reader should keep in mind when reading this budget. First, most revenue loss estimates have been made without taking into account how repeal of a provision might change taxpayer behavior. For example, if the sales tax exemption for a particular item were repealed, the item would become more expensive to consumers, so one would expect sales of that item to decline. The revenue gain from repealing the provision would be, therefore, somewhat less than if the level of sales for the affected items remained the same. On the other hand, some of the income not spent on that item might be spent on other taxable items. To the extent that consumers and businesses pay more taxes and have less income available for other purposes, the repeal of a tax expenditure might have much broader economic and revenue effects. Clearly, the full estimation of these effects demands extensive data which are not easily available.

Second, interactions among different taxes and tax expenditures may be quite complex. Repealing some tax expenditures may increase or decrease the value of others. For example, increasing the no tax status amount would mean that fewer people would pay taxes, and thus fewer people would claim other exemptions. This would reduce the revenues lost through other exemptions. Therefore, the combined cost of several tax expenditure items may be different from the total of the cost of the separate tax expenditure items.

Third, the revenue cost estimates do not generally reflect compliance factors that may significantly reduce revenues available from tax expenditure repeal. In particular, where Massachusetts tax provisions are "coupled" with federal tax rules, audits of Massachusetts taxpayers generally compare state and federal returns. If Massachusetts tax provisions were "decoupled", taxpayers would have to make separate calculations for Massachusetts tax purposes, and these provisions would require special audit procedures. Compliance difficulties would certainly result.

And fourth, particular caution is appropriate with respect to the tax expenditure budget's totals for expenditures for particular taxes. Not only do these totals reflect the imprecision of the specific estimates, but they also omit those items for which no estimates were available. In consequence, particular totals may be substantially understated. At the same time, included in the totals, particularly with regard to the sales tax, are a number of substantial items that many analysts would not regard as tax expenditures, but rather as features of the underlying tax itself. The general approach in preparing the tax expenditure budget has been to count questionable items as tax expenditures, so that information concerning them would be available for analysis. The result is that the totals are higher than they would be under a more restrained analytic approach.

Reading the Budget

In this document, tax expenditures and cost estimates are listed according to the taxes to which they pertain: personal income, corporate excise, and sales and use. Note that the corporate section of the Tax Expenditure Budget includes other business excises along with the corporate excise. These additional business excise taxes are the financial institution excise, the public utility excise, which was repealed effective January 1, 2014, the excises on insurance companies, and the excise on security corporations. Each of the three major taxes includes an introductory section with a description of the tax, followed by a listing of the tax expenditures for that tax. Each tax expenditure item includes a brief description, the cost estimate, a statutory citation, and an indication of the tax expenditure's type. The various special excises on motor fuels, cigarettes, alcoholic beverages, etc. are not covered in this budget.

Note on the impact of Federal Law changes

Recent federal law changes have impacted tax expenditures. On December 22, 2017, Public Law 115-97, commonly known as the Tax Cuts and Jobs Act (TCJA) was signed into law. On March 27, 2020, Public Law No. 116-136, the federal "Coronavirus Aid, Relief and Economic Security Act," also known as the CARES Act was signed into law. Most recently, the Federal Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021 were enacted. These Acts provide federal changes to a variety of provisions in the Internal Revenue Code ("Code") that affect the personal income tax and corporate & business excise tax.

As mentioned, Massachusetts updated the year for which it adheres to federal personal income tax law, and follows the IRC as of January 1, 2024, but does not adopt any federal personal income tax law changes incorporated since. However, specific Massachusetts personal income tax provisions, as set forth in MGL Ch. 62, § 1(c), automatically conform to the current IRC. See Appendix A of Fiscal Year 2025 TEB.

For corporate and business tax regulations, in general, Massachusetts adopts federal tax expenditure items. For tax expenditure that are newly created or significantly altered, these changes are discussed in detail in Appendix A.

Note that where Massachusetts automatically conforms to federal changes, existing tax expenditures in the state's Tax Expenditure Budget (TEB) that are calculated based on federal estimates will reflect the impact of those changes.

While we have incorporated federal tax law changes into this year's budget wherever possible, some of more recent changes may not have been reflected. DOR will continue to review the impacts of the federal tax law changes and will incorporate those impacts into future TEB reports as necessary.

Although income from professions, trades or employment was taxed throughout the nineteenth century under the local property tax, it was not until 1916, under the authority of Article 44 of the Amendments to the Massachusetts Constitution, that the Massachusetts personal income tax was enacted as a separate tax. Because Article 44 requires that all income of the same class be taxed at the same rate, Massachusetts applies a flat tax rate regardless of total income; the federal tax structure (and that used in most states) uses graduated rates.

Generally, the Massachusetts personal income tax ties into the federal Internal Revenue Code as it was on January 1, 2024; previously Massachusetts adhered to the 2022 Code. To the extent that the Massachusetts tax takes federal law as its starting point, it adopts many federal tax expenditures (see the Fiscal Year 2024 TEB, Appendix A for more details).

The personal income tax is the state's largest revenue source, accounting for 59.1% of Department of Revenue tax collections in Fiscal Year 2024.

Personal Income Tax: Basic Structure

Tax Base: The personal income tax base is gross income minus the costs of producing the gross income (trade or business expenses). Massachusetts gross income is defined as federal gross income with certain modifications. Effective January 1, 1996 it was divided into three classes: interest, dividends, and short-term capital gains ("Part A" income); long-term capital gains ("Part C" income); and all other income ("Part B" income). Massachusetts taxpayers are entitled to a basic personal exemption, which varies according to taxpayer status. The exempted amounts are considered to be outside the generally accepted tax base. They reflect the notion that income needed for bare subsistence should be free from tax. Thus, for the purposes of this document, these exemptions are not listed as tax expenditures. In addition, taxpayers whose income is below a specified level are entitled to "no tax status." For the same reason, this status is not listed as tax expenditure. On the other hand, because policy makers are often interested in the effects of adjusting the dollar amounts for the personal exemptions and the no tax status, estimates are provided for them in endnote 3 to item 1.405 in the list of personal income tax expenditures.

Taxable Unit: Individuals are taxed separately, with the exception of married couples, who may file a joint return. The income of children is not aggregated with that of their parents. The income of trusts, estates, and unincorporated associations is also subject to the personal income tax.

Rate Structure: The rate structure has been evolving to a system where most income is taxed at the Part B rate. Also, the Part B rate has been rolling back during years in which certain trigger levels of collections are met. The rate was 5.10% for tax years 2017 and 2018 but decreased to 5.05% for tax year 2019. It decreased further to 5.00% for tax year 2020 and remains at that level for 2021 and subsequent years. Currently, only short-term capital gains and long-term capital gains on collectibles are taxed at a different rate. The vast majority of income is linked to the Part B rate.

With the passage of a 2022 ballot initiative, referred to as "the millionaire's tax", beginning in taxable year 2023 an additional 4.0% tax (4% surtax) is levied on taxable income over \$1.0 million, increased annually for inflation (surtax threshold). The 4.0% rate applies to taxable income amounts beyond this threshold, regardless of income type (i.e., Part A, B, or C). Due to time constraints, the additional income tax has not been factored into any relevant income tax expenditure estimates in the Fiscal Year 2026 TEB report.

Historical Notes

Prior to tax year 1999, the tax rate on interest and dividend income (one component of Part A income) was 12% compared with the Part B "earned" taxable income rate of 5.95%. Effective January 1, 2000, the rate on both Part B and the linked Part A income (Interest and Dividends) dropped to 5.85%, then to 5.60% on January 1, 2001, and to 5.30% on January 1, 2002. The rate was scheduled to decline to 5.00% on January 1, 2003; however, Chapter 186 of the Acts of 2002 ("An Act Enhancing State Revenues") delayed the final phase of the rate reduction. The tax rates on interest and dividend income and Part B income, declined to 5.25% for tax year 2012 and 2013, to 5.20% for tax year 2014, to 5.15% for tax year 2015, and to 5.10% for tax years 2016, 2017, and 2018. The rate was 5.05% for tax year 2019 and 5.00% for tax year 2020 and beyond. All other things being equal, a reduction in tax rates -- which are part of the basic tax structure -- has the effect of reducing the value of tax expenditures, because when tax rates decline, so does the value of any exceptions to that basic structure.

Of historical interest, between January 1, 1996 and January 1, 2003, Part C income (long-term capital gains), was subject to the following tax rates based on how long the assets were held:

<u>Holding Period</u>	<u>Tax Rate</u>
more than one, but less than two years	5%
more than two, but less than three years	4%
more than three, but less than four years	3%
more than four, but less than five years	2%
more than five, but less than six years	1%
more than six years	0%

Assets acquired prior to January 1, 1996 were deemed to have been acquired on the later of January 1, 1995 or the actual date of acquisition.

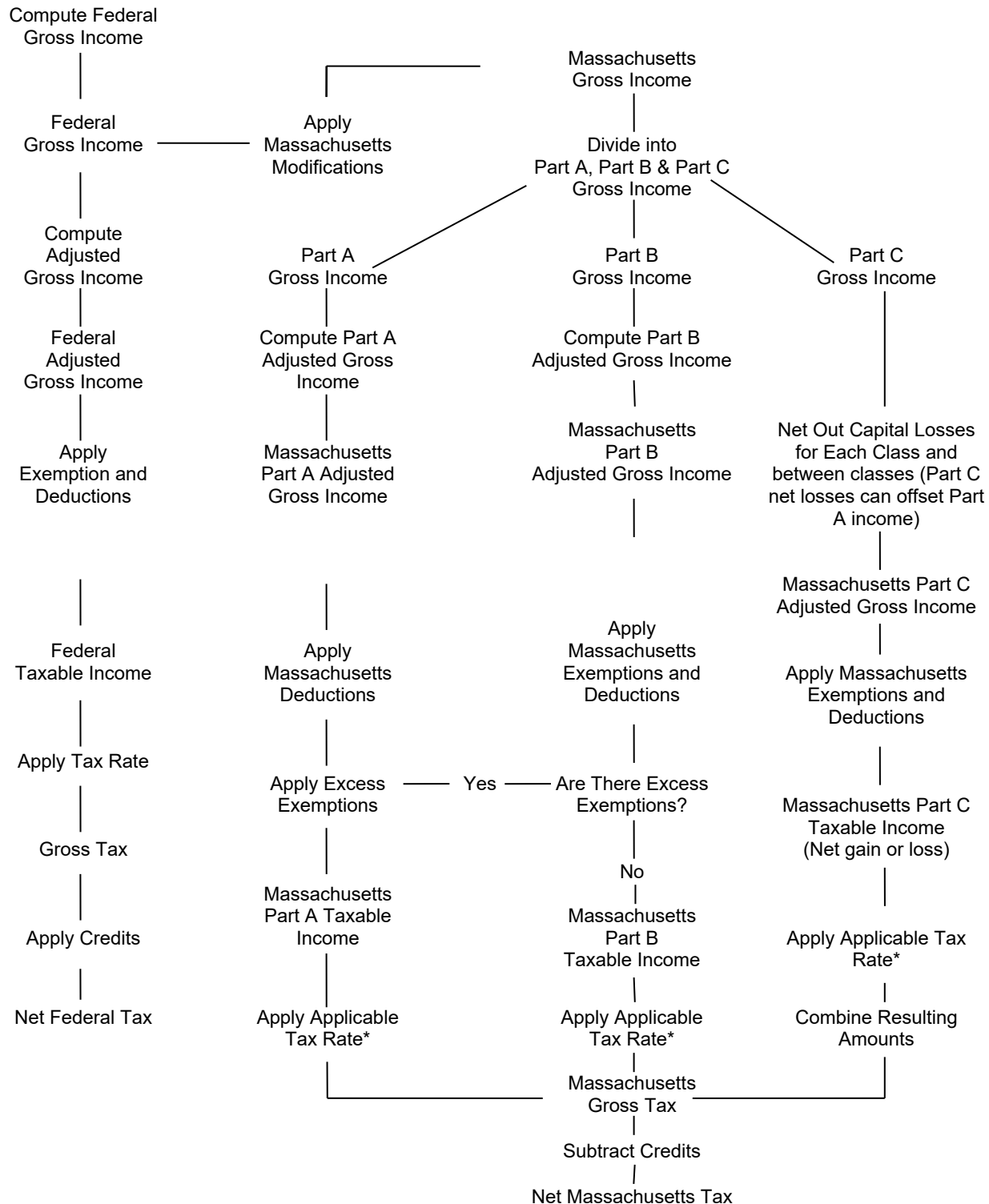
Chapter 186 of the Acts of 2002 eliminated the "sliding scale" treatment of capital gains on assets held for more than one year. This was originally effective May 1, 2002; subsequent legislation changed the effective date of the tax change to apply to assets sold on or after January 1, 2003. Gains on such transactions are now taxed at the Part B rate of 5.00% for tax year 2020 and beyond.

Note that capital assets held less than one year are considered Part A income; these short-term realizations were taxed at 12%. Effective January 1, 2023, the tax rate on gains from the sale of capital assets held for one year or less (short-term capital gains) is 8.5% and the tax rate on long-term gains from the sale of collectibles is still 12.0% (subject to a 50% deduction).

Taxable Period: The taxable period is one year (or less), usually the calendar year. Income may be reported according to the cash or accrual method. Where property is sold on a deferred payment basis, gains may be reported in the years the payments are received. There is no Massachusetts provision for income averaging. Net capital losses may be carried forward to future years. Ordinary losses may not be carried forward.

Interstate and International Aspects: Residents are taxed upon their entire income, whether derived from Massachusetts sources or elsewhere, without allocation or apportionment. Nonresidents are taxed only on income from sources within Massachusetts. A resident may take a limited credit against the Massachusetts income tax for income taxes due to other states, the District of Columbia, any territory or possession of the United States, or Canada or its provinces on any item of Massachusetts gross income.

Computation of the Personal Income Tax



* Beginning in taxable year 2023 an additional 4.0% tax is levied on the portion of taxable income that exceeds \$1.0 million, which is adjusted for inflation annually.

Types of Tax Expenditures under the Personal Income Tax

The basic structure of the personal income tax can be modified in a number of different ways to produce tax expenditures. Brief explanations of the various types of tax expenditures follow:

Exclusions from Gross Income: Gross income is the starting point in the calculation of income tax liability and, in the absence of tax expenditures, would include all income received from all sources. Typically, the taxpayer does not report items of income that are excluded from gross income on his or her tax return. Thus, they escape taxation permanently.

Deferrals of Gross Income: Where an item of income is not included in gross income in the year when it is actually received, but is instead included in a later year, the result is tax expenditure in the form of an interest-free loan from the state to the taxpayer in the amount of the tax payment that is postponed.

Deductions from Gross Income: Certain amounts are subtracted from gross income to arrive at adjusted gross income (AGI). Many of these deducted amounts reflect the costs of producing income (business expenses), and are not properly part of the income tax base. Such deductions are not tax expenditures. Other deductions that do not reflect business expenses constitute tax expenditures, which permit corresponding amounts of income to escape taxation permanently.

Accelerated Deductions from Gross Income: In a number of cases, taxpayers are allowed to deduct business expenses from gross income at a time earlier than such expenses would ordinarily be recognized under Generally Accepted Accounting Principles. The total amount of the permissible deduction is not increased, but it can be utilized more quickly to reduce taxable income. The result is to defer taxes, thus in effect occasioning an interest-free loan from the state to the taxpayer.

Deductions from Adjusted Gross Income (AGI): Taxable income results from the subtraction of certain deductions and exemptions from AGI. Certain of these subtracted items represent amounts of income necessary for subsistence; their exclusion is part of the basic structure of the income tax. Other subtracted items represent tax expenditures, which permit corresponding amounts of income to escape taxation permanently.

Credits against Tax: After a taxpayer's basic tax liability has been calculated by applying the tax rates to taxable income, the taxpayer may subtract certain credit amounts from this initial liability in determining the actual amount of taxes that must be paid. It is important to note that, whereas a one-dollar exclusion or deduction results in a tax savings of only a few cents (one dollar times the applicable tax rate), a one-dollar credit results in a one-dollar tax savings.

Note on Personal Exemptions, Dependent Exemptions, No Tax Status, and Limited Income Credit: These exempted amounts are considered to be outside the generally accepted tax base, and thus, for the purposes of this document, these exemptions are not listed as tax expenditures. However, because policy makers are often interested in the impact of adjusting their dollar amounts, estimates are provided for them in a footnote following the "Credits against Tax" section.

List of Personal Income Tax Expenditures

1.000 EXCLUSIONS FROM GROSS INCOME

1.001 Exemption of Premiums on Accident and Accidental Death Insurance¹

Employer contributions for premiums on accident and accidental death insurance are not included in the income of the employee and are deductible by the employer.

Origin: IRC § 106

Estimate: Included in 1.004

1.002 Exemption of Premiums on Group-Term Life Insurance¹

Due to Massachusetts' reliance on the Internal Revenue Code ("Code") for purposes of determining income, employer payments of employees' group-term life insurance premiums for coverage up to \$50,000 per employee are not included in income by the employee.

Origin: IRC § 79

Estimate: \$32.1

1.003 Exemption of Death Benefits and Interest on Life Insurance Policy and Annuity Cash Value

Due to Massachusetts' conformity with Internal Revenue Code (IRC) § 101, increases in the cash value of life insurance policies and annuities are not taxed until distributed to the policy holder. If the policy holder dies with the policy in force, the increase in value and the death benefit are excluded from income when paid to policy or annuity beneficiaries.

Origin: IRC § 101

Estimate: \$442.7

1.004 Exemption of Employer Contributions to Accident and Health Plans and Certain Benefits Received¹

Massachusetts conforms to the federal individual income tax exclusions for: (i) employer contributions to employees' accident and health plans and (ii) benefits received by employees from such plans.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and § 2(a)(2)(Q); Code §§ 105 and 106

Estimate: \$1,627.3

1.005 Exemption of Annuity or Pension Payments to Fire and Police Personnel

Income from noncontributory annuities or pensions to certain retired fire and police personnel or their survivors are tax-exempt.

Origin: M.G.L. c. 32

Estimate: N.A.

- 1.006 Exemption of Distributions from Certain Contributory Pension and Annuity Plans²
- Income from contributory pensions of the U.S. and Massachusetts governments, including their agencies and political subdivisions, is excluded from Massachusetts gross income.
- Origin: M.G.L. c. 62, §§ 2(a)(2)(E)
- Estimate: \$528.8
- 1.007 Exemption of Railroad Retirement Benefits
- Railroad Retirement benefits are excluded from Massachusetts gross income.
- Origin: M.G.L. c. 62, § 2(a)(2)(H)
- Estimate: \$1.6
- 1.008 Exemption of Public Assistance Benefits
- Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, public assistance benefits are excluded from gross income.
- Origin: IRC § 61(a)(1); Rev. Rul. 71-425, 1971-2 C.B. 76
- Estimate: \$1,734.3
- 1.009 Exemption of Social Security Benefits
- Social Security benefits are excluded from Massachusetts gross income.
- Origin: M.G.L. c. 62, § 2 (a)(2)(H)
- Estimate: \$658.9
- 1.010 Exemption of Workers' Compensation Benefits
- Due to Massachusetts' reliance on the Internal Revenue Code ("Code") for purposes of determining income, amounts received under workers' compensation acts as compensation for personal injuries or sickness are excluded from gross income.
- Origin: IRC § 104 (a)(1)
- Estimate: \$54.5
- 1.011 Exemption for Dependent Care Expenses¹
- Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, dependent care assistance provided by employers to employees is excluded from Massachusetts gross income.
- Origin: M.G.L. c. 62, §§ 1(c), 1(d), 2(a); Internal Code § 129
- Estimate: \$5.7

1.012 Exemption of Certain Foster Care Payments

Massachusetts conforms to the federal income tax exclusion for payments by state and local social services agencies to taxpayers that provide foster care to children in need.

Origin: IRC § 131

Estimate: \$3.9

1.013 Exemption of Payments Made to Coal Miners

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, amounts received by coal miners or their survivors as compensation for disability or death from black lung disease are excluded from Massachusetts gross income.

Origin: IRC § 104(a)(1); Rev. Rul. 72-400

Estimate: Negligible

1.014 Exemption of Rental Value of Parsonages¹

Massachusetts conforms to Internal Revenue Code (the "Code") § 107, which allows ministers to exclude from gross income a housing allowance or the rental value of a parsonage furnished as part of their compensation. As defined in Internal Revenue Service pronouncements and federal case law, the term "minister" includes people holding various titles in a variety of religious organizations.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and § 2(a); Code § 107

Estimate: \$4.5

1.015 Exemption of Scholarships, Fellowships, and Tuition Reductions

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, qualifying scholarships, fellowship grants, and tuition reductions are excluded from Massachusetts gross income.

Origin: IRC § 117(a), (d)

Estimate: \$55.5

1.016 Exemption of Certain Prizes and Awards

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, prizes for achievements in specified fields and certain cash payments received for participating in the Olympics or Paralympics are excluded from Massachusetts gross income.

Origin: IRC § 74

Estimate: \$3.5

- 1.017 Exclusion of Payments Received Under Government Conservation, Reclamation and Restoration Programs
- Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, property owners may exclude from income certain payments they receive for participating in designated conservation, reclamation, and restoration programs.
- Origin: IRC § 126
- Estimate: \$0.4
- 1.018 Exclusion from Employee Income of Meals and Lodging Furnished for the Convenience of the Employer¹
- This tax expenditure provides employees with an income exclusion for the value of meals and lodging provided by their employers for the employers' business purposes. Massachusetts conforms to the exclusion set out in the Internal Revenue Code (the "Code"), which results in a state tax expenditure.
- Origin: M.G.L. c. 62, § 2(a)
- Estimate: \$75.8
- 1.019 Exclusion from Employee Income of Business-Related Meals and Entertainment¹
- Provides an income exclusion for the value of business-related meals and entertainment provided to employees, consistent with the federal exclusion.
- Origin: M.G.L. c. 62, § 2(a)
- Estimate: \$32.4
- 1.020 Exemption of Income from the Sale, Lease, or Transfer of Certain Patents
- Exempts from tax income from the sale or transfer of certain patents, or from the production of royalty or other income from property subject to such patents, for a period of five years. The patents must be issued to or applied for by a Massachusetts resident or a Massachusetts corporation, support energy conservation or alternative energy, and be approved by the commissioner of energy resources.
- Origin: M.G.L. c. 62, § 2(a)(2)(G); M.G.L. c. 63, § 30.3
- Estimate: Expired
- 1.021 Exemption of Capital Gains on Home Sales
- Massachusetts conforms to the Internal Revenue Code (the "Code") § 121 exclusion from gross income for up to \$250,000 of capital gain (or \$500,000 if filing jointly) on the sale of a principal residence.
- Origin: M.G.L. c. 62, §§ 1(c), 1(d), and § 2(a); Code § 121
- Estimate: \$429.2

1.022 Exemption for Capital Gains at Time of Death

Ordinarily, for federal income tax purposes, capital gains are taxed at the time appreciated property is transferred to a new owner. However, tax is not imposed on capital assets transferred by reason of the owner's death. Further, the new owner receives the assets with a new basis (i.e. the fair market value of assets at the time of decedent's death) rather than the same "carryover" basis of the decedent. Thus, the amount of appreciation that occurred while the decedent held the asset is never taxed. Massachusetts generally follows the federal rules for purposes of determining taxable capital gains. This conformity allows capital assets to escape the personal income tax to the extent of appreciation occurring prior to the decedent's death, resulting in a state tax expenditure. Comment: See also item 1.106

Origin: IRC §§ 1001 and 1014

Estimate: \$915.0

1.023 Exemption of Interest from Massachusetts Obligations

Interest earned on Massachusetts state and local obligations is exempt from the personal income tax. The exemption applies to interest income from any obligation issued by the Commonwealth, any political subdivision of the Commonwealth, or any agency or instrumentality thereof.

Origin: M.G.L. c. 62, § 2 (a)(1)(A); IRC § 103

Estimate: \$87.7

1.024 Exemption of Benefits and Allowances to Armed Forces Personnel¹

Due to its reliance on the Internal Revenue Code (Code) for purposes of determining income, Massachusetts excludes several benefits to members of the armed services, including, under IRC § 112 (i) compensation earned by members of the Armed Forces serving in a combat zone and (ii) income received by such individuals who were hospitalized as a result of injury incurred while serving in a combat zone, and under IRC § 134, certain qualified military benefits, such as certain medical and disability benefits, moving allowances, dependent care assistance, and certain travel benefits.

Origin: IRC §§ 112, 134

Estimate: \$17.4

1.025 Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits

Federal law provides that amounts received as veterans' disability pensions, disability compensation and G.I. benefits are exempt from federal and state taxation. Massachusetts is thus not permitted to tax such amounts.

Origin: 38 U.S.C. § 5301

Estimate: \$69.5

1.026 Exemption of Military Disability Pensions

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, amounts received as military disability pensions are excluded from gross income.

Origin: M.G.L. c. 62, § 1(c); IRC §§ 104(a)(4) and (5), and IRC §§ 104 (b)

Estimate: \$0.8

1.027 Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel

Nonresident servicemembers are not subject to personal income tax on compensation for active-duty military service, even if the service is performed in Massachusetts.

Origin: M.G.L. c. 62, § 5A(c)

Estimate: \$12.8

1.028 Exemption for Taxpayers Killed in Military Action or by Terrorist Activity

Certain individuals that died as a result of injuries sustained in (i) military service in a combat zone, (ii) military or civilian service in a military action or terrorist attack, or (iii) specified terrorist attacks on civilians are exempted from the Massachusetts personal income tax, subject to certain limitations. The Massachusetts exclusion parallels a similar federal exclusion.

Origin: M.G.L. c. 62, § 25; IRC, § 692.

Estimate: Negligible

1.029 Exemption for Retirement Pay of the Uniformed Services

Income from U.S. military pensions is excluded from Massachusetts gross income. Such pensions are those derived from service in the Army, Navy, Air Force, Marine Corps, Space Force, Coast Guard, and the Commissioned Corps of the Public Health Service and National Oceanic and Atmospheric Administration. Note that income from such pensions is subject to the federal income tax.

Origin: M.G.L. c. 62, § 2(a)(2)(E); St.1997, c. 139, s. 1

Estimate: \$24.6

1.030 Exclusion from Gross Income of Parking, T-Pass and Vanpool Fringe Benefits

Massachusetts conforms to the federal tax exclusion for employer-provided parking, transit passes, and vanpool benefits provided under the Internal Revenue Code (the "Code"). In 2023, the Massachusetts and federal exclusions are subject to monthly maximums of \$300 for parking and \$300 for combined transit pass and vanpool benefits. The Massachusetts exclusion amount was different than the federal exclusion amount in prior years because prior to 2022 the state relied on the federal exclusion amounts determined under the 2005 Code.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and § 2(a); Code § 132(f)

Estimate: \$59.6

1.031 Health Savings Accounts

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, eligible contributions to, earnings in, and qualified distributions from health savings accounts (HSAs) are not subject to the personal income tax.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and 2(d)(1); IRC § 223

Estimate: \$61.1

1.032 Employer-Provided Adoption Assistance

Massachusetts adopted the federal exclusion for employer-provided adoption expenses paid (or treated as paid under IRC sec. 137). Previously, Massachusetts followed the 2005 Code and as such the exclusion had a sunset after 2010. With the recent update to the Code as of January 1, 2022, Massachusetts this expenditure has been restored.

Origin: IRC § 137

Estimate: \$2.5

1.033 Employer-Provided Educational Assistance

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, certain employer payments for employee education and training assistance are excluded from employee gross income.

Origin: M.G.L. c. 62, § 1(c); Code §§ 127 and 132(j)(8)

Estimate: \$13.7

1.035 Department of Defense Homeowners Assistance Plan

Due to Massachusetts' reliance on the Internal Revenue Code (Code), Massachusetts adopts the federal exclusion for qualified military base realignment and closure fringe benefits paid by the Department of Defense (DOD) to military personnel, eligible civilian personnel, or their spouses. Such benefits are intended to compensate such individuals for reductions in the fair market value of their homes that result from having to move due to base closures or injury related to military service.

Origin: M.G.L. c. 62, § 1(c) ; IRC § 132 (a)(8), (n); 42 U.S. Code § 3374

Estimate: \$0.2

1.036 Survivor Annuities of Fallen Public Safety Officers

For both Massachusetts and federal tax purposes, an exclusion from income is allowed for amounts paid under a governmental plan as an annuity to the survivor of a public safety officer killed in the line of duty. Massachusetts adopts the federal exclusion as amended and in effect on January 1, 2005, that excludes these annuities.

Origin: IRC § 101(h)

Estimate: N.A.

1.037 Survivor Annuities of Fallen Astronauts

Massachusetts adopts the federal exclusion for death benefits paid by the U.S. government to the survivors of astronauts who die in the line of duty. The Massachusetts exclusion is effective for payments made on or after January 1, 2005.

Origin: IRC § 101(i)

Estimate: N.A.

1.039 Discharge of Indebtedness for Health Care Professionals

Massachusetts adopts the federal exclusion for discharges of indebtedness related to certain costs for students entering health care professions.

Origin: M.G.L. c. 62, § 2; IRC § 108(f)(4)

Estimate: \$1.2

1.040 Archer Medical Savings Accounts

Due to Massachusetts' reliance on the Internal Revenue Code ("Code") for purposes of determining income, eligible contributions to, earnings in, and qualified distributions from Archer medical savings accounts ("Archer MSAs") are not subject to the personal income tax.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and 2(d)(1); IRC § 220

Estimate: \$0.2

1.041 Earnings of Pre-paid and Tuition Savings ("529" plans)

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, Massachusetts allows an income exclusion for amounts earned by pre-paid tuition programs and tuition savings accounts.. See TIR 18-14 for more information.

Origin: IRC § 529

Estimate: \$37.3

1.042 Exclusion of Gains of Qualified Small Business Stock (QSBS) Gain

For federal tax purposes Internal Revenue Code ("IRC") § 1202 allows individuals an income exclusion for gains derived from the sale of qualified small business stock ("QSBS"). Because Massachusetts generally follows the IRC as in effect in 2005 for personal income tax purposes, Massachusetts allows an income exclusion for 50% of such gains.

Origin: IRC § 1202

Estimate: \$25.2

1.043 Exclusion of Alimony Payments Made

Due to Massachusetts' conformity with Internal Revenue Code (IRC) § 61, Massachusetts excludes from gross income alimony payments made pursuant to any divorce or separation instrument executed after December 31, 2018, and (ii) to any divorce or separation instrument executed before 2019 but modified after 2018 to expressly provide that alimony or separate maintenance payments are not deductible by the payer or includible in the gross income of the recipient.

Origin: IRC §§ 61(a)(8) and 62(a)(10)

Estimate: \$7.0

1.044 Exclusion From Gross Income Of Discharged Qualified Principal Residence Indebtedness

Due to Massachusetts' conformity with IRC § 108(a)(1), Massachusetts excludes from gross income the discharge of qualified principal residence indebtedness. The maximum amount excludable from Massachusetts gross income as discharged qualified principal residence indebtedness is \$750,000 (\$375,000 if married filing separately)

Origin: IRC § 108(a)(1)(E)

Estimate: \$0.3

1.045 Exclusion From Gross Income Of Amounts Received Under The Work Colleges Program

Due to Massachusetts' conformity with IRC § 117(c)(2), Massachusetts allows an exclusion from gross income for amounts an individual receives from a comprehensive student work-learning service program at a work college.

Origin: IRC § 117(c)(2)

Estimate: \$40.3

1.046 Exclusion Of Benefits Provided To Volunteer Firefighters And Emergency Medical Responders

Due to Massachusetts' conformity with IRC § 139B, a member of a qualified volunteer emergency response organization may exclude from gross income (i) any qualified state or local tax benefit provided on account of the member's services and (ii) qualified payments of up to \$600 for the member's services. A "qualified volunteer emergency response organization" is any volunteer organization which is (i) organized and operated to provide

firefighting or emergency medical services, and (ii) is required to provide such services by a state or local government. A taxpayer may take a charitable deduction for expenses incurred in performing services as a member of a qualified volunteer emergency response organization only to the extent those expenses exceed the amount of the taxpayer's qualified payments excluded from federal gross income under IRC § 139B.

Origin: IRC § 139B

Estimate: \$0.7

1.047 Exclusion From Gross Income Of Indian Healthcare Benefits

Due to Massachusetts' conformity with IRC § 139D, Massachusetts allows taxpayers to exclude from gross income the value of any qualified Indian health care benefit.

Origin: IRC § 139D

Estimate: \$15.8

1.048 Exclusion From Gross Income Of Indian General Welfare Benefits

Due to Massachusetts' conformity with IRC § 139E, Massachusetts allows taxpayers to exclude from gross income general Indian welfare payments paid by Indian tribal government programs.

Origin: IRC § 139E

Estimate: \$0.1

1.049 Exclusion From Gross Income Of Certain Amounts Received By Wrongfully Incarcerated Individuals

Due to Massachusetts' conformity with IRC § 139F, Massachusetts allows taxpayers to exclude from gross income amounts received as civil damages, restitution, or other monetary award relating to the wrongful incarceration of an individual.

Origin: IRC § 139F

Estimate: \$0.1

1.100 DEFERRALS OF GROSS INCOME

1.101 Net Exemption of Contributions to Employee Stock Bonus Plans, Pensions, and Profit-Sharing Trusts²

Employee contributions to employee stock bonus plans, pensions, and profit-sharing trusts are not subject to the Massachusetts personal income tax when made, if requirements under federal pension law are met. Distributions from such plans are generally taxable when received. Where employee contributions are not eligible for an exclusion, the distributions from those plans are excluded up to the amount of previously taxed contributions. Massachusetts conforms to these federal rules. This results in a deferral of tax on contributions to such plans, or an exclusion from tax on distributions, both of which constitute a state tax expenditure.

Origin: IRC §§ 401-415; M.G.L. c. 62, §§ 2(a)(2)(F); 2(a)(3)(C); and M.G.L. c. 62, § 2(a)(1)(I).

Estimate: \$1,349.2

1.102 Treatment of Incentive Stock Options

Massachusetts adopts the federal tax treatment of incentive stock options as provided in the Internal Revenue Code (the "Code") as amended on January 1, 2024. Under the federal rules, and therefore for Massachusetts purposes as well, no tax consequences result when employees are granted or exercise options to purchase company stock. Employees are taxed only when they sell the stock acquired through the exercise. This results in a deferral of tax for both federal and Massachusetts tax purposes which constitutes a tax expenditure.

Origin: M.G.L. c. 62 § 1(c) and (d); G.L. c. 62, § 2(a); Code §§ 421, 422, and 424

Estimate: \$6.8

1.103 Exemption of Earnings on Stock Bonus Plans, Pensions or Profit-Sharing Trusts

Employee stock bonus plans, employee pension plans and employee profit-sharing plans are exempt from the Massachusetts personal income tax.

Origin: M.G.L. c. 62, § 5(b)

Estimate: \$1,683.5

1.104 Exemption of Earnings on IRAs and Keogh Plans²

Massachusetts exempts the earnings of IRAs and Keogh plans from the personal income tax until the earnings are distributed. Distributions of earnings from Roth IRAs may be exempt if the account is held for at least 5 years and certain additional requirements are satisfied. This is consistent with the federal tax treatment of such plans.

Origin: M.G.L. c. 62, § 5(b)

Estimate: \$270.3

1.106 Exemption for Capital Gains at Time of Gift

Ordinarily, for federal income tax purposes, capital gains are taxed at the time appreciated property is transferred to a new owner. However, the tax on capital gains on property transferred by gift is deferred until the new owner sells the property. If the new owner dies holding the gifted property, the tax is never imposed (see TE 1.022). Massachusetts generally follows the federal rules for purposes of determining taxable capital gains. This conformity results in a deferral and potential exclusion of tax on capital gains and therefore constitutes a state tax expenditure.

Origin: IRC §§ 1001, 1015

Estimate: \$31.9

1.107 Teacher's Expense Deduction

Due to Massachusetts' conformity with IRC § 62, teachers may deduct from their gross income unreimbursed, qualified expenses (e.g., expenses for books, supplies, and computer equipment used in the classroom; expenses incurred during qualified professional development courses). The deduction is limited to an inflation-adjusted amount. For the 2024 tax year, the deduction is limited to \$300, and, if the educator is married and files a joint return with another eligible educator, the limit rises to \$600 with not more than \$300 deducted per spouse.

Origin: IRC § 62(a)(2)(D)

Estimate: \$1.4

1.200 DEDUCTIONS FROM GROSS INCOME**1.201 Capital Gains Deduction for Collectibles**

The expenditure provides a 50% deduction for long-term capital gains on the sale or exchange of collectibles.

Origin: M.G.L. c. 62, § 2(c)(3)

Estimate: \$2.4

1.202 Deduction of Capital Losses Against Interest and Dividend Income

Taxpayers may deduct up to \$2,000 of net capital loss against interest and dividend income.

Origin: M.G.L. c. 62, § 2(c)(2)

Estimate: \$15.1

1.203 Excess Natural Resource Depletion Allowance

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, taxpayers in extractive industries such as mining or drilling for natural resources may deduct a percentage of gross mining income as a depletion allowance ("percentage depletion") without regard to their cost basis in the income producing property and may continue to claim the depletion allowance even after the cost of the property has been reduced to zero. This method of cost recovery is often more beneficial to taxpayers than the traditional cost recovery method applicable to natural resource property. For a more detailed description of this tax expenditure, see corporate excise item 2.204.

Origin: IRC §§ 611 and 613A; M.G.L. c. 62, § 2(d)(1)

Estimate: \$0.4

1.204 Abandoned Building Renovation Deduction

A deduction is provided to corporations and individuals for 10% of the cost of renovating abandoned buildings in certain areas. The deduction is in addition to any other deduction available for the cost of such renovation. Thus, an additional deduction may be allowed for expenses already included in deductible business expenses or deductible depreciation.

Origin: M.G.L. c. 62, § 3(B)(a)(10)

Estimate: Negligible

1.300 ACCELERATED DEDUCTIONS FROM GROSS INCOME

1.301 Modified Accelerated Depreciation on Rental Housing

In general, taxpayers may recover the cost of durable business assets only by capitalizing the cost and claiming depreciation deductions over a period of years. This expenditure reflects Massachusetts' conformity with federal rules allowing for accelerated depreciation of new and used buildings placed in service as rental property.

Origin: IRC § 168(b)

Estimate: \$23.4

1.303 Modified Accelerated Depreciation on Buildings (other than Rental Housing)

In general, businesses may recover the cost of durable business assets only by capitalizing the cost and claiming depreciation deductions over a period of years. This expenditure reflects Massachusetts' conformity with federal rules allowing for accelerated depreciation of nonresidential buildings.

Origin: IRC § 168

Estimate: \$3.8

1.304 Modified Accelerated Cost Recovery System (MACRS) for Equipment

In general, businesses may recover the cost of durable business assets only by capitalizing the cost and claiming depreciation deductions over a period of years. Traditional financial accounting rules required the cost to be recovered pro rata over a set number of years. However, Massachusetts conforms to the Modified Accelerated Cost Recovery System (MACRS) set out in the Internal Revenue Code (the "Code"). MACRS allows more of the cost of the property to be deducted in the first few years of an asset's life, and relatively less later. MACRS also allows taxpayers to choose an alternative depreciation method that more closely conforms to traditional financial accounting rules. The use of the accelerated method instead of the alternative method results in a temporary reduction of tax in the earlier years of an asset's life, which constitutes a tax expenditure. The deferral of tax is analogous to an interest-free loan from the Commonwealth to taxpayers.

Origin: IRC § 168

Estimate: \$31.9

1.305 Expense Deduction for First-Year Business Assets

Under the Internal Revenue Code (the "Code"), businesses may recover the cost of durable business assets only by capitalizing the cost and claiming depreciation deductions over a period of years. The Code adopts different depreciation schedules for specified classes of assets. Massachusetts follows the federal depreciation rules, with modifications. Code § 179 allows federal taxpayers to elect to claim an immediate expense deduction in the tax year during which the asset was first placed in service. Due to its conformity to the Code for determining business expense deductions, Massachusetts allows the Code § 179 deduction in the same amount as it is allowed for federal tax purposes. The tax expenditure is a result of such conformity. The immediate deduction of the cost of business assets constitutes a tax expenditure because it results in a deferral of tax.

Origin: IRC § 179

Estimate: \$38.5

1.306 Election to Deduct and Amortize Business Start-up Costs

For federal tax purposes, taxpayers can immediately deduct startup costs that would otherwise have to be capitalized over a period of 15 years. Massachusetts conforms to the federal deduction, resulting in a state tax expenditure.

Origin: IRC § 195

Estimate: \$1.4

1.308 Expensing Exploration and Development Costs

For federal tax purposes taxpayers can immediately deduct certain costs incurred in developing specified mineral deposits. Such costs would otherwise have to be capitalized and deducted over a period of years. The recovery period for capitalized items varies based on the nature of the costs and the type of mineral deposit. Massachusetts conforms to the federal deduction, resulting in a state tax expenditure.

Origin: Code §§ 193, 263(c), 616, 617; M.G.L. c. 63, §30.4.

Estimate: Negligible

1.309 Expensing Research and Experimental Expenditures in One Year

Prior to tax year 2022, for federal purposes taxpayers could elect to immediately deduct research and experimental expenditures that they would otherwise have had to capitalize and deduct over a period of 5 years. Starting with tax year 2022 all expenditures for research conducted in the U.S must be capitalized and deducted over 5 years. Expenditures incurred outside the U.S. must be capitalized and deducted over 15 years. Massachusetts generally conforms to the federal rules for deducting research and experimental expenditures. This conformity resulted in a Massachusetts tax expenditure for tax years prior to 2022.

Origin: IRC § 174

Estimate: Negligible

1.310 Five-Year Amortization of Pollution Control Facilities

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, taxpayers may elect to amortize the cost of a certified pollution control facility over a five-year period, potentially allowing for accelerated recovery of these costs. For a more detailed description of this tax expenditure, see corporate excise item 2.311.

Origin: IRC § 169; M.G.L. c. 62, § 2(d)(1)

Estimate: N.A.

1.311 Seven-Year Amortization for Reforestation

Due to Massachusetts' conformity to Internal Revenue Code (Code) § 194, taxpayers can elect to deduct up to \$10,000 of forestation or reforestation expenditures in a taxable year, with excess amounts amortized over seven years. The election applies to both the personal income tax and the net income measure of the corporate excise. For a more detailed description of this tax expenditure, see corporate excise item 2.313.

Origin: IRC § 194; M.G.L. c. 62, §§ 1(c), 1(d), and 2(d); M.G.L. c. 63, § 30.4

Estimate: \$0.2

1.312 Expensing Certain Capital Outlays of Farmers

This tax expenditure results from Massachusetts' conformity to the Internal Revenue Code (Code) with regard to the immediate deduction allowed to farmers for soil and water conservation expenses, prevention of erosion, endangered species recovery, and fertilizer costs. Such items might otherwise have to be capitalized and depreciated or amortized over a number of years.

Origin: IRC §§ 175, 180 and MGL c. 62, §§ 1, 2(d)(1); c. 63, § 30

Estimate: \$0.1

1.313 Expenditures to remove architectural and transportation barriers to the handicapped and elderly

Massachusetts conforms to Internal Revenue Code ("Code") § 190, which allows taxpayers to elect an immediate deduction of up to \$15,000 of expenses incurred in removing architectural or transportation barriers to the handicapped and elderly. The cost of an improvement to a business asset is normally a capital expense, which would normally have to be capitalized and deducted over a period of years. The accelerated deduction applies to the first \$15,000 of expenses. Costs over that amount must be capitalized and deducted under the generally applicable depreciation schedules set out in the Code. Expenses eligible for the deduction include costs incurred in making a building or public transportation vehicle more accessible to people with disabilities and the elderly. Examples with regard to buildings include installing ramps, widening doors, modifying restrooms, and lowering counters to accommodate customers in wheelchairs. Examples with regard to vehicles include installing lifts for wheelchairs and modifying signage and public address systems to accommodate the visually or hearing impaired. The deduction is not available for costs incurred in completely renovating a building or vehicle or to the cost of replacing

depreciable property in the normal course of business. The immediate deduction of eligible expenses results in a deferral of tax. The deferral constitutes a Massachusetts tax expenditure.

Origin: M.G.L. c. 62, § (2)(d)(1)

Estimate: \$0.2

1.400 DEDUCTIONS FROM ADJUSTED GROSS INCOME

1.401 Deduction for Employee Social Security and Railroad Retirement Payments

Taxes paid by employees to fund the Social Security and Railroad Retirement systems are deductible against "earned" income up to a maximum of \$2,000 per individual. Comment: The estimate also covers item 1.402 below.

Origin: M.G.L. c. 62, § 3B(a)(3)

Estimate: \$341.4

1.402 Deduction for Employee Contributions to Public Pension Plans²

Employee contributions to federal and state contributory pension plans are deductible against "earned" income up to a maximum of \$2,000 per individual.

Origin: M.G.L. c. 62, § 3B(a)(4)

Estimate: Included in 1.401

1.403 Additional Exemption for the Elderly

A taxpayer age 65 or over is entitled to an additional exemption against "earned" income of \$700 (\$1,400 for a married couple filing jointly if both spouses are age 65 or over).

Origin: M.G.L. c. 62, §§ 3B(b)(1)(C), (1A)(C), and (2)(C)

Estimate: \$34.3

1.404 Additional Exemption for the Blind

A blind taxpayer is allowed an additional exemption against "earned" income of \$2,200 (\$4,400 for a married couple filing jointly if both spouses are blind).

Origin: M.G.L. c. 62, §§ 3B(b)(1)(B), (1A)(B), and (2)(B)

Estimate: \$0.6

1.405 Dependents Exemption Where the Child Earns Income³

Taxpayers are allowed an additional exemption of \$1,000 for a dependent child even when the child earns income against which a personal exemption can be taken. Comment: The estimate cannot be separated from the figure for the dependents exemption in endnote 3.

Origin: IRC § 151(c) in effect January 1, 1988 and M.G.L. c. 62 § 3B(b)(3)

Estimate: N.A.

1.406 Deduction for Dependents Under 12

Individual taxpayers and married taxpayers filing jointly with one or more dependents under age 12, who do not claim the deduction for child care described in item 1.409 below, may claim this deduction. Filers with one dependent under 12 may deduct \$3,600, while filers with two or more dependents under 12 may deduct \$7,200.

Origin: M.G.L. c. 62, § 3B(a)(8)

Estimate: N.A.

1.407 Personal Exemption for Students Age 19 or Over

Massachusetts provides a \$1,000 personal income tax exemption for each of a taxpayer's dependent children. Generally, the exemption is available for children aged 18 or under and qualifying relatives. That exemption is not treated as a tax expenditure. However, as a result of conformity with the federal definition of "dependent," the exemption is also available for children who are full-time students between the ages of 19 and 23. That portion of the exemption is treated as a tax expenditure.

Origin: IRC §§ 151-152; M.G.L. c. 62 § 3B(b)(3)

Estimate: \$10.6

1.408 Deduction for Adoption Fees

Adoption fees paid to a registered adoption agency are deductible against Part B income.

Origin: M.G.L. c. 62, § 3B(b)(5)

Estimate: \$0.3

1.409 Deduction for Business-Related Child Care Expenses

Taxpayers qualifying for the credit for employment-related childcare expenses in the Internal Revenue Code are allowed a deduction against "earned" income for the amount of the expenses that qualify for the credit. Beginning in tax year 2001, the cap on this deduction was increased, and the coverage expanded to include elderly and disabled dependents. The cap increased from \$2,400 to \$3,600 for filers with one dependent, and from \$2,400 to \$4,800 for filers with two or more dependents. Beginning in tax year 2002, the cap was further increased to \$4,800 for qualifying filers with one dependent and to \$9,600 for filers with two or more dependents. Comment: For federal tax purposes, the requirement that employment-related child care expenses relate only to children under age 15 was further restricted to children under age 13. In addition, a federal change now requires a taxpayer to include employer-provided dependent care expenses when calculating the limitation amount of qualifying expenses.

Origin: IRC § 21, and M.G.L. c. 62, § 3B(a)(7)

Estimate: N.A.

1.410 Exemption of Medical Expenses

Medical and dental expenses in excess of 7.5% of federal adjusted gross income are deductible against "earned" income for taxpayers who itemize deductions on their federal returns.

Origin: IRC § 213 and M.G.L. c. 62, § 3B(b)(4)

Estimate: \$206.6

1.411 Rental Deduction

Renters may deduct one-half of the rent paid for a principal residence located in Massachusetts up to a maximum deduction of \$3,000 per year. The deduction is available to all renters, regardless of age or income.

Origin: M.G.L. c. 62, § 3B(a)(9)

Estimate: \$191.0

1.412 Nontaxation of Charitable Purpose Income of Trustees and Estates

Trusts and estates subject to the personal income tax can deduct trust or estate income that is currently payable to or irrevocably set aside for charitable purposes.

Origin: M.G.L. c. 62, §§ 3A(a)(2), 3B(a)(2), and 3C(a)(2)

Estimate: \$15.9

1.413 Exemption of Interest on Savings in Massachusetts Banks

Up to \$100 (\$200 on a joint return) of interest from savings deposits or savings accounts in Massachusetts banks is deductible from gross income.

Origin: M.G.L. c. 62, § 2(b)(1)(A); M.G.L. c. 62, § 3B(a)(6)

Estimate: Expired

1.414 Tuition Deduction

A deduction is allowed for tuition payments made by taxpayers, for themselves or their dependents, for programs that would lead to a degree or certificate from a two or four-year college. The deduction is equal to the amount by which the net tuition payments exceed 25% of the filer's Massachusetts adjusted gross income.

Origin: IRC § 222; M.G.L. c. 62, § 3B(a)(11)

Estimate: \$17.7

1.415 Charitable Contributions and Gifts

Corporations are permitted to deduct charitable contributions for purposes of determining the net income measure of the corporate excise. Beginning with 2023 tax years, individuals will be permitted to deduct contributions to § 501(c)(3) organizations for personal income tax purposes.

Origin: M.G.L. c. 62, § 3(B)(a)(13); IRC § 170

Estimate: \$338.8

1.418 Deduction for Costs Involved in Unlawful Discrimination Suits

Massachusetts adopts the federal deduction for attorney fees and court costs paid to recover a judgment or settlement for a claim of unlawful discrimination, up to the amount included in gross income for the tax year from such claim.

Origin: IRC §§ 62(a)(20) and 62(e)

Estimate: N.A.

1.419 Business Expenses of National Guard and Reserve Members

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for determining employee business expense deductions, Massachusetts allows a personal income tax deduction for travel expenses incurred by National Guard and Armed Forces reserve members who must travel more than 100 miles from their homes to their assigned posts.

Origin: M.G.L. c. 62, § 2(d)(1); Code § 62(a)(2)(E)

Estimate: \$1.6

1.420 Archer Medical Savings Accounts

Due to Massachusetts' reliance on the Internal Revenue Code ("Code") for purposes of determining income, eligible contributions to, earnings in, and qualified distributions from Archer medical savings accounts ("Archer MSAs") are not subject to the personal income tax.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and 2(d)(1); IRC § 220

Estimate: Negligible

1.421 Deduction for Clean-Fuel Vehicles and Certain Refueling Property

A deduction is allowed for a portion of the cost of qualifying motor vehicles that use clean-burning fuel placed in service on or before December 31, 2006. The deduction exists in Massachusetts because it was present in the Code as of 1/1/05. The federal deduction was repealed in 2014.

Origin: IRC §§ 62(a)(14) and 179A

Estimate: Expired

1.422 Health Savings Accounts

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, eligible contributions to, earnings in, and qualified distributions from health savings accounts (HSAs) are not subject to the personal income tax.

Origin: M.G.L. c. 62, §§ 1(c), 1(d), and 2(d)(1); IRC § 223

Estimate: \$7.4

1.423 Commuter Deduction

(Note: item 1.423 was formerly the temporary Tuition and Fees Deduction). Individuals may deduct certain commuting expenses that exceed \$150. Eligible expenses are limited to tolls paid through an EZ Pass account and the cost of weekly or monthly passes for Massachusetts Bay Transit Authority (MBTA) transit. Amounts that are reimbursed or are otherwise deducted are not eligible. The deduction is limited to \$750 of such expenses per taxpayer. Joint filers may each deduct up to \$750.

Origin: M.G.L. Chapter 62, § 3 (B) (a) (15)

Estimate: \$19.5

1.424 Self-Employed Health Insurance Deduction

Due to Massachusetts' adoption of the trade or business expense deductions allowed under the Internal Revenue Code ("Code"), Massachusetts allows a deduction for health insurance expenses incurred by self-employed taxpayers.

Origin: IRC § 162(l), M.G.L. c. 62, §1(l), § 2(d)(1)

Estimate: \$49.5

1.425 Deduction for Employer Payments of Employee Qualified Education Loans

Massachusetts allows two alternative deductions for student loan interest. The first is based on the deduction for student loan interest allowed under the Internal Revenue Code (Code). The Code allows a deduction of up to \$2,500 of interest paid on loans used to pay for undergraduate or graduate education, subject to income limitations. The second deduction applies to interest on undergraduate student loans, which is not limited in amount and is not subject to income limitations. Taxpayers cannot take both deductions for the same interest payments.

Origin: M.G.L. c. 62, §§ 2(d)(1), 3B(a)(12); I.R.C. § 62(a)(17), § 221

Estimate: \$17.5

1.426 Expenses of Human Organ Transplant

Resident individuals that donate specified organs to another person may deduct certain expenses relating to the donation on their personal income tax returns.

Origin: M.G.L. c. 62, § 3B(a) (16)

Estimate: Negligible

1.427 Prepaid Tuition or College Savings Plan Deduction²

A deduction against Part B income is allowed in an amount equal to 1) purchases of or 2) contributions made in a taxable year to an account in a pre-paid tuition program or a college savings program established by the Commonwealth or an instrumentality or authority of the Commonwealth. The deduction is capped at \$1,000 for a single person or head of household and \$2,000 for a married couple filing a joint return. The deduction originally applied to tax years beginning on or after January 1, 2017 through the tax year

beginning on January 1, 2021. The FY22 Budget amends St. 2016, c. 219, § 138 to eliminate the expiration, making the deduction permanent. See TIR 22-5 for further information.

Origin: G.L. c. 62, § 3.B(a) paragraph (19)

Estimate: \$3.7

1.428 Gambling Loss Deduction

For tax years beginning on or after January 1, 2015 a deduction is allowed from Part B income for gambling losses incurred at certain licensed gaming establishments or "racing meeting licensee or simulcasting licensee" establishments but only to the extent of winnings from such establishments included in gross income for the calendar year. See TIR 15-14 and Schedule Y, line 17 for more information. The new gambling loss deduction is the only deduction for gambling losses allowed for a Massachusetts taxpayer, unless the gambling activities constitute a trade or business. See DD 03-3. Note that Massachusetts does not adopt the federal deduction under IRC § 165(d) for gambling losses.

Origin: Origin: G.L. c. 62, § 3.B(a) paragraph (18)

Estimate: \$16.8

1.429 Moving Deduction

Filers who moved due to a change in their job or business location or to start a new job or business can deduct reasonable unreimbursed moving expenses if all of the following requirements are met: 1) The move was closely related to the start of work; 2) It meets a distance test; and 3) It meets a time test. Under the TCJA, a deduction for moving expenses is no longer allowed except for certain members of the Armed Forces; However, Massachusetts does not adopt this change. A deduction for moving expenses continues to be allowed if the above requirements are met as Massachusetts follows the Code as in effect as of January 1, 2024.

Origin: IRC § 217

Estimate: \$1.3

1.430 Deduction for Student Loan Payment Assistance

For tax years beginning on or after January 1, 2023, employees may deduct employer payments of principal or interest on a qualified education loan during the taxable year that has not already been excluded from their federal gross income. The deduction is substantially identical to the federal exclusion from gross income provided by IRC § 127(c)(1), which Massachusetts follows as amended on January 1, 2022 and in effect for the taxable year. However, while IRC § 127(c)(1) is limited to \$5,250 per employee and applies only to employer payments made before January 1, 2026, the new Massachusetts deduction is not subject to a dollar limit nor does it have a sunset date. Employees claiming the deduction may not claim any other deduction, such as for student loan interest, for the same amounts paid by their employer.

Origin: M.G.L. c. 62, § 3(B)(a)(20)

Estimate: \$5.6

1.431 Whistleblower Attorneys' Fees Deduction

Due to Massachusetts' conformity with IRC § 62(a)(21), Massachusetts allows taxpayers to exclude from gross income attorney fees and court costs associated with whistleblower suits brought under the Securities Exchange Act of 1934, any state false claims act, or under the Commodity Exchange Act.

Origin: IRC § 62(a)(21)

Estimate: \$1.6

1.500 PREFERENTIAL RATE OF TAXATION

1.501 Small Business Stock, Capital Gains Tax Rate

Gains derived from the sale of certain "qualified small business stock" ("QSBS") are eligible for a 50% income exclusion because of Massachusetts' conformity with section 1202 of the Internal Revenue Code (the "Code") as in effect in 2022. If it meets certain requirements, QSBS gain that is included in income is taxed at a rate of 3% instead of the generally applicable long-term gain rate of 5%.

Origin: IRC § 1202; M.G.L. c. 62, § 1,4(c)

Estimate: \$0.1

1.600 CREDITS AGAINST TAX

1.601 Renewable Energy Source Credit

Provide homeowners and tenants a credit equal to 15% of the net expenditure for renewable energy source property or \$1,000, whichever is less. The credit is limited to certain types of equipment used directly for the production of solar or wind energy for residential properties.

Origin: M.G.L. c. 62, § 6(d)

Estimate: \$6.7

1.602 Credit for Removal of Lead Paint

A personal income tax credit is provided to defray the cost that property owners incur when removing, containing, or replacing paint, plaster, or other accessible structural materials containing dangerous levels of lead in residential buildings constructed prior to 1978. A smaller credit is available for partial removal, containment, or replacement of such materials, so long as the partial remediation meets statutory requirements.

Origin: M.G.L. c. 62, § 6(e)

Estimate: \$6.4

1.603 Economic Development Incentive Program Credit

Under the provisions of the Economic Development Incentive Program (EDIP), the Economic Assistance Coordinating Council (EACC) may authorize taxpayers participating in certified projects to claim tax credits. To be eligible, a project must be certified by the EACC. The total dollar amount of the EDIP credit that may be authorized in a calendar year is \$30 million. See item # 2.605 for more details.

Origin: M.G.L. c. 63, § 38N; c. 62, § 6(g)

Estimate: \$6.5

1.604 Credit for Employing Former Full-Employment Program Participants

This tax expenditure relates to a credit that is no longer active. The credit was required to be authorized by the Department of Transitional Assistance (DTA). However, the DTA is no longer authorizing this credit. When in effect, the credit provided employers an incentive to retain certain employees who had been hired under DTA's full employment program after program subsidies had run out.

Origin: St. 1995, c. 5, § 110(m)

Estimate: Not Active

1.605 Earned Income Credit

Effective January 1, 2023, taxpayers are allowed a refundable credit against Massachusetts tax equal to 40% of the amount of the earned income credit claimed on their federal individual income tax returns. Note that, since the state credit amount is based on the federal, any changes, temporary or permanent, to the calculation of the federal credit will be automatically reflected in credit claims made against state tax. Note that while credit is refundable, it is not transferable.

Origin: M.G.L. c. 62, § 6(h)

Estimate: \$459.5

1.606 Septic System Credit

Effective January 1, 2023, taxpayers required to repair or replace a failed cesspool or septic system pursuant to the provisions of Title V, as promulgated by the Department of Environmental Protection, are allowed a credit equal to 60% of the design and construction costs incurred, up to a maximum of \$4,000 per tax year and \$18,000 in total. For previous tax years, the credit is equal to 40% of the design and construction costs incurred (less any subsidy or grant from the Commonwealth), up to a maximum of \$1,500 per tax year and \$6,000 in total. Unused credits may be carried forward for up to five years. The credit is neither transferable nor refundable.

Origin: M.G.L. c. 62, § 6(i)

Estimate: \$19.9

1.607 Low Income Housing Credit

The Low-Income Housing Tax Credit (LIHTC) is available to corporate excise and personal income taxpayers that invest in low-income housing projects that meet federal and state eligibility rules. The credit is part of a federal program that authorizes a federal credit for such investments and subsidizes state credits in states that opt into the program. The Massachusetts Department of Housing and Community Development (DHCD) determines eligibility for, and the amount of, the credit pursuant to federal guidelines. See also Corporate item 2.609.

Origin: M.G.L. c. 62, § 6I, c. 63, § 31H

Estimate: \$18.1

1.608 Brownfields Credit

Taxpayers are allowed to claim a credit for amounts expended to remediate contaminated property owned or leased for business purposes and located within an economically distressed area. The Brownfields credit may be claimed by a taxpayer or non-profit corporation that commences and diligently pursues an environmental response action and achieves and maintains a permanent solution or remedy operation status in compliance with chapter 21E. Taxpayers may sell, transfer, or assign the credit. The environmental response action must be commenced on or before August 5, 2028, and eligible costs that qualify for the credit must be incurred before January 1, 2029. The credit may be carried forward for up to 5 years. The amount of the credit varies according to the extent of the environmental remedy. If the taxpayer's permanent solution or remedy operation status includes an activity and use limitation, then the amount of the credit is 25% of the net response and removal costs incurred by the taxpayer. However, if there is no activity and use limitation, then the amount of the credit is 50% of the net response and removal costs.

Origin: M.G.L. c. 62, §6 (j)

Estimate: \$2.8

1.609 Refundable State Tax Credit Against Property Taxes for Seniors ("Circuit Breaker")

Seniors (taxpayers age 65 or older) are eligible for a tax credit to the extent that their property taxes - or 25% of rent - exceed 10% of their income. Income limits and a cap on the maximum assessed value of the filer's primary residence apply. The maximum credit is also adjusted annually for inflation, see Appendix A. Income limits and the maximum credit are adjusted for inflation over a 1999 base year; however, chapter 136 of the Acts of 2005 increased the assessed home valuation to \$600,000 and set its base year to 2004. The base amount upon which the maximum credit is determined was doubled in the 2023 tax year. The credits may not be sold or transferred to another taxpayer, but are refundable.

Origin: M.G.L. c. 62, § 6 (k)

Estimate: \$175.3

1.610 Massachusetts Historic Rehabilitation Credit

The Massachusetts historic rehabilitation tax credit is a credit for qualified expenditures made by a taxpayer in rehabilitating a qualified historic structure.

Origin: M.G.L. c. 62, § 6J; M.G.L. c. 63, § 38R

Estimate: \$16.4

1.611 Film Production Incentives (tax credit and sales tax exemption)

The Massachusetts film tax incentives, as amended in July 2007, allow a producer of a motion picture a tax credit equal to 25% of the film's production cost and 25% of the film's payroll costs. They also provide an exemption from sales tax for film productions in Massachusetts.

Origin: M.G.L. c. 62, § 6(I), c. 63, § 38X, c. 64H, § 6(ww)

Estimate: \$2.0

1.613 Medical Device User Fee Credit

The Medical Device Credit is equal to 100% of the user fees actually paid to the United States Food and Drug Administration (FDA) by a medical device company during the taxable year for which the tax is due for premarket submissions to market new technologies or upgrades, changes, or enhancements to existing technologies, developed or manufactured in Massachusetts.

Origin: M.G.L. c. 63, § 31L; c. 62, § 6½

Estimate: Expired

1.614 Dairy Farmer Tax Credit

Massachusetts provides dairy farmers a refundable personal income tax or corporate excise credit to offset cyclical downturns in milk prices. The credit is triggered when milk production costs exceed milk prices. The credit is determined by the Massachusetts Department of Agricultural Resources (MDAR), which notifies the Department of Revenue (DOR) of the amount of the credit awarded to each taxpayer. Effective January 1, 2023, the total cumulative value of the credits authorized pursuant to this section combined with M.G.L. c. 63, § 38Z is \$8 million. These credits may not be sold or transferred to another taxpayer, but are fully refundable. See corporate item 2.618 for more details.

Origin: M.G.L. c. 62, § 6 (o)

Estimate: \$5.0

1.615 Conservation Land Credit

Filers who donate land for conservation in perpetuity for the use of all citizens of the Commonwealth can receive a credit of up to \$75,000. Approval of the donation is required from the Secretary of the Office of Energy & Environment Affairs. The credits may not be sold or transferred to another taxpayer, but are refundable. The total credits that may be approved are capped at \$2.0 million annually.

Origin: M.G.L. c. 62, § 6 (p)

Estimate: \$1.6

1.616 Employer Wellness Program Tax Credit

The 2012 Health Care Act establishes an Employer Wellness Program Tax Credit that is effective for tax years beginning on or after January 1, 2013 and is set to expire on December 31, 2017. The Employer Wellness Program Tax Credit was created to provide incentives for business to recognize the benefits of wellness programs with the goal of providing smaller businesses with an expanded opportunity to implement these programs. The credit is available to both chapter 62 and chapter 63 taxpayers (personal income taxpayers and corporate & business excise taxpayers). The credit is set at 25 percent of the costs associated with implementing a "certified wellness program." The maximum amount of Employer Wellness Program Credits available to a taxpayer is \$10,000 in any tax year. The total amount of Employer Wellness Program Credits authorized by the Department of Public Health is subject to a \$15 million annual cap starting calendar year 2013. The Employer Wellness Program Tax Credit is non-refundable and non-transferrable. However, the portion of the Employer Wellness Program Tax Credit that exceeds the tax for the taxable year may be carried forward and applied against such taxpayer's tax liability in any of the succeeding 5 taxable years.

Origin: St. 2012, c. 224, §§ 41, 41A, 56, 56A, 238, 239, 297, and 298. M.G.L. c. 62, § 6N; M.G.L. c. 63, § 38FF

Estimate: Expired

1.617 Community Investment Tax Credit

A personal income tax and corporate excise credit is available for 50% of qualified investments in "community partners" selected by the Executive Office of Housing and Livable Communities through a competitive process. The community partner then uses the amount invested to fund approved programs designed to improve economic opportunities in Massachusetts communities. Such investments are in the nature of contributions, i.e., the investor does not receive any equity or other financial stake in the programs that are funded. The 2012 Jobs Act provides a Community Investment Tax Credit that is effective January 1, 2014 and is set to expire on December 31, 2019. However, St. 2018, chapter 99, § 25 extended the sunset date for the credit to year 2025. The total amount of the credit was subject to a \$3 million cap in taxable year 2014, and \$6 million in each year of taxable years 2015 through 2018, \$8 million in each year of taxable years 2019 and 2020, \$10 million in each year of taxable years 2021 and 2022, and \$12 million in each year of taxable years 2023 through 2025. This credit is refundable, but not transferrable and it could be carried over up to five years.

Origin: M.G.L. c. 62, § 6M; c. 63, § 38EE

Estimate: \$8.4

1.618 Farming and Fisheries Tax Credit

Personal income taxpayers who are primarily engaged in agriculture, farming, or commercial fishing are allowed an investment tax credit equal to 3% of the cost of qualifying property used in such activities in Massachusetts.

Origin: M.G.L. c. 62, § 6(s)

Estimate: \$0.3

1.619 Certified Housing Development Tax Credit

A personal income tax and corporate excise credit is allowed for up to 25% of costs incurred in constructing or rehabilitating housing in areas designated by the Department of Housing and Community Development (DHCD). Eighty percent of the housing must be available for rent or sale at market rate prices. Designated areas must be located in a city or town identified by statute as a gateway municipality. The DHCD determines eligibility for, and the amount of, the credit.

Origin: St. 2010, c. 240; M.G.L. c. 40V; G.L. c. 62, § 6(q).

Estimate: \$7.4

1.620 Veteran's Hire Tax Credit

A credit is available to businesses that hire veterans who live and work in Massachusetts. The credit is equal to \$2,000 for each qualified veteran hired. Businesses with 100 or fewer employees may claim a \$2,000 credit against the corporate excise or personal income tax for each qualified veteran hired. See TIR 17-10.

Origin: M.G.L. c. 62, § 6(u)

Estimate: \$0.5

1.621 Apprentice Tax Credit

A personal income tax and corporate excise credit is allowed to employers that establish apprenticeship programs in designated computer technology, health care technology or manufacturing occupations. The credit is equal to the lesser of \$4,800 or 50% of the wages paid to the apprentice in a taxable year.

Origin: M.G.L. c. 62, § 6(v); M.G.L. c. 63, § 38HH

Estimate: Negligible

1.622 Disability Hire Credit

Effective for tax years beginning on or after January 1, 2023, employers that hire disabled employees may claim a nontransferable, refundable credit equal to (i) the lesser of \$5,000 or 30% of the wages paid to a disabled employee in the employee's first year of employment, and (ii) the lesser of \$2,000 or 30% of the wages paid to a disabled employee in each subsequent year of the employee's employment. The credit is available to employers provided that (i) the employee is certified by the Massachusetts Rehabilitation Commission as having a disability as defined under the Americans with Disabilities Act, 42 U.S.C. § 12102; (ii) the employee is capable of working independently; (iii) the employee has a mental or physical disability that constitutes or results in a substantial impediment to employment; (iv) the employee is hired after July 1, 2021; (v) the employee's primary place of employment and primary place of residence is in Massachusetts; (vi) the employer must obtain certification from the Massachusetts Rehabilitation Commission that the employee is

qualified no later than the employee's first day of work; and (vii) the employer employs the employee for at least 12 consecutive months prior to and in the taxable year in which the credit is claimed.

Origin: M.G.L. c. 62, § 6(z).

Estimate: \$1.0

1.623 Cranberry Bog Renovation Credit

Effective for tax years beginning on or after January 1, 2020, taxpayers primarily engaged in cranberry production may claim a nontransferable, refundable credit equal to 25% of expenses incurred in the renovation, repair, replacement, regrading or restoration of a cranberry bog for the cultivation, harvesting or production of cranberries. The Secretary for Energy and Environmental Affairs determines eligible costs and the amount of the credit. The amount of credit that can be claimed by a taxpayer for a taxable year cannot exceed \$100,000. The credit is no longer available for taxable years beginning on or after January 1, 2030.

Origin: M.G.L. c. 62, § 6(w).

Estimate: \$1.0

1.624 Credit for Eligible Dependents

Effective for tax years beginning on or after January 1, 2021, taxpayers may claim a nontransferable, refundable credit for eligible dependents. To claim the credit, a taxpayer must furnish over half of the cost of maintaining a household. The household must include a dependent that qualifies as a dependent under IRC § 152 and who is (i) under the age of 12; (ii) age 65 or over; or (iii) disabled. The credit is equal to \$180 if the taxpayer claims one dependent, or \$360 if the taxpayer claims two or more dependents. The credit cannot be claimed by married taxpayers that file separate Massachusetts personal income tax returns. A taxpayer claiming this credit may not also claim the credit for dependent care expenses allowed under G.L. c. 62, § 6(x).

Origin: M.G.L. c. 62, § 6(y).

Estimate: Expired

1.625 Dependent Care Expenses Credit

Effective for tax years beginning on or after January 1, 2021, taxpayers may claim a refundable, nontransferable credit for dependent care expenses. The credit is equal to "employment-related expenses" allowed for purposes of determining the credit provided under IRC § 21. Under IRC § 21, employment-related expenses include certain expenses incurred to enable the taxpayer to be gainfully employed, including household expenses and expenses for the care of a qualified individual. A qualifying individual is (i) a dependent of the taxpayer who is younger than 13 years old; or (ii) a dependent of the taxpayer, including a spouse, who is physically or mentally incapable of taking care of himself or herself and principally lives with the taxpayer. The credit cannot exceed \$240 if the taxpayer claims expenses for one qualifying individual, or \$480 if the taxpayer claims expenses for two or more qualifying individuals. Married taxpayers must file a joint federal income tax return to claim the credit. For taxpayers that file a joint federal income tax return and who file as married filing separately in Massachusetts, either spouse may claim the

credit for expenses he or she incurred, but the combined credit for both spouses cannot exceed \$240 for one qualifying individual or \$480 for two or more qualifying individuals. A taxpayer claiming the credit may not also claim the dependent credit allowed under G.L. c. 62, § 6(y).

Origin: M.G.L. c. 62, § 6(x).

Estimate: Expired

1.626 Offshore wind tax incentive program: cover the Wind Power Incentive Jobs Credit and Wind Power Incentive Investment Credit

The Massachusetts offshore wind tax incentive program consists of two tax credits, a Wind Power Incentive Jobs Credit and a Wind Power Incentive Investment Credit, for offshore wind companies subject to either the personal income tax or the corporate excise. The credits are available to certified offshore wind companies only to the extent authorized by the Massachusetts Clean Energy Technology Center (the "Center"), may be claimed starting with taxable years beginning on or after January 1, 2023, share an annual cap of \$35,000,000, are subject to recapture in the event that the offshore wind company's certification is revoked by the Center, and expire on January 1, 2033. For offshore wind companies subject to the personal income tax, the credit is attributed on a pro rata basis to the owners, partners, or members of the legal entity. The Wind Power Incentive Jobs Credit is available to certified offshore wind companies that commit to the creation of a minimum of 50 net new permanent full-time employees in Massachusetts. Effective for taxable years beginning on or after January 1, 2024, certified offshore wind companies must commit to the creation of a minimum of 10 net new permanent full-time employees in Massachusetts. Where the credit exceeds the taxpayer's liability for the taxable year, 90 percent of such excess credit may be refunded to the taxpayer. Excess credit amounts cannot be carried forward to subsequent taxable years. The Wind Power Incentive Investment Credit is available for certified offshore wind companies that make a capital investment in an offshore wind facility that they either own or lease in an amount up to 50 percent of such investment. The total amount of the credit awarded is distributed in equal parts over five taxable years that correspond to the period in which the offshore wind company is certified. Eligibility requirements vary depending on whether the certified offshore wind company owns or leases the offshore wind facility, but, in general, the certified offshore wind company must demonstrate to the Center that (i) it has a total capital investment in an offshore wind facility that equals not less than \$35,000,000; and (ii) the offshore wind facility must employ not less than 200 new full-time employees by the fifth year of the offshore wind company's certification. A certified offshore wind company claiming this credit may not also claim the Wind Power Incentive Jobs Credit or the Economic Development Incentive Program Credit provided by M.G.L. c. 62, § 6(g) in the same taxable year.

Origin: M.G.L. c. 23J, § 8A; M.G.L. c. 62, § 6(bb), (cc).

Estimate: \$2.5

1.627 National Guard Credit

A business employing not more than 100 employees may be allowed a credit equal to \$2,000 for each member of the Massachusetts national guard hired by the business. To be eligible for a credit: (i) the primary place of employment and the primary residence of the member of the Massachusetts national guard must be in Massachusetts; and (ii) not later than the day an individual begins work, a business shall have obtained the applicable certification from the office of the adjutant general that the individual is a member of the

Massachusetts national guard. A business that claims this credit is eligible for a second credit of \$2,000 in the subsequent taxable year with respect to such member of the Massachusetts national guard, subject to certification of continued employment during the subsequent taxable year. The credit is nontransferable and nonrefundable. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward to any of the three subsequent taxable years. The credit must be attributed on a pro rata basis to the owners, partners or members of the legal entity entitled to the credit. The personal income and corporate excise versions of this credit are subject to the same annual cap of \$1,000,000.

Origin: M.G.L. c. 62, §6(aa); St.2022, c.154, § 7.

Estimate: \$0.1

1.628 Child and Family Tax Credit

Effective for tax years beginning on or after January 1, 2023, taxpayers may claim a nontransferable, refundable credit if they maintain a household that includes an individual who is (1) under the age of 13 and who qualifies for exemption as a dependent for federal purposes; (2) a dependent, or the taxpayer's spouse, who is physically or mentally incapable of taking care of himself or herself and principally lives with the taxpayer; or (3) a dependent who is age 65 or over or disabled. The credit cannot be claimed by a person who is a non-resident for the entire taxable year or married taxpayers that file separate Massachusetts personal income tax returns. For the tax year beginning on or after January 1, 2023, the amount of the credit is equal to \$310 for each such individual. The credit will be increased to \$440 for each such individual for tax years beginning on or after January 1, 2024.

Origin: M.G.L. c. 62, § 6(x)

Estimate: \$467.0

1.629 Renewable Energy Source Credit

Starting with taxable years beginning on or after January 1, 2024, partnerships, limited liability corporations, or other legal entities subject to the personal income tax that provide training to a qualified trainee through an authorized training program may claim a temporary authorized training tax credit for emergency assistance. A qualified individual is an individual receiving benefits through the emergency housing assistance program pursuant to G.L. c. 23B, § 30. To qualify for the credit, a taxpayer must (1) have a place of business in the Commonwealth; (2) conduct an authorized training program in the Commonwealth that is in compliance with recommendations of the Executive Office of Labor and Workforce Development ("EOLWD"); (3) enroll the qualified trainee in an authorized training program on or after April 30, 2024; and (4) meet any additional requirements determined by the Executive Office for Administration and Finance and EOLWD. The credit is equal to \$2,500 for each qualified trainee that receives the training from the entity. The amount of the credit that exceeds the tax due for a taxable year may be carried forward to the subsequent taxable year. The credit is subject to an annual cap of \$10,000,000. The credit may no longer be claimed as of (1) January 1, 2026; or (2) the taxable year in which the end of the capacity limitation on the emergency shelter assistance program occurs, whichever is sooner. See TIR 24-7 for more information.

Origin: M.G.L. c. 62, § 6(dd)(1)

Estimate: \$2.0

1.630 First-Time Homeownership Development Credit

Starting with taxable years beginning on or after January 1, 2025, personal income taxpayers may claim a Massachusetts homeownership tax credit in relation to a qualified homeownership development project to the extent authorized by the Executive Director of the Massachusetts Housing Finance Agency ("MHFA"). The credit is non-refundable but is transferrable. The amount of the credit authorized by MHFA cannot exceed the maximum credit amount, which is 35% of the lesser of either: (1) the project's total qualified project expenditures calculated on a per single-family dwelling basis; or (2) 80% of the area median new single-family dwelling sales price, subject to further limitations established by MHFA. A sponsor cannot claim the credit before the first taxable year stated on the eligibility certificate issued to the sponsor by MHFA. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward for the duration of the qualified homeownership development project's affordability period, which is a 10-year period that begins as of the date of the first sale of a single-family dwelling that was constructed as part of the project. The credit is subject to recapture. The amount of credits that MHFA can authorize annually cannot exceed the sum of (1) \$10,000,000; (2) any credit amounts not authorized in the preceding taxable year; and (3) any credits returned to MHFA by a sponsor. Effective January 1, 2030, the amount of credits that can be authorized annually is the sum of (1) any credit amounts not authorized in the preceding taxable year; and (2) any credits returned to MHFA by a sponsor.

Origin: M.G.L. c. 62, § 6O

Estimate: \$2.0

1.631 Qualified Conversion Project Tax Credit

Starting with taxable years beginning on or after January 1, 2025, personal income taxpayers may claim a refundable, non-transferable qualified conversion credit in relation to a qualified conversion project that has been certified by the Executive Office of Housing and Livable Communities ("EOHLC"). To claim the credit, a sponsor must submit a project proposal to EOHLC requesting the certification of a housing development project as a qualified conversion project. After certifying the project, EOHLC determines the amount of credit awarded to the sponsor, which cannot exceed 10% of the qualified conversion's project's development costs. The credit is allowed for the taxable year in which EOHLC notifies the Commissioner of the certified qualified conversion project's completion. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward to any of the 10 taxable years subsequent to the taxable year that the credit was allowed. The credit is subject to recapture. The credit is no longer available for taxable years ending after December 31, 2029.

Origin: M.G.L. c. 62, § 6(ee)

Estimate: \$1.0

1.632 Climatetech Tax Incentive Program

Massachusetts provides a climatetech tax incentive program, which is administered by the Massachusetts clean energy center ("CEC"), in consultation with DOR. The tax incentives consist of three tax credits, the climatetech capital investment tax credit, a refundable climatetech jobs tax credit, and a climatetech qualified research expenses tax credit; as well as a sales and use tax exemption for purchases of tangible personal property to be

used for the construction of research, development or manufacturing or other commercial climatetech facilities. The incentives all share an annual cap of \$30 million and are effective for taxable years beginning on or after January 1, 2024. The climatetech capital investment tax credit is a refundable tax credit available to personal income and corporate excise taxpayers who make capital investments in a climatetech facility. The amount of the credit is determined by the CEC, but cannot exceed 50% of the owner's total capital investment in the facility. The refundable climatetech jobs tax credit is a refundable tax credit available to personal income taxpayers who commit to creating at least 5 net new jobs in Massachusetts. The amount of credit is determined by the CEC. Where the credit exceeds the taxpayer's liability, 90% of excess credit amount is refunded to the taxpayer.

Origin: M.G.L. c. 62, § 6(gg), (hh)

Estimate: \$6.0

1.633 Live Theater Tax Credit

The live theater tax credit program is administered by the Massachusetts Office of Business Development, in consultation with DOR. The credit is available to personal income and corporate excise taxpayers. The amount of the credit cannot exceed \$7,000,000 and is equal to (1) 35% of the total in-state payroll costs; (2) 25% of production and performance expenditures; and (3) 25% of transportation expenditures. The credit is not refundable, but is transferrable. Any unused amount of credit may be carried forward to the next 5 taxable years. The annual amount of credits that can be authorized cannot exceed \$7,000,000. The credit is effective for taxable years beginning on or after January 1, 2025 and expires on January 1, 2030.

Origin: M.G.L. c. 62, section 6(ff)

Estimate: \$3.5

1.634 Qualified Internship Tax Credit

The qualified internship tax credit is available to personal income and corporate excise taxpayers who hire a qualified intern. The credit is equal to the lesser of \$5,000 or 50% of the wages paid to the intern. The annual amount of credits that can be authorized cannot exceed \$10,000,000. A single employer cannot claim more than \$100,000 in credits in a taxable year. The credit is effective starting for the taxable year beginning on or after January 1 of the first calendar year following the next fiscal year that closes after November 20, 2024 with a consolidated net surplus of at least \$400 million. The credit expires on January 1 of the sixth tax year following the effective date of the credit.

Origin: M.G.L. c. 62, § 6(ii)

Estimate: N.A.

KEY

ORIGIN

IRC

Federal Internal Revenue Code (26 U.S.C.)

U.S.C

United States Code

M.G.L.

Massachusetts General Laws

Rev. Rul.; C.B.

Revenue Ruling; Cumulative Bulletin of the U.S. Treasury

ESTIMATES

All estimates are in \$ millions.

¹ This item and others citing this endnote cover employee fringe benefits. We accept as standard the following treatment of these benefits: the expense incurred by the employer in providing the benefit is properly deductible as a business expense and the benefit is taxed as compensation to the employee as if the employee had received taxable compensation and then used it to purchase the benefit. Of course, there are problems with this analysis. In some cases, the "benefit" is more a condition of employment than a true benefit. For example, a teacher required to have lunch in the school cafeteria may prefer to eat elsewhere even if the school lunch is free. On the other hand, in many cases the provision of tax-free employee benefits is clearly a substitution for taxable compensation.

² This item and others citing this endnote cover contributory pension plans. The standard tax treatment of these plans is as follows:

Component	Standard Treatment
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Contributions:	Made out of income that is currently taxed to employees.
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Investment Income:	Taxed to the employee as "earned" income.
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Distributions from Pension Funds:	Tax-free to the extent they are made out of dollars previously taxed to the employees as contributions or investment income.
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The non-standard treatment of contributions, investment income, or distributions as described in items 1.006, 1.101, 1.104, 1.402, and 1.427, results in either nontaxation or deferrals of tax.

³ FY26 estimates for the basic personal exemptions and the no-tax status discussed in the introduction to the personal income tax are (in millions of dollars):

Personal exemption for single taxpayers: \$417

Personal exemption for married couples: \$538

Personal exemption for married taxpayers filing separately: \$23

Dependents exemption: \$86

Personal exemption for heads of households: \$118

Limited income credits: \$13

No tax status: \$13



Introduction - Corporate Excise Tax

Beginning in Fiscal Year 2013, the corporate section of the Tax Expenditure Budget includes other business excises along with the corporate excise. These additional business excise taxes are the financial institution excise, the public utility excise which was repealed effective January 1, 2014, the excises on insurance companies, and the excise on security corporations. The financial institution excise is structured similarly to the corporate excise. It begins with federal net income with certain Massachusetts modifications, proceeds to additional Massachusetts deductions, applies the appropriate apportionment percentage, applies the appropriate tax rate to compute the excise due before credits and applies credits to reach the final excise due. The revenue estimates for the items in the list will now reflect their use by financial institutions. Note that most of the expenditure items are unavailable to insurance companies as these companies are not taxed on net income. However, insurance companies can apply certain credits to reduce their excises. Credits available to insurance companies are so indicated within the item descriptions and the revenue estimates for these credits will reflect their use.

In Fiscal Year 2024, revenues from the corporate excise and the other business excises mentioned above represented 11.8% of total Department of Revenue tax collections. Together these taxes ranked third in Fiscal Year 2024 in terms of total taxes collected, after the individual income tax and the sales and use tax.

Corporate Excise: Short History and Basic Structure

The corporate excise was enacted in 1919, replacing a corporate franchise tax, which was levied on the value of capital stock. Initially, the corporate excise was imposed on corporate excess and on net income.

In 1962, the corporate excess measure was repealed. The corporate excise tax is now levied on tangible property or net worth (depending on the mix of property held by the corporation) and on net income.

Tax Base: Most business corporations are subject to tax under the corporate excise which has three components: an income measure, a non-income measure, and a minimum excise.

The income measure of the tax is based on net income for federal tax purposes with certain additions, such as interest earned on state obligations, and certain deductions, most of which are allowable under the provisions of the Internal Revenue Code. Many of the deductions are considered to be part of the basic structure. For example, in providing for depreciation deductions, the basic structure would allow the cost of property to be written-off evenly over its useful life (so-called "straight-line depreciation"). However, rules that allow accelerated depreciation deductions are listed as tax expenditures.

Under the non-income measure, corporations with qualifying tangible assets in Massachusetts that equal or exceed 10% of their qualifying total assets in Massachusetts (apportioned according to their income apportionment percentages) are taxed on the values of their tangible properties. Other corporations are taxed on a net worth basis.

The minimum excise is \$456.

Taxable Unit: A corporation is a taxpayer separate and distinct from its shareholders.

Rate Structure: Overall, the rates have declined since January 2010. However, the minimum excise remains unchanged at \$456. The current (tax year 2024) excise rate on C-corporations that are not financial institutions is 8.00% of net income apportioned to Massachusetts, and \$2.60 per \$1,000 of the

value of Massachusetts tangible property (as determined to be taxable under § 30(7)) or net worth allocable to Massachusetts (as determined to be taxable under § 30(8) – (9)). The tax rate on S-corporations that are not financial institutions is 3.00% for companies with total receipts \$9 million or more, and 2.00% for companies with total receipts \$6 million or more but less than \$9 million. The tax rate on tangible property or net worth is the same as for C-corporations.

Taxable Period and Net Operating Loss Carry-forward: The taxable periods for corporations are diverse and can be chosen by each tax filer. Estimated payments are made every three months during the taxable period. Net operating loss (NOL) carry-forwards are allowed for future deductions. Before January 2010, qualifying losses could be carried forward up to five years. However, there was a statutory expansion of the general NOL carry-forward period from 5 to 20 years for business corporations. Refer to Appendix A of the FY2016 tax expenditure budget report for details.

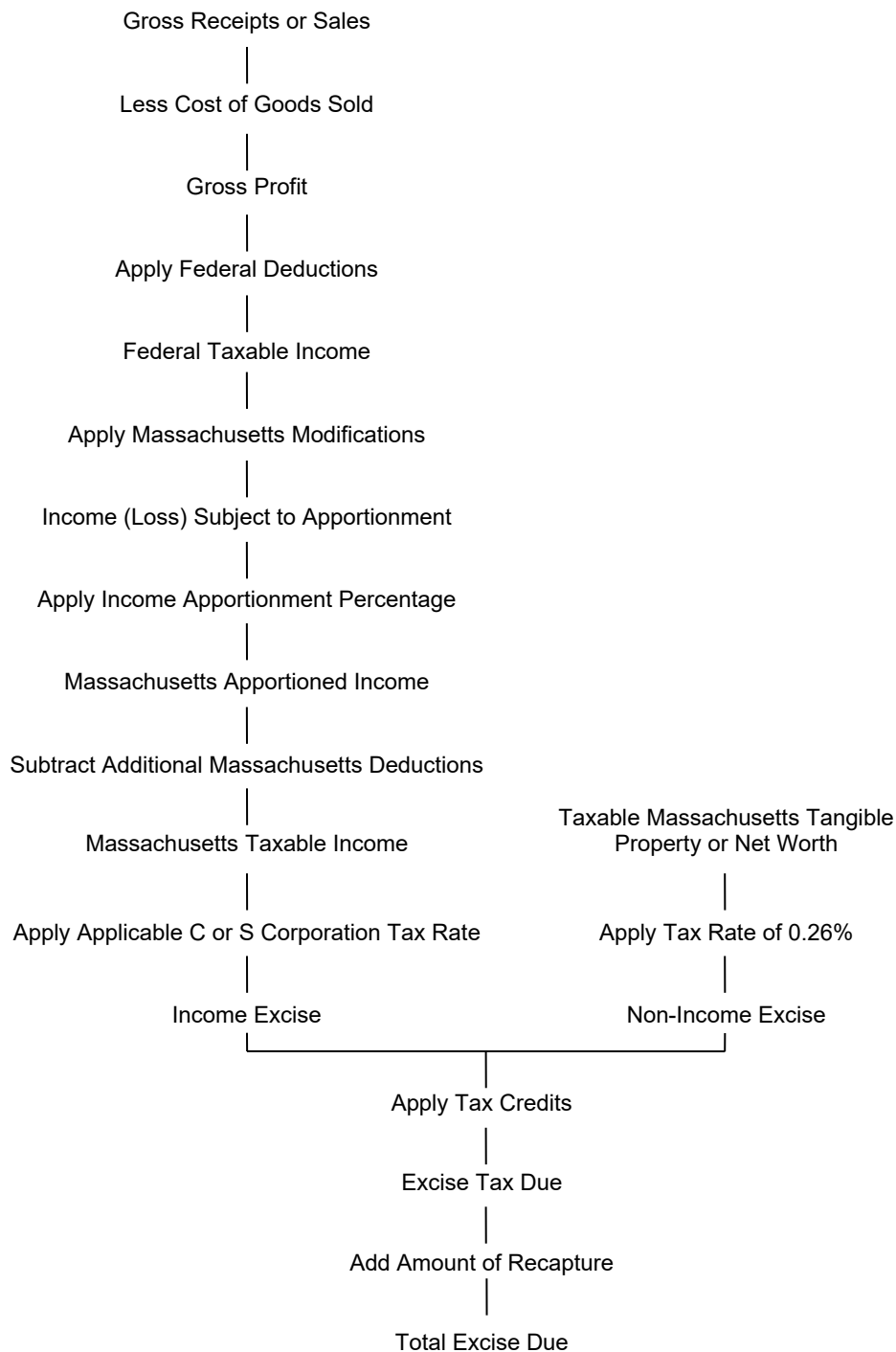
Interstate and International Aspects: All domestic and foreign corporations with nexus in Massachusetts are subject to the corporate excise. Corporations are required to apportion their net incomes if they have incomes from business activity that is taxable in another jurisdiction using a formula based on the proportions of corporate real and tangible property, payroll, and sales that are located in Massachusetts. Under certain circumstances, taxpayers may petition for, or the Commissioner may impose, alternative methods of accounting to reflect more fairly a taxpayer's income from business operations in Massachusetts. Effective for tax years beginning on or after January 1, 2025, all such corporations are required to use single sales factor apportionment. See tax expenditure 2.401.

Combined Reporting: Since January 1, 2009, Massachusetts has required certain businesses engaged in a unitary business to calculate their income on a combined basis. A corporation is subject to this requirement if it is subject to a tax on its income under Massachusetts General Laws (M.G.L.) c. 63, §2, §2B, §32D, §39 or §52A and it is engaged in a unitary business with one or more other corporations under common control, whether or not the other corporations are taxable in Massachusetts. Those certain businesses can be general corporations, financial institutions, or public utilities. Note that combined reporting does not apply to the non-income measure of corporate excise.

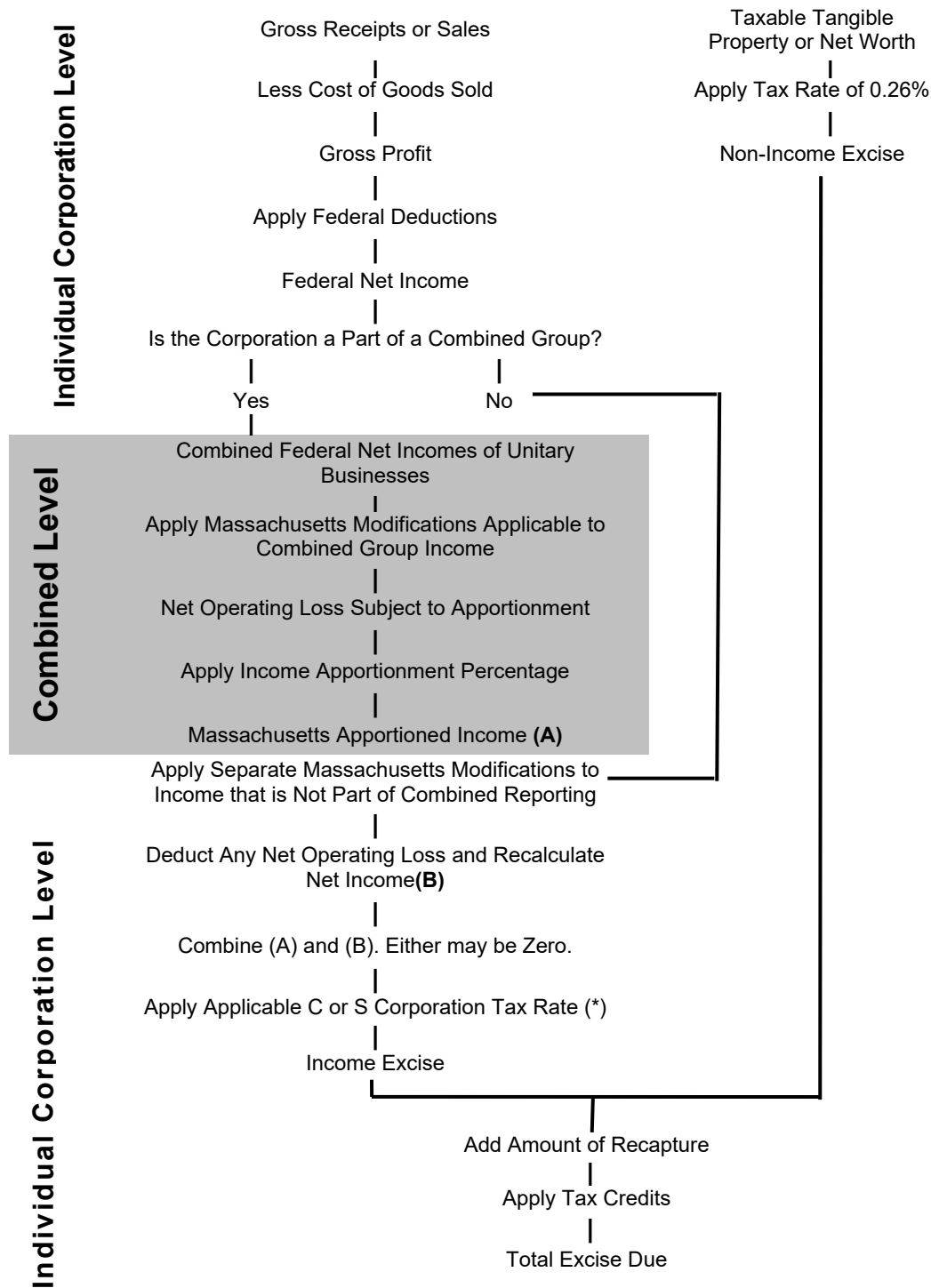
The Other Business Excises

The other business excises possess some different features from the corporate excise. First, many of the financial institutions still do not qualify for combined reporting, and no insurance companies are subject to combined reporting. Second, these businesses are not allowed to take net operating loss deductions. Third, financial institutions weigh the three apportionment factors (sales, payroll, property) equally before tax year 2025. Fourth, the main tax base of insurance companies is the insurance premiums those companies have charged. Fifth, some credits such as the investment tax credit are not applicable to these businesses. There are some additional differences. For further details, refer to the applicable tax return forms. The basic structures of the excises for these businesses are described in the diagrams that follow.

Computation of Massachusetts Corporate Excise under Non-Combined Reporting



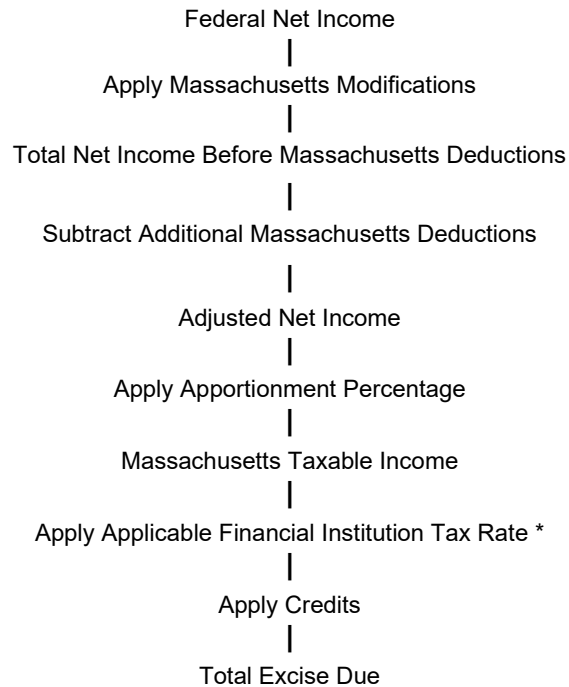
Computation of Massachusetts Corporate Excise under Combined Reporting



(*) Except for non-income excise, this diagram applies to all combined filers.

Computation of the Financial Institution Excise (Non-Combined Reporting)

Financial Institution Excise



* 9.0% for financial institutions that are C corporations; for financial institutions that are S corporations, 4.00% for corporations with total receipts \$9 million or more, and 2.67% for corporations with total receipts \$6 million or more but less than \$9 million.

Computation of the Security Corporation Excise

Security Corporation Excise

Federal Gross Income
|
Add State and Municipal Bond Interest
|
Adjustments to Income
|
Apply Applicable Excise Rate (0.33% for Class 1 or 1.32% for Class 2)
|
Apply Credits
|
Total Excise Due

Summary of 2024 Tax Forms for Insurance Companies

Tax Form	Type of Company	Foreign or Domestic	Base of Tax	Tax Rate	Retaliatory Tax Provision
63-20P	Life Insurance	Domestic	Taxable life, accident and health insurance premiums, net value of policies	2% on life and acc./health ins. Premiums	N/A
	Life Insurance	Foreign	Taxable life insurance premiums attributable to Massachusetts, accident and health insurance premiums	2% on all premiums	Yes
63-23P	Insurance Companies, except Life Insurance or Ocean Marine	Domestic	Taxable (non-life) insurance premiums and gross investment income	2.28% on premiums; then: 1%, 0.8%, 0.6%, 0.4%, 0.2% or 0.0% on investment income	N/A
	Insurance Companies, except Life Insurance or Ocean Marine	Foreign	Taxable premiums for insurance of property or interests attributable to Massachusetts	2.28%	Yes
	Preferred Providers (Accident and Health Insurers, Nonprofit Hospitals, HMO's, and other nonprofit medical, optometric or dental companies)	Domestic and Foreign	Gross premiums for coverage of persons who reside in Massachusetts	2.28%	N/A

Types of Tax Expenditures

As with the personal income tax, the basic structure of the corporate excise tax is subject to several different types of modifications that can produce tax expenditures.

Exclusions from Gross Income: Gross income is the starting point in the calculation of the income component of the corporate excise. In the absence of tax expenditures, it would include all income received from all sources. Items of income that are excluded from gross income escape taxation permanently.

Deferrals of Gross Income: Where an item of income is not included in gross income in the year when it is actually received, but is instead included in a later year, the result is a tax expenditure in the form of an interest-free loan from the state to the taxpayer in the amount of the tax payment that is postponed.

Deductions from Gross Income: Certain amounts are subtracted from gross income to arrive at taxable income. Many of these deducted amounts reflect the costs of producing income (business expenses) and are not included in the corporate income measure of excise; such deductions are not tax expenditures. Other deductions, which do not reflect business expenses, but permit income to escape taxation permanently, do constitute tax expenditures.

Accelerated Deductions from Gross Income: In a number of cases, corporations are allowed to deduct business expenses from gross income at a time earlier than such expenses would ordinarily be recognized under accepted accounting principles. The total amount of the permissible deduction is not increased but it can be utilized more quickly to reduce taxable income. The result is to defer taxes, thus in effect occasioning an interest-free loan from the state to the taxpayer.

Adjustments to Apportionment Formula: In the case of a business that earns income both inside and outside the Commonwealth, an apportionment formula is used to determine what portion of the total business income to allocate to Massachusetts for the calculation of corporate excise. When the standard formula is adjusted to reduce the apportionment ratios for certain businesses, tax expenditures result. The practical effect is to exclude certain portions of those business incomes from taxation.

Exclusions from Property Component: In addition to the excise based on income, corporations pay the excise tax based on the value of their property in the state. To the extent that certain classes of property are not included in the excise's property measure, tax expenditures result.

Credits against Tax: After a corporation has computed its basic tax liability, it may subtract certain credit amounts in determining the actual amount of taxes due. It is important to note that, whereas one-dollar exclusion or deduction results in tax savings of only a few cents (one dollar times the applicable tax rate), one-dollar credit generally results in one-dollar tax saving.

Entity Exempt from Taxation: In some cases, a business or other entity may be completely exempt from taxation. To the extent businesses or investment incomes go untaxed, tax expenditures result.

List of Corporate and Other Business Excise Expenditures

2.000 EXCLUSIONS FROM GROSS INCOME

2.001 Small Business Corporations

In general, corporations organized under, or subject to, Chapters 156, 156A, 156B, 156C, 156D or 180 of Massachusetts General Laws (M.G.L.) or that have privileges, powers, rights or immunities not possessed by individuals or partnerships are subject to the corporate excise. Most corporations have an income tax component of their excise. For those corporations, income is taxed at a rate of between 8 and 9%. Dividends distributed to Massachusetts residents are also subject to the personal income tax rate of 5%. Certain corporations with no more than 100 shareholders may elect to be taxed, for both federal and state tax purposes, as "S corporations." Under federal law, most S corporation income is passed through and taxed only as personal income to shareholders, and is not taxable at the entity level. Only limited categories of income are subject to an entity-level tax for federal tax purposes. For Massachusetts purposes generally, S corporation income is not subject to an entity level tax, except as follows: 1) those limited categories of income that are subject to an entity-level tax for federal tax purposes are also taxable in Massachusetts at the full corporate rate; and 2) the income of an S corporation with receipts of \$6 million or more is subject to tax at reduced corporate rates. As of 2020, S corporations with total receipts of at least \$6 million but less than \$9 million are subject to a corporate excise of 2.00% of net income for non-financial institutions and 2.67% for financial institutions. An S corporation with total receipts of \$9 million or more is subject to an excise of 3.00% of net income for non-financial institutions and 4.00% for financial institutions. The favorable manner in which income is taxed to an S corporation and its shareholders as compared to an ordinary business corporation (including its shareholders) constitutes a tax expenditure. Massachusetts first adopted this treatment of S corporations in 1986.

Origin: IRC §§ 1361-1363; M.G.L. c. 63, §32D

Estimate: \$281.1

2.100 DEFERRALS OF GROSS INCOME

2.101 Deferral of Tax on Certain Shipping Companies

Federal law provides for the creation of special funds ("merchant marine capital construction funds" or "CCFs") by taxpayers who own eligible vessels. Taxpayers can use CCFs to set aside funds for the acquisition, construction, modernization, and major repair of ships that are constructed or reconstructed in the U.S., registered in the U.S., and used in trade or fishing activity. A deduction is allowed under the Code for amounts properly deposited into a CCF. Tax on income earned on amounts in the fund is deferred. Amounts placed in the CCF must be used for an eligible purpose within 25 years of being contributed or they will be taxed. Massachusetts conforms to the federal tax treatment of the contributions by virtue of its conformity with the Code. Amounts withdrawn from a CCF are characterized as either qualified withdrawals or nonqualified withdrawals. Qualified withdrawals are those made for the purpose of either the acquisition, construction, or repair of qualified vessels, or making principal payments on the mortgage of a qualified vessel. Qualified withdrawals are excluded from a taxpayer's taxable income. Instead, taxpayers must reduce the depreciable basis of the vessel by the amount of the qualified withdrawal. Nonqualified withdrawals, which are any withdrawals that are not qualified withdrawals, are taxable. Nonqualified withdrawals include amounts used to make principal payments on the mortgage of a vessel if the basis of that vessel has already been reduced to zero.

Amounts that remain in a CCF after the termination of the agreement with the U.S. Secretary of Commerce or the U.S. Department of Transportation (see the next paragraph) are taxable. In addition, any amount left in the account for more than 25 years after being contributed must be recaptured through the inclusion of twenty percent of such amount in income in each of the next five years. The Department of Transportation's Maritime Administration (MARAD) and the Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) are responsible for administering the CCF program, with MARAD handling commercial vessels, and NOAA handling those in the fishing industry. The deferral of the tax is essentially an interest-free loan from the government.

Origin: IRC §7518(c), (g)(5); M.G.L. c. 63, §30.3, 30.4

Estimate: \$1.0

2.102 Deferral of Federal Gain Invested in Qualified Opportunity Zones

The TCJA added Code Subchapter Z, §§ 1400Z-1 and 1400Z-2, effective December 22, 2017. Under Subchapter Z, Taxpayers may elect to defer gain from the sale or exchange of property to an unrelated party by reinvesting that gain within 180 days of the sale or exchange in a "qualified opportunity fund," which is defined as an investment vehicle organized as a corporation or partnership for the purpose of investing in "qualified opportunity zones." The Code defines qualified opportunity zones as population census tracts that are low income communities nominated by a state governor and designated by the U.S. Treasury as qualified opportunity zones. The deferred federal gain must be included in income upon the earlier of (i) the tax year in which the taxpayer's investment in the qualified opportunity fund is sold or exchanged, and (ii) tax year 2026, if the taxpayer's investment in the qualified opportunity fund is not sold or exchanged by December 31, 2026. In either case, the amount of gain includable in the taxpayer's federal gross income is the excess of: the amount of gain excluded or the fair market value of the investment in the qualified opportunity fund, whichever is less, over the taxpayer's federal basis in the investment. For Massachusetts corporate excise purposes, the gain will be similarly determined. See TIR 19-7 for more information.

Origin: IRC §1400Z-1; 1400Z-2

Estimate: \$5.1

2.200 DEDUCTIONS FROM GROSS INCOME

2.201 Charitable Contribution and Gift Deduction

In calculating net income, corporations may deduct charitable donations up to 10% of taxable income computed without the deduction. The Tax Cuts and Jobs Act (TCJA; enacted December 22, 2017) changed the limitation and the charitable deduction is no longer allowed for contributions to a college or university in exchange for athletic event seating rights. There is a carryover of excess contributions available for 5 succeeding taxable years.

Origin: IRC §170; M.G.L. c. 63, § 30.4

Estimate: \$67.6

2.203 Net Operating Loss (NOL) Carry-Forward

The net operating loss (NOL) deduction is a current-year deduction for losses sustained in prior years. Losses incurred in years a corporation is not subject to the corporate excise in Massachusetts (for example, where the corporation does no business in Massachusetts) are not allowed to be carried forward. While the Internal Revenue Code provides a federal deduction for NOLs, Massachusetts does not conform to those rules; rather the General Laws provide for a specific Massachusetts deduction. The deduction was enacted in 1988. Prior to 2010, NOLs incurred by Massachusetts corporate excise filers could be carried forward for not more than 5 years, and could not be carried back. Losses incurred in taxable years beginning on or after January 1, 2010 can be carried forward for 20 years, and cannot be carried back.

Origin: IRC §172; M.G.L. c. 63, §30.5

Estimate: \$279.3

2.204 Excess Natural Resource Depletion Allowance

An essential characteristic of a business income tax is that it is imposed on the net of business receipts over deductible business expenses. However, an immediate deduction is generally not allowed for the full cost of investments in natural resources such as mineral, natural gas or oil deposits. Rather, the cost of the natural resource property is required to be recovered over time as the natural resources are depleted by extraction. Traditional financial accounting and tax accounting rules base cost recovery on the percentage of the volume of natural resources extracted in a year over the estimated total volume of natural resources included in the investment. This traditional cost recovery method is referred to as the "cost-depletion" method. Internal Revenue Code (Code) § 613 gives taxpayers the option to use an alternative cost recovery method for investments in natural resource property. The alternative method is referred to as "percentage depletion." Under this method the deduction for cost recovery is based on a percentage of the income generated by the natural resource property. Specially, percentage depletion permits deduction of a statutory percentage of gross income from natural resource property, and bears no relationship to cost or other basis. In fact, an allowance calculated under percentage depletion is deductible even when the taxpayer's adjusted basis in the property is zero, provided that the taxpayer has gross income from the property. The statutory percentage of gross income allowed as a deduction depends on the type of natural resource that is extracted. The percentages range from 22% for sulfur, uranium and other designated minerals including most metals, to 5% for sand and gravel. See Code § 613(b). The deduction may not exceed 50% (in some cases, 100%) of net income from the property. The percentage depletion method is not available to large, integrated oil companies or for natural gas resources located outside the US. See Code §§ 613(d), 613A. Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, taxpayers must recover the cost of natural resource property in the same manner and in the same amount as they do for federal tax purposes. Thus, Massachusetts permits the use of the percentage depletion method if it is used for federal tax purposes. The percentage depletion method often results in a larger deduction than traditional cost depletion method. The excess of the deduction determined using the percentage depletion method over the deduction using the cost depletion method constitutes a tax expenditure.

Origin: IRC §§613, 613A; M.G.L. c. 63, §30.3

Estimate: \$3.6

2.205 Deduction for Certain Dividends of Cooperatives

Cooperatives are organizations comprised of separate businesses that band together for limited purposes to take advantage of economies of scale, for example when buying supplies or selling products. Farmers' cooperatives and certain corporations acting as cooperatives may deduct so-called "patronage dividends" from their gross incomes. A "patronage dividend" is a dividend paid to members of the cooperative: (i) based on the quantity or value of business done with the members, (ii) under a pre-existing obligation of the cooperative; and (iii) determined by the cooperative's net earnings from business with members. In order to deduct the dividends, cooperatives must provide notice to members of the total patronage dividend and must pay a minimum of 20% of each member's dividend in cash within 8½ months following the close of the cooperative's taxable year. The deduction is based on the notion that the cooperative is an agent working for the members and that any funds transferred to members already belong to the members. See *Farm Service Cooperative v. Commissioner*, 619 F.2d 718, 722 (1979). In this view, the primary function of a cooperative is the allocation of the economic benefits of the cooperative, either in the form of net savings or net earnings. The deduction recognizes that taxing patronage dividends would discourage such allocation and could result in double taxation of income (first when earned by the cooperative and second as a dividend received by the member).

Origin: IRC §§1381-1388

Estimate: \$5.1

2.206 Deduction for Renovation of Abandoned Buildings as Part of Certified Project

Corporations and individuals are subject to tax on their taxable net income (under the corporate excise) and taxable income (under the personal income tax), respectively. In determining the applicable tax base, a deduction is provided to corporations and individuals for 10% of the cost of renovating abandoned buildings. The deduction is in addition to any other deduction for the cost of such renovation that is available to corporations subject to the net income measure of the corporate excise or to individuals subject to the personal income tax. Apart from this deduction, renovation expenses incurred with respect to business property are generally deductible as current business expense deductions or as depreciation. Amounts allowed under the renovation deduction might also be included in deductible business expenses or deductible depreciation. Thus, the deduction functions as an extra, or bonus, deduction for renovation expenses. To be deductible, the renovation costs must be incurred with respect to a building (i) located in an economic opportunity area and (ii) designated as abandoned, by the Economic Assistance Coordinating Council (EACC). The deduction is part of the Massachusetts Economic Development Incentive Program (EDIP). The EDIP generally employs local property tax incentives to spur economic development, often in blighted areas. These incentives are available for projects that will create new jobs. In addition to the local property tax incentives, the EACC is empowered to authorize the abandoned building renovation deduction. The revenue lost as a result of the deduction constitutes a tax expenditure.

Origin: M.G.L. c. 63, §38O

Estimate: Negligible

2.300 ACCELERATED DEDUCTIONS FROM GROSS INCOME

2.301 Modified Accelerated Cost Recovery System on Rental Housing

An essential characteristic of a business income tax is that it is imposed on the net of business receipts over deductible business expenses. However, an immediate deduction is generally not allowed for the full cost of buildings, which have a useful life measured in years. Rather, the cost of such property must be capitalized and deducted as depreciation expense over a number of years based on the property's useful life. Traditional financial accounting rules required the cost of buildings to be recovered pro rata over a period intended to approximate the property's anticipated actual useful life. This depreciation schedule is referred to as the "straight-line" method. The use of straight-line depreciation over a 40-year useful life to recover cost of buildings is considered to conform to traditional financial accounting rules. The Internal Revenue Code (the "Code") allows landlords and investors to determine their depreciation deduction for new and used rental housing using an accelerated method of depreciation. Rental housing placed in service after 1986 is depreciated on a straight-line basis over a 27.5-year period rather than the 40-year recovery period used under traditional financial accounting rules. Rental housing placed in service before 1986 was depreciable over shorter periods, generally 19 or 20 years, and, instead of straight-line depreciation, the 175% declining balance method was permitted. Massachusetts generally adopts the business expense deductions allowed under the Code, including the federal deduction for depreciation. As a result, Massachusetts conforms to the use of straight-line depreciation over a 27.5-year accelerated recovery period for residential rental property. This allows for a larger depreciation deduction in the earlier years of the useful life of residential rental property than would be available under traditional accounting concepts. However, the depreciation deduction is smaller in the later years. The net result is a temporary reduction, or deferral, of tax. The deferral of tax can be viewed as an interest-free loan from the Commonwealth to taxpayers. The deferral constitutes a Massachusetts tax expenditure.

Origin: IRC §168

Estimate: \$6.7

2.303 Expenditures to remove architectural and transportation barriers to the handicapped and elderly

Massachusetts conforms to Internal Revenue Code ("Code") § 190, which allows taxpayers to elect an immediate deduction of up to \$15,000 of expenses incurred in removing architectural or transportation barriers to the handicapped and elderly. The cost of an improvement to a business asset is normally a capital expense, which would normally have to be capitalized and deducted over a period of years. The accelerated deduction applies to the first \$15,000 of expenses. Costs over that amount must be capitalized and deducted under the generally applicable depreciation schedules set out in the Code. Expenses eligible for the deduction include costs incurred in making a building or public transportation vehicle more accessible to people with disabilities and the elderly. Examples with regard to buildings include installing ramps, widening doors, modifying restrooms, and lowering counters to accommodate customers in wheelchairs. Examples with regard to vehicles include installing lifts for wheelchairs and modifying signage and public address systems to accommodate the visually or hearing impaired. The deduction is not available for costs incurred in completely renovating a building or vehicle or to the cost of replacing depreciable property in the normal course of business. The immediate deduction of eligible expenses results in a deferral of tax. The deferral constitutes a Massachusetts tax expenditure.

Origin: IRC §190; M.G.L. c. 63, §30.4

Estimate: \$0.5

2.304 Election to Deduct and Amortize Business Start-up Costs

Taxpayers who pay or incur business start-up costs and who subsequently enter the trade or business can elect to expense to the lesser of the amount of start-up expenditures with respect to the active trade or business or \$5,000 of the costs. The balance of start-up expenses, if any, is amortized over a period of 180 months, starting with the month in which the business begins. The election must be made no later than the date (including extensions) for filing the return for the tax year in which the business begins or is acquired. A taxpayer is deemed to have made an election to deduct and amortize start-up expenses for the tax year in which the active trade or business to which the expenses relate begins. A taxpayer who does not make the election must capitalize the expenses.

Origin: IRC §195

Estimate: \$0.5

2.305 Modified Accelerated Cost Recovery System for Equipment

An essential characteristic of a business income tax is that it is imposed on the net of business receipts over deductible business expenses. However, an immediate deduction is generally not allowed for the full cost of durable business property that has a useful life measured in years. Rather, the cost of such property must be capitalized and deducted as depreciation expense over a number of years based on the property's useful life. Traditional financial accounting rules required the cost of depreciable tangible personal property to be recovered pro rata over a period intended to approximate the property's anticipated actual useful life. This depreciation schedule is referred to as the "straight-line" method. The Internal Revenue Code (the "Code") follows the general approach to cost recovery described above by providing depreciation schedules applicable to different classes of property. However, the Code permits taxpayers to use depreciation schedules that are more favorable than straight-line depreciation. Specifically, the Code adopts the Modified Accelerated Cost Recovery System (MACRS), which allows accelerated cost recovery over a period that is shorter than the property's anticipated useful life and allows more of the cost of the property to be deducted in the first few years of an asset's life, and relatively less later. In addition to such accelerated depreciation, MACRS allows taxpayers to elect to use an alternative method that conforms more closely to traditional financial accounting rules by requiring the use of straight-line depreciation. Massachusetts conforms to MACRS for purposes of determining taxable net income under the corporate excise and taxable income under the personal income tax. The state tax expenditure is a result of this conformity. Allowing accelerated depreciation under MACRS is a tax expenditure because it allows a larger depreciation deduction earlier in an asset's life than would be allowed under alternative depreciation. To the extent that taxpayers employ accelerated depreciation instead of alternative depreciation, a temporary reduction of tax results. The reduction is temporary because the depreciation deduction is smaller in the later years of an asset's useful life. The temporary deferral of tax can be viewed as an interest-free loan from the Commonwealth to taxpayers.

Origin: IRC §168

Estimate: \$115.4

2.306 Expense Deduction for Excess First-Year Business Assets

An essential characteristic of a business income tax is that it is imposed on the net of business receipts over deductible business expenses. However, an immediate deduction is generally not allowed for the full cost of durable business property that has a useful life measured in years. Rather, the cost of such property must be capitalized and deducted as depreciation expense over a number of years based on the property's useful life. The Internal Revenue Code (the "Code") adopts this approach in providing depreciation schedules applicable to different classes of property. The net income measure of the Massachusetts corporate excise and the Massachusetts personal income tax both adopt the federal depreciation rules, with modifications not relevant to this report. Code § 179 allows taxpayers an election to immediately deduct in a given year 100% of the cost of depreciable property placed in service in that year, up to a limit of \$1 million. If the taxpayer's asset purchases for the year exceed \$2.5 million, the deduction is reduced on a dollar-for-dollar basis for each additional dollar spent. Both these thresholds are adjusted annually for inflation. The Code § 179 deduction is allowed in addition to the allowable depreciation deduction, but the basis for depreciation is reduced by the amount of the deduction. Massachusetts conforms to the Code § 179 deduction for both corporate excise net income tax and personal income tax purposes. The Massachusetts tax expenditure is a result of this conformity. The Code § 179 deduction is a tax expenditure because it allows the cost of eligible assets to be deducted earlier in an asset's useful life, resulting in a temporary reduction of tax. The tax reduction is temporary because it reduces the allowable depreciation deduction later in the asset's useful life. The deferral of tax can be viewed as an interest-free loan from the Commonwealth to taxpayers.

Origin: IRC §179

Estimate: \$9.3

2.307 Modified Accelerated Depreciation on Buildings (other than Rental Housing)

An essential characteristic of a business income tax is that it is imposed on the net of business receipts over deductible business expenses. However, an immediate deduction is generally not allowed for the full cost of buildings, which have a useful life measured in years. Rather, the cost of such property must be capitalized and deducted as depreciation expense over a number of years based on the property's useful life. Traditional financial accounting rules required the cost of buildings to be recovered pro rata over a period intended to approximate the property's anticipated actual useful life. This depreciation schedule is referred to as the "straight-line" method. The Internal Revenue Code (the "Code") follows the general approach to cost recovery described above by providing depreciation schedules applicable to different classes of property. Since 1993, the Code has allowed nonresidential buildings to be depreciated using straight-line depreciation over 39 years. The Code refers to this method as "accelerated". The Code also provides an option to use straight-line depreciation over a period of 40 years. This method is considered to conform to traditional financial accounting rules. The benefit of using the 39-year recovery period instead of the 40-year recovery period is a federal tax expenditure to which Massachusetts conforms. The expenditure also reflects more favorable federal depreciation rules in effect for nonresidential buildings prior to 1993. These rules allowed a larger depreciation deduction over a shorter recovery period than the current Code rules. For example, a building placed in service in 1992 could be depreciated over 31.5 years. Some of buildings placed in service prior to 1993 are still in service and continue to be depreciated under these historical rules. For such legacy buildings, the Code allows more of the cost of the property to be deducted than would be allowed under the current depreciation rules. This legacy effect is also considered to be part of the federal tax

expenditure. Massachusetts generally adopts the business expense deductions allowed under the Code, including the federal deduction for depreciation. Specifically, Massachusetts allows the use of the 39-year accelerated recovery period for nonresidential buildings under the current Code and adopts the favorable historic rules applicable to legacy buildings under the Code. These rules allow a larger depreciation deduction in the earlier years of the useful life of nonresidential buildings than would be available under traditional accounting concepts. However, the depreciation deduction is smaller in the later years. The net result is a temporary reduction, or deferral, of tax. The deferral of tax can be viewed as an interest-free loan from the Commonwealth to taxpayers.

Origin: IRC §168

Estimate: \$3.2

2.308 Expensing Research and Experimental Expenditures in One Year

Taxpayers may elect to treat research or experimental expenditures incurred in connection with a trade or business as currently deductible expenses, and not chargeable to their capital account. Under generally accepted accounting principles, at least some of these expenses would otherwise be treated as capital expenditures and depreciated or amortized over a period of years. The current deduction constitutes a tax expenditure, resulting in a deferral of tax similar to an interest-free loan

Origin: IRC §174

Estimate: \$0.0

2.309 Expensing Exploration and Development Costs

Certain capital costs incurred in bringing a known mineral deposit into production are deductible in the year incurred. A portion of domestic mining exploration costs can also be expensed, although they will be recaptured if the mine reaches the production stage. Certain intangible drilling and development costs of domestic oil, gas, and geothermal wells are deductible when made, but to a certain extent may be recaptured upon disposition of oil, gas, or geothermal property to which they are properly chargeable. The immediate expensing of these costs, which would otherwise be capitalized and recovered through depreciation or through depletion as the natural resource is removed from the ground, results in a deferral of tax or an interest-free loan.

Origin: IRC §§193, 263(c), 616, 617; M.G.L. c. 63, §30.4

Estimate: \$0.0

2.311 Five-Year Amortization of Pollution Control Facilities

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, taxpayers may elect to amortize the cost of a certified pollution control facility over a five-year period, allowing for potential accelerated recovery of these costs. See Code § 169. Five-year amortization is only available for pollution control facilities subsequently added to plants that were in operation before 1976. In the absence of Code § 169, taxpayers would be required to recover the cost of pollution control facilities using one of the depreciation methods that is generally available for machinery and equipment under Code § 167. To the extent that five-year amortization allows accelerated cost recovery, it results in a deferral of tax, which could be viewed as an interest-free loan.

Such a deferral of tax constitutes a tax expenditure.

Origin: IRC § 169; M.G.L. c. 63, § 30.3

Estimate: \$0.3

2.312 Expensing of Alternative Energy Units

Massachusetts General Laws chapter 63, § 38H, adopted in 1976, allows a corporation to deduct "expenditures paid or incurred during the taxable year with respect to the installation of any solar or wind powered climatic control unit and any solar or wind powered water heating unit, or any other type of unit or system powered thereby." Without this provision, such costs would have to be capitalized and depreciated. To qualify for the deduction, the equipment must be located in Massachusetts and used exclusively in the trade or business of the corporation. The statute provides that equipment must meet certain technical standards that are required to be set by a now-defunct state agency – the Bureau of Building Construction. In the past, a corporation was required to submit technical documentation regarding the equipment to the Bureau of Building Construction for certification of the deduction. The Bureau of Building Construction was abolished in 1980 and was absorbed by the Division of Capital Planning and Operations ("DCPO"), which was subsequently renamed the Division of Capital Asset Management & Maintenance ("DCAMM"). There is now no certification process in place and no current published guidance in effect. DOR has received few inquiries regarding the deduction. One of the reasons for this may be that there are other tax benefits available to corporations with respect to alternative energy equipment that are generally more favorable, such as expensing under Internal Revenue Code §§ 179, 179D and depreciation under Code §§ 167, 168. Further, as noted, no state agency is currently responsible for issuing certification standards, guidelines or regulations defining eligible equipment or corporations seeking to take the § 38H deduction.

Origin: M.G.L. c. 63, §38H

Estimate: Not Active

2.313 Seven-Year Amortization for Reforestation

Taxpayers may elect to amortize reforestation costs for qualified timber property over a seven-year period. In the absence of this special provision, these costs would be capitalized and depreciated over a longer period or recovered when the timber is sold. The accelerated cost recovery results in a deferral of tax or an interest-free loan.

Origin: IRC §194

Estimate: \$0.2

2.314 Expensing of Certain Capital Outlays of Farmers

Income tax or corporate excise as applied to business activity is typically imposed on the net of business receipts over deductible business expenses. However, an immediate deduction is generally not allowed for the full cost of items that will be used over multiple years. Rather, the cost of such items must be capitalized and deducted as depreciation or amortization expenses over several years, based on the item's useful life. Code §§ 175 and 180 provide exceptions to the capitalization requirement for expenses incurred by farmers for (i) soil and water conservation expenses and (ii) fertilizer costs, respectively.

Code § 175 allows a deduction for soil and water conservation expenses in the year they are incurred even if the conservation measures provide a benefit over a number of years. The deduction cannot exceed 25% of a taxpayer's gross income derived from farming. To qualify for an immediate deduction, expenses must be consistent with a plan approved by the federal Department of Agriculture or a similar state agency. Eligible expenses include amounts paid for (i) the treatment or moving of earth, including leveling, grading and terracing, (ii) contour furrowing, (ii) the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds, (iv) the eradication of brush, (v) the planting of windbreaks, and (vi) expenses incurred in preserving endangered animal species under a recovery plan approved pursuant to the federal Endangered Species Act of 1973. Code § 180 allows the immediate deduction of fertilizer costs even if the fertilizer's effect lasts for multiple years. There is no limit on the amount of the deduction and no requirement that the expenses be approved by any federal or state agency. Massachusetts generally adopts the business expense deductions allowed under the Code, including the federal deduction allowed to farmers for soil and water conservation expenses and fertilizer costs. Thus, Massachusetts conforms to the federal provisions allowing farmers to deduct such expenses immediately, rather than recovering the expense over a period of years. The net result is a temporary reduction, or deferral, of tax. The deferral of tax can be viewed as an interest-free loan from the Commonwealth to farmers. The deferral constitutes a Massachusetts tax expenditure.

Origin: IRC §§ 175, 180 and MGL c. 63, § 30

Estimate: \$0.1

2.400

ADJUSTMENTS TO APPORTIONMENT FORMULA

2.401

Unequal Weighting of Sales, Payroll, and Property in the Apportionment Formula

Apportionment formulas are used throughout the country to determine the share of a multistate corporation's income that an individual state may tax. Massachusetts employs such formulas. Corporations with a presence both in Massachusetts and in other states generally apportion income to the Commonwealth using a three-factor apportionment formula. A corporation's sales, payroll, and property in Massachusetts are compared to those outside Massachusetts and the resulting percentage is applied to total income to determine income taxable in the Commonwealth. Double-Weighted Sales Factor An apportionment calculation that counts the sales factor twice (so-called "double-weighted sales") was adopted for most business corporations beginning with taxable years ending on or after December 31, 1976. Companies with property and payroll in Massachusetts and sales in other states tend to benefit from an apportionment formula that weights sales more heavily than the other factors. On the other hand, businesses located outside of the state with a large volume of sales into Massachusetts are hurt by double weighted sales factor formula. On balance, apportionment with double-weighted sales factor is a tax expenditure. Single-Sales Factor Certain corporations are permitted to apportion their income using only the sales factor (so-called "single-sales factor" apportionment). Eligible defense corporations were permitted to apportion using a single-sales factor formula starting in 1996. Single-sales factor apportionment was extended to other qualified manufacturers (referred to in this report as "section 38 manufacturers") in 2000. Starting in 1997, corporations that perform services for a mutual fund are allowed to apportion their income to Massachusetts based solely on the percentage of the mutual fund's shareholders that are Massachusetts residents. As is the case with double-weighted sales factor, not all corporations that apportion using single-sales factor benefit from the rule, in particular those that are located outside of Massachusetts. However, on balance, single-sales factor

apportionment is a tax expenditure.

Effective January 1, 2025, all corporations are required to apportion their income using a single-sales factor. Accordingly, DOR will reevaluate whether this item constitutes a tax expenditure. The FY26 impact of this item is not available.

Origin: M.G.L. c. 63, §38 (c), (k), (l), (m)

Estimate: N.A.

2.500 EXCLUSIONS FROM PROPERTY COMPONENT

2.501 Nontaxation of Certain Energy Property

This tax expenditure allows a corporate excise deduction for certain alternative energy property. It is not currently active, although the statute authorizing it is still in effect, because the deduction requires certification by a state agency that no longer exists. In the absence of that agency or a successor agency to certify the property, no exemption can be allowed. These circumstances are further explained below. In addition to a tax on net income, the Massachusetts corporate excise also imposes a tax on net worth or tangible personal property. The tax on tangible personal property applies if the book value of the taxpayer's tangible personal property located in Massachusetts and not subject to local taxation is ten percent or more of the taxpayer's total assets (with certain adjustments). If this is the case, the non-income measure of the corporate excise is based on the book value of the corporation's tangible property located in Massachusetts and is not subject to local tax. The statute provides for a deduction from tangible property subject to the excise for "expenditures paid or incurred during the taxable year with respect to the installation of any solar or wind powered climatic control unit and any solar or wind powered water heating unit or any other type unit or system powered thereby." The statute further provides that the exemption is limited to equipment "for which the manufacturer's British thermal unit impact statement has been submitted to the director of the bureau of building construction and which have been certified by said director as complying with applicable provisions of regulations and standards issued by him pursuant to law." Historically, the Bureau of Building Construction was responsible for setting construction standards in Massachusetts. In 1980, it was absorbed by the Division of Capital Planning and Operations ("DCPO"), now the Division of Capital Asset Management & Maintenance ("DCAMM"). The Bureau of Construction's function in certifying alternative energy property was not specifically delegated to any successor agency. No certification standards, guidelines or regulations have been established by DCAMM or any other Massachusetts agencies for corporations seeking to take the alternative energy property deduction. As a result of these circumstances this tax expenditure is not active.

Origin: M.G.L. c. 63, §38H(f)

Estimate: Not Active

2.502 Exemption for Property Subject to Local Taxation

Under M.G.L. c. 63, § 39, all business corporations organized or doing business in Massachusetts are required to pay the corporate excise "for the enjoyment under the protection of the laws of the commonwealth, of the powers, rights, privileges and immunities derived by reason of its existence and operation." The corporate excise is comprised of a net income measure and a non-income measure based on the value of a

corporation's property or net worth, depending upon the type of corporation. In calculating the non-income measure, a taxpayer may exclude property subject to local taxation from the value of the business corporation. M.G.L. c. 59, § 5, paragraph sixteen, identifies what property of a business corporation is exempt from local taxation. Generally, the state taxes only the machinery of manufacturing corporations, but it exempts business real estate and tangible personal property. For purposes of estimating revenue loss from this tax expenditure, the state's rate on property (non-income measure), \$2.60 per \$1,000, has been applied. The incentive to exempt property subject to local taxation from the value of the property/net worth measure was enacted in 1962. Note that corporations are subject to the non-income measure of corporate excise based on different computations depending on whether the corporations are classified as tangible property corporations or intangible property corporations. The determination of whether a corporation is a tangible property corporation or an intangible property corporation is generally made by taking the ratio at book value of: (i) tangible assets located in Massachusetts on the last day of the taxable year and not subject to local taxation to (ii) total assets on the last day of the taxable year (less assets locally taxed and less investments in subsidiary corporations which represent 80% or more of the voting stock of those corporations) multiplied by the income apportionment percentage. If the ratio of (i) to (ii) is 10% or more, the corporation is a "tangible property corporation", if the ratio is less than 10%, the corporation is an "intangible property corporation." For tangible property corporations, the non-income measure of the excise is imposed at a rate of 0.26% on the book value of tangible property located in Massachusetts on the last day of the taxable year and that is not subject to local taxation. For intangible property corporations, the non-income measure of the excise is imposed at a rate of 0.26% on the book value of a corporation's total assets on the last day of the taxable year, less the sum of (i) its liabilities on said date, (ii) the book value of its tangible property situated in Massachusetts on said date and subject to local taxation, and (iii) the book value on said date of its investment in subsidiary corporations which represent 80% or more of the voting stock of said corporations, multiplied by the intangible property corporation's income apportionment percentage.

Origin: M.G.L. c. 63, §30(7) ; c. 63, §30.8; c. 63 §39(a)(1)

Estimate: \$420.6

2.600

CREDITS AGAINST TAX

2.602

Investment Credit

Manufacturing corporations and corporations engaged primarily in research and development, agriculture or commercial fishing are allowed to take an investment tax credit (ITC) of 3% (for tax years ending before January 1, 1993 the rate was 1%) of the cost of qualifying tangible property. Both owners and eligible corporate lessees of property may claim the ITC. Qualifying property includes tangible personal property, real property including buildings and build-outs. It does not include motor vehicles. The property must be depreciable under Code § 167 and have a useful life of four years or more, and it must be used in Massachusetts and situated in Massachusetts on the last day of the taxable year. The maximum amount of ITC allowed in any one taxable year cannot exceed fifty percent of the excise due for the taxable year. The credit is neither transferable nor refundable. A corporation that does not use the full amount of ITC generated in a taxable year because the credit exceeded its excise for the taxable year may carry over the credit, as reduced from year to year, for three years. Any portion of ITC not used in a taxable year because of the fifty percent limitation may be carried over, as reduced from year to year, indefinitely. A portion of the credit is subject to a recapture tax if the qualifying property sold or otherwise

transferred before the end of its useful life, unless the property was in qualified use for more than twelve years. The incentive was enacted on July 1, 1971, and applied to qualifying tangible property acquired, constructed, reconstructed, or erected after December 31, 1969.

Origin: M.G.L. c. 63, §31A (i), (j)

Estimate: \$135.1

2.603 Vanpool Credit

The tax expenditure allows business corporations a credit equal to 30% of the cost of company shuttle vans used in Massachusetts in an employer-sponsored ridesharing program. The credit applies to the cost of purchasing or leasing the shuttle vans. The shuttle vans must be used for transporting employees to and from the workplace. The credit is neither transferable nor refundable and cannot be carried forward. Recapture provisions apply to vans that are taken out of vanpool service before the end of their useful lives. If the credit did not exist, the cost of acquiring vans used in vanpools would be borne entirely by employers, who might then be less inclined to provide their employees with vanpool services. The amount of revenue foregone as a result of the credit constitutes a tax expenditure.

Origin: M.G.L. c. 63, §31E

Estimate: Negligible

2.604 Research Credit

Massachusetts provides corporations a credit for increased spending in research and development. The credit is available only for expenditures for research activity conducted in Massachusetts. The Massachusetts research credit, in large part, is based on the research credit allowed under Internal Revenue Code (Code) § 41. In particular, the alternative simplified method for calculating the credit is modeled after the federal alternative simplified method. The credit can be shared among affiliated corporations that are members of the same combined group, subject to limitations. There are two methods for calculating the Massachusetts research credit. Under one method, the amount of the credit is equal to: 10% of the difference between the current year's Massachusetts qualified research expenses and a "base amount" plus 15% of the Massachusetts basic research payments for the taxable year as determined under Code § 41(e)(1)(A). The actual computation of the credit under this method can be complex. Pursuant to legislation enacted in 2014, a taxpayer can now elect to determine its credit using the so-called "alternative simplified method." This method is based on the federal simplified method which was enacted in 2006. Using this method, the amount of the credit is equal to a percentage of the difference between the corporation's qualified research expenses for the current taxable year and 50% of the corporation's average qualified research expenses for the 3 taxable years preceding the taxable year for which the credit is being determined. The percentage used to calculate the credit under the alternate simplified method is being phased in over a 7-year period. For calendar years 2015, 2016 and 2017, a rate of 5 percent was used to calculate the credit under the alternative simplified method, for calendar years 2018, 2019 and 2020, that rate was 7.5 percent and for calendar years beginning on or after January 1, 2021, the rate is 10 percent. Regardless of which method the corporation uses to determine the credit amount to which it is entitled for a taxable year, the amount of research credit that can be used in a taxable year is limited to 100 percent of a corporation's first \$25,000 of excise, plus 75 percent of the corporation's excise in excess

of \$25,000. A single \$25,000 amount applies to affiliated groups of corporations. Credit not used because of the limitations generally can be carried over for 15 years. In certain instances, the credit can be carried forward indefinitely. The research credit is not transferable and generally is not refundable. However, a certified Life Science Company may apply to the Massachusetts Life Science Center and a certified Climatetech company may apply to the Massachusetts clean energy center for a refund of a portion of its available excess research credits in lieu of carrying such credits forward for use in later years.

Origin: M.G.L. c. 63, § 38M

Estimate: \$1,054.2

2.605 Economic Development Incentive Program Credit

Under the Economic Development Incentive Program (EDIP), the Economic Assistance Coordination Council (EACC) may award tax credits to taxpayers that participate in a "certified project" (as defined in G.L. c. 23A, §§ 3A and 3F). The amount of credit allowed in each case is determined by the EACC based on numerous factors set forth in G.L. c. 23A, § 3D, including the number of jobs expected to be created, the amount of capital to be invested, and the net new economic benefit expected to be created. The EACC may designate the credit as refundable for any certified project. Unless designated as refundable, the maximum amount of credit allowed in any one taxable year cannot exceed fifty percent of the excise due for the taxable year. The amount of credit allowed cannot reduce the excise below the minimum excise. The EACC is authorized to eliminate or limit carry-over of the credit. The EDIP credits used in a calendar year are subject to an annual cap of \$30 million. Recapture is required if the EACC revokes a business project certification. The credit is not transferable; however, if a certified project is sold or otherwise disposed of, the credit allowed may be transferred to the purchaser of the certified project, provided that the EDIP contract is assigned to and assumed by the purchaser and approved in writing by the EACC. When it was first enacted in 1993, the credit was for a fixed 5 percent of the costs of qualifying tangible property, and the project had to be located in a designated "economic opportunity area". In 2010, the statute was amended to increase the percentage to "up to 10 percent" and "up to a refundable forty percent" in some cases, eliminate the "economic opportunity area" requirement and impose an annual cap of \$25 million. As of 2017, the credit is whatever amount is awarded by the EACC as part of the certification process.

Origin: M.G.L. c. 63, §38N

Estimate: \$29.7

2.606 Credit for Employing Former Full-Employment Program Participants

This tax expenditure is no longer in effect. It previously provided a tax credit for employers who continued to employ former participants in the full employment program adopted by the Department of Transitional Assistance (DTA). The program subsidized the salaries of certain disadvantaged individuals. The credit was equal to \$100 per month for each month of non-subsidized employment, up to a maximum of \$1,200 per employee, per year, for each employee retained after DTA subsidies ceased. The credit was required to be authorized by the DTA. The credit was neither transferable nor refundable. The reduction of revenue resulting from the credit constituted a state tax expenditure. The full employment program was created by St. 1995, c. 5, § 110(m) but was never codified into the General Laws. The law authorizing the program was never repealed, but the DTA

stopped authorizing the credit in 2016 . Because the credit may be carried forward for only a maximum of five years, no carryover of the credit can apply after 2021. As a result of these circumstances, this tax expenditure is not active.

Origin: St. 1995, c. 5, §110(m)

Estimate: Not Active

2.607 Harbor Maintenance Credit

Domestic and foreign corporations that are shippers, importers, or exporters are allowed to claim a dollar-for-dollar credit against the corporate excise for certain harbor maintenance taxes paid to the federal government. To qualify for the credit the federal tax paid must be attributable to the shipment of break-bulk or containerized cargo by sea and ocean-going vessels through one of three designated Massachusetts ports. The allowable credit is not subject to the 50% limitation of G.L. c. 63, §32C. The credit may not reduce the taxpayer's corporate excise due below the minimum excise, currently \$456. The credit is not refundable or transferable. Unused credit may be carried forward for up to 5 years. The expenditure was enacted on August 9, 1996, applicable to harbor maintenance tax paid on or after July 1, 1996. The FY22 Budget repeals the credit effective for taxable years beginning on or after January 1, 2022. However, unused portions of the credit claimed in taxable years beginning before January 1, 2022 may continue to be carried forward.

Origin: M.G.L. c. 63, §38P

Estimate: Expired

2.608 Brownfields Credit

Taxpayers are allowed to claim a credit for amounts expended to remediate contaminated property owned or leased for business purposes and located within an economically distressed area. The Brownfields credit may be claimed by a business corporation that commences and diligently pursues an environmental response action and achieves and maintains a permanent solution or remedy operation status in compliance with chapter 21E. Taxpayers may sell, transfer, or assign the credit. The environmental response action must be commenced on or before August 5, 2028, and eligible costs that qualify for the credit must be incurred before January 1, 2029. The credit may be carried forward for up to 5 years. The amount of the credit varies according to the extent of the environmental remedy. If the taxpayer's permanent solution or remedy operation status includes an activity and use limitation, then the amount of the credit is 25% of the net response and removal costs incurred by the taxpayer. However, if there is no activity and use limitation, then the amount of the credit is 50% of the net response and removal costs.

Origin: M.G.L. c. 63, §38Q.

Estimate: \$26.5

2.609 Low Income Housing Credit

The Low-Income Housing Tax Credit (LIHTC) is available to corporate excise taxpayers as well that invest in low-income housing projects that meet federal and state eligibility rules. The credit is part of a federal program that authorizes a federal credit for such investments and subsidizes state credits for eligible projects. The Executive Office of Housing and Livable Communities (EOHLC) DHCD), determines eligibility for, and the amount of, the

Massachusetts credit pursuant to federal guidelines. The LIHTC has two components. First, the Standard LIHTC is allowed for the construction or development of new low-income housing or the preservation and improvement of existing federal or state subsidized housing. Second, the Donation LIHTC is allowed for the donation of real or personal property to non-profit entities for use in purchasing, constructing, or rehabilitating housing projects otherwise eligible for the LIHTC. The amount of credit that Massachusetts taxpayers may claim is determined by the EOHLC, subject to the rules set out in Internal Revenue Code (Code) § 42. Under those rules the amount of the Standard LIHTC is based on a number of factors, including the cost of the project. The Donation LIHTC is generally equal to 50% of the value of the donation, but the EOHLC can increase that amount to 65% if necessary for the viability of a specific project. To qualify for the credit, a project must meet affordability standards set out in Code § 42. Effective January 1, 2023, the Massachusetts LIHTC is subject to an annual statewide cap of \$60 million. EOHLC allocates the credit to taxpayers in accordance with federal and state law. The LIHTC can be used to offset the entire Massachusetts tax liability of a personal income taxpayer and all the tax liability of a corporate taxpayer except for the \$456 minimum excise. Unused Standard LIHTC can be carried over for five years. However, the Donation LIHTC must be used in the taxable year that the donation is made. If the taxpayer disposes of the property generating the LIHTC, a portion of the credit may be subject to recapture. The Massachusetts LIHTC is transferable.

Origin: M.G.L. c. 63, §31H

Estimate: \$214.4

2.610 Historic Buildings Rehabilitation Credit

The Massachusetts historic rehabilitation tax credit ("MHRTC") is a credit equal to a percentage, not to exceed 20%, of the qualified rehabilitation expenditures made by a taxpayer in rehabilitating a qualified historic structure which has received final certification by the Massachusetts Historical Commission ("MHC") and has been placed in service. The MHRTC is available to both chapter 62 (personal income) and chapter 63 (corporate) taxpayers. Unused portions of the MHRTC may be carried forward for up to 5 years and may be transferred or sold to another taxpayer, but are not refundable. The MHRTC cannot be used to reduce the corporate excise due below the minimum excise provided by G.L. c. 63, § 39(b), currently \$456. The allowable corporate credit is not subject to the 50% limitation of G.L. c. 63, § 32C. If, before the end of the five-year period beginning on the date on which the qualified historic structure received final certification and was placed in service, the taxpayer disposes of its interest in the structure, the credit will be subject to recapture and the taxpayer's tax for the taxable year in which the disposition occurs will be increased by the recapture amount. The original annual cap was set at \$15 million per year, effective for taxable years beginning January 1, 2005 and ending December 31, 2009. Then it increased to \$50 million per year, for taxable years beginning January 1, 2017 and ending December 31, 2022. However, it soon again changed to \$55 million per year, effective for taxable years beginning January 1, 2018 and ending December 31, 2022. The FY22 Budget extend the credit to tax years ending on or before December 31, 2027. Recently, for taxable years beginning on or after January 1, 2024, the annual cap has been increased to \$110 million. The credit has been extended further to taxable years ending on or before December 31, 2030. Effective August 13, 2014, taxpayers subject to the personal income tax imposed by G.L. c. 62 that acquire a qualified historic structure may transfer MHRTC awards subject to criteria established by the MHC. In the case of a multi-phased project MHRTC awards may be transferred for any phase of the project that meets the MHC's criteria. Effective August 10, 2016, MHRTC awards also may be transferred by taxpayers subject to the corporate excise under G.L. c. 63. See TIR 15-6 and 16-15.

Origin: M.G.L. c. 63, §38R

Estimate: \$84.8

2.614 Film or Motion Picture Credit

The Massachusetts film tax incentives, as amended in July 2007, are allowed for taxpayers engaged in the production of feature-length films, videos, digital media projects, television series, and commercials, for theatrical or television viewing. The statute makes no reference to productions that are instead made for viewing on the Internet. The film tax incentives consist of a tax credit equal to 25% of a film's production cost and 25% of a film's payroll cost, and an exemption from sales tax for film productions. The incentives are dependent upon a taxpayer incurring Massachusetts production expenses of at least \$50,000 in a twelve-month period. Assuming that threshold requirement is met, a taxpayer may claim the payroll portion of the credit for any in-state employment of persons in connection with the filming and production of a motion picture, so long as the payment constitutes Massachusetts source income to the recipient. The credits were due to expire on January 1, 2023. However, the FY22 Budget amends "An Act Providing Incentives to the Motion Picture Industry," which created the film incentive credits, to make them permanent. The FY22 Budget also amends credit eligibility with respect to production expenses. For taxable years beginning on or after January 1, 2022, a taxpayer must incur at least 75% of its production expenses in Massachusetts for a film project to qualify for the credit. A 50% threshold applies to prior taxable years. The tax credits are available to both corporate excise and personal income tax filers and can be used to reduce the taxpayer's liability. At the taxpayer's election, the Department of Revenue will refund 90% of any amount of the tax credit that exceeds the taxpayer's liability. The tax credits may also be transferred or sold by taxpayers to third parties that may use the tax credits to reduce their Massachusetts corporate, insurance, financial institution, or personal income tax liabilities.

Origin: M.G.L. c. 63, §38X

Estimate: \$78.0

2.615 Medical Device-User Fee Credit

Medical device companies subject to tax under either the personal income tax under M.G.L. c. 62 or a corporate excise under M.G.L. c. 63, and which develop or manufacture medical devices in Massachusetts can claim a transferable credit equal to 100% of the user fees paid by them when submitting certain medical device applications and supplements to the FDA. The credit may not be carried forward to subsequent tax years and is not refundable. However, unused portions of the credit may be transferred, and the transferee may carry over the credit, but must use it within 5 years. This particular tax expenditure was enacted on July 8, 2006, making the incentive applicable from tax years beginning on or after January 1, 2006. St. 2006, c. 144, 145. The FY22 Budget repeals the credit effective for taxable years beginning on or after January 1, 2022. However, taxpayers will still be able to transfer previously awarded credits, and transferees will be able to apply unused amounts of the credit within five years of the credit's transfer.

Origin: M.G.L. c. 63, §31L

Estimate: Expired

2.617 Life Sciences Tax Incentive Program

While often referred to as a singular "Life Science credit," Massachusetts offers an array of life sciences tax incentives for the life sciences industry, which consist of multiple tax credits, a corporate excise deduction, and a sales and use tax exemption. The original tax incentives enacted in "An Act Providing for the Investment in and Expansion of the Life Sciences Industry in the Commonwealth," (St. 2008, c. 130), include the following tax credits: the Life Sciences FDA User Fees Tax Credit, the Life Sciences Refundable Investment Tax Credit, and the Life Sciences Research Tax Credit (and also a modified version of the standard Research Tax Credit); as well as a corporate excise deduction allowing for the deduction of qualified clinical expenses for certain drugs that would not be fully deductible otherwise, and a sales and use tax exemption for materials used to construct a life sciences facility. Effective January 1, 2011, the Life Sciences Refundable Jobs Tax Credit was added to this program (St. 2011, c. 58, §§ 65, 70). The Angel Investor Tax Credit was added to the ambit of life sciences tax incentives (St. 2016, c. 219, § 139), but is no longer available for taxable years beginning on or after January 1, 2024. While most of the tax credits are available to life sciences companies subject to either the personal income tax or the corporate excise the Life Sciences Research Tax Credit and the modified version of the standard Research Tax Credit are available only to life sciences companies subject to a corporate excise and the Angel Investor Tax Credit was only available to personal income taxpayers. The Life Sciences Tax Incentive Program is administered by the Massachusetts Life Sciences Center (MLSC). The MLSC is charged with reviewing and as appropriate approving applications from life sciences companies which certifies them as eligible for various life sciences tax incentives. The life sciences tax incentives are available only to certified life sciences companies to the extent authorized by the MLSC. Prior to receiving any life sciences tax incentives a company must be certified by the MLSC. To become a certified life sciences company the company must apply to the MLSC by a date set by the MLSC. The company must be registered to do business in Massachusetts maintain at least 10 full-time employees as of the end of the previous calendar year and be in good standing with the Secretary of the Commonwealth and the Massachusetts Department of Revenue. In evaluating an applicant the MLSC considers certain criteria such as whether the applicant has shown it has the ability to create and retain jobs for five years as well as general considerations including a wide geographic distribution of life sciences operations In Massachusetts a wide distribution of life sciences technologies and industries supported by the MLSC and diversity among businesses at different stages of product development and commercialization. The MLSC particularly encourages companies from outside Greater Boston to apply. All of the life sciences tax incentives provided to a life sciences company are subject to recapture if the life sciences company's certification is revoked by the MLSC. Effective for taxable years beginning on or after January 1, 2024, the annual amount of life science tax incentives that can be authorized has been increased from \$30,000,000 to \$40,000,000.

Origin: M.G.L. c.63, §§31M, 38M(k), 38U, 38W, 38V, and 38CC

Estimate: \$17.0

2.618 Dairy Farmer Credit

A taxpayer who holds a certificate of registration as a dairy farmer pursuant to M.G.L. Ch. 94, § 16A is allowed to take a refundable tax credit based on the amount of milk produced and sold. The Massachusetts dairy farmer tax credit was established to offset the cyclical downturns in milk prices paid to dairy farmers and is based on the U.S. Federal Milk Marketing Order for the applicable market, such that when the U.S. Federal Milk Marketing Order price drops below a trigger price anytime during the taxable year the taxpayer will be

entitled to the tax credit. Effective January 1, 2023, the total cumulative value of the credits authorized pursuant to this section combined with M.G.L. c. 63, § 38Z is \$8 million. These credits may not be sold or transferred to another taxpayer, but are fully refundable. See personal income tax item 1.614 for more details.

Origin: M.G.L. c. 63, §38Z

Estimate: \$1.5

2.619 Conservation Land Credit

A tax credit is allowed for qualified donations of certified land to a public or private conservation agency. The credit is equal to 50% of the fair market value of the qualified donation. The amount of the credit that may be claimed by a taxpayer for each qualified donation cannot exceed \$75,000. Approval of the donation is required from the Secretary of the Office of Energy & Environment Affairs. The credits may not be sold or transferred to another taxpayer, but are refundable. The total credits that may be approved are capped at \$2.0 million annually for the combined amount from personal income tax filers and chapter 63 taxpayers.

Origin: M.G.L. c. 63, §38AA

Estimate: \$0.0

2.620 Employer Wellness Program Credit

The 2012 Health Care Act established an Employer Wellness Program Tax Credit effective for tax years beginning on or after January 1, 2013 and which expired on December 31, 2017. The tax credit was created to provide incentives for business to recognize the benefits of wellness programs with the goal of providing smaller businesses with an expanded opportunity to implement these programs. The credit, available to both personal income taxpayers and corporate & business excise taxpayers, was set at 25 percent of the costs associated with implementing a "certified wellness program." The maximum amount of credits available to a taxpayer was \$10,000 in any tax year. The credit was neither refundable nor transferrable. However, the portion of the tax credit that exceeded the tax for the taxable year was allowed to be carried forward and applied against the taxpayer's tax liability in any of the succeeding 5 taxable years. The Department of Public Health has promulgated a regulation, 105 CMR 216.000, entitled Massachusetts Wellness Tax Credit Incentive, which set forth criteria for authorizing and certifying the credit. This credit has expired and is no longer available to employers for taxable years beginning after December 31, 2017. However, certain unused credits previously granted to personal income or corporate excise taxpayers remain available to be claimed against their tax liability incurred during tax years up until the period beginning on January 1, 2023.

Origin: St. 2012, c. 224, §§41, 41A, 56, 56A, 238, 239, 297, and 298; M.G.L. c. 63, §38FF

Estimate: \$0.1

2.621 Community Investment Credit

A personal income tax and corporate excise credit equal to 50% of the total amount of qualified investments made by a taxpayer in a "community partner." A Qualified investment is a cash contribution made to: (i) a specific community partner to support the implementation of the community partner's approved community investment plan, or (ii) a

community partnership fund. Community partners include "community development corporations" and "community support organizations" selected by the Executive Office of Housing and Livable Communities (EOHLC) through a competitive process. A "community partnership fund" is a fund administered by a nonprofit organization selected by the EOHLC to receive qualified investments from taxpayers for the purpose of allocating the investments to community partners. A "community development corporation" is a non-profit corporation dedicated to improving the economic well-being of communities in the Commonwealth, as certified by the EOHLC. A "community support organization" is any nonprofit organization which is not a community development corporation "but has a focus on and track record of providing capacity building services to community development corporations." A qualified investment must be in the form of a cash contribution of at least \$1,000. A taxpayer must claim the credit in the taxable year in which a qualified investment is made. The credit is refundable, or alternatively may be carried forward by the taxpayer for 5 years. The credit is not transferable. The EOHLC is mainly responsible for administering the credit. The EOHLC determines whether an organization is a community partner and decides whether projects proposed by community partners will be eligible for the credit. The total cumulative value of all credits authorized may not exceed \$12 million in any taxable beginning in 2023 or later. Prior limits were \$10 million for 2021 and 2022 taxable years, \$8 million for 2019 and 2020 taxable years, \$6 million for 2015 through 2018 taxable years, and \$3 million for 2014 taxable years. For taxable years beginning on or after January 1, 2025, the annual cap has been increased from \$12 million to \$15 million. The credit was due to expire on December 31, 2025, but has been made permanent. The amount of revenue foregone as a result of the credit constitutes a tax expenditure.

Origin: St. 2012, c. 238, §§29, 30, 35, 36 ; M.G.L. c. 63, § 38EE

Estimate: \$6.5

2.622 Certified Housing Development Credit

A tax credit is allowed for up to 25% of qualified expenditures in certified housing development projects. The credit is administered by the Executive Office of Housing and Livable Communities (EOHLC). The EOHLC determines the amount of the credit to which a taxpayer is entitled. Qualified expenditures are those costs directly related to the construction or substantial rehabilitation of residential property located in designated areas of gateway municipalities. Qualified expenditures do not include the initial purchase price of the property. To be considered a certified housing development a project must meet a number of requirements. Specifically, the project must contain two or more housing units. In addition, 80% of the units contained in the project must be priced consistently with prevailing rents or sale prices in the city or town where the property is located. Finally, the city or town must have adopted full or partial property tax exemptions for projects that are otherwise eligible for the credit. A taxpayer can claim a credit equal to the amount awarded by the EOHLC. The total amount of credits awarded in the Commonwealth cannot exceed \$57 million for calendar year 2023 and \$30 million for subsequent years. The credit is available for the tax year in which the EOHLC gives the Department of Revenue (DOR) written notification of completion of the certified housing development project. The credit may be claimed against the full amount of the recipient's tax liability, except that corporations may not use the credit to offset the \$456 minimum excise. Unused credits may be carried forward for ten years. Taxpayers are allowed to sell their credits to third parties. The amount of revenue foregone as a result of the credit constitutes a tax expenditure.

Origin: St. 2010, c. 240; M.G.L. c. 40V; c. 63, §38BB

Estimate: \$16.0

2.623 Veteran's Hire Credit

Certain employers that hire "qualified veterans" who live and work in Massachusetts may be eligible to claim a tax credit equal to \$2,000 for each qualified veteran hired. In order to be eligible for the credit, the employer must (i) employ less than 100 employees; (ii) be certified by the commissioner of veteran's services; and (iii) qualify for and claim the Work Opportunity Credit allowed under I.R.C. § 51, as amended and in effect for the taxable year. In order to claim the credit, the primary place of employment and the primary residence of the qualified veteran must be in Massachusetts. An employer must obtain certification that the veteran is a qualified veteran from the Department of Career Services (or any successor agency), no later than the employee's first day of work. For taxable years beginning on or after January 1, 2024, the amount of credit a business can claim for each qualified veteran it hires has been increased from \$2,000 to \$2,500. The credit is non-transferrable and non-refundable. However, any excess amount of credit over the tax due may be carried forward up to 3 subsequent taxable years. The total cumulative value of the credits authorized must not exceed \$1 million annually. The credit is available for qualified veterans hired after July 1, 2017 for tax years beginning on or after January 1, 2017. See TIR 17-10 for additional details.

Origin: St. 2017, c. 47; M.G.L. c. 63, §38GG

Estimate: \$0.5

2.624 Apprentice Credit

The tax expenditure allows employers to claim a credit against the personal income tax or corporate excise if they establish apprenticeship programs and hire apprentices in designated computer technology, health care technology, or manufacturing occupations. A tax credit is a dollar for dollar offset of the amount of tax that a taxpayer owes. The credit is equal to the lesser of \$4,800 or 50% of the wages paid to the apprentice. Employers that claim the credit in a taxable year will be eligible for an additional credit in the following year with respect to apprentices that are retained. Apprentices must be Massachusetts residents working for employers with business premises in the Commonwealth. The credit is refundable but nontransferable. The credit applies to taxable years beginning on or after January 1, 2019. Occupations eligible for the credit include a range of jobs in the designated fields. Such occupations generally include jobs that require technical skills but do not necessarily require post-secondary education. To be eligible for the credit, employers must register their apprenticeship programs and program participants with the Massachusetts Executive Office of Labor and Workforce Development, Division of Apprentice Standards. The amount of the credit available to any employer is determined by the Secretary for Labor and Workforce Development in consultation with the Massachusetts Executive Office for Administration and Finance. The total amount of cumulative credit available annually is limited to \$2.5 million. Effective from January 1st, 2023, the credit has been extended to apprentices hired and trained by expansion industries identified by the Secretary of Labor and Workforce Development as critical to a regional labor market economy. The credit is a Massachusetts tax expenditure because it reduces the amount of personal income tax and corporate excise revenue that would otherwise be available to appropriate for other purposes.

Origin: St. 2018, c. 228; M.G.L. c. 63, §38HH

Estimate: \$0.5

2.625 Cranberry Bog Renovation Credit

Effective for tax years beginning on or after January 1, 2020, taxpayers primarily engaged in cranberry production may claim a nontransferable, refundable credit equal to 25% of expenses incurred in the renovation, repair, replacement, regrading or restoration of a cranberry bog for the cultivation, harvesting or production of cranberries. The Secretary for Energy and Environmental Affairs determines eligible costs and the amount of the credit. The amount of credit that can be claimed by a taxpayer for a taxable year cannot exceed \$100,000. The annual total cap amount is \$2 million. The credit is no longer available for taxable years beginning on or after January 1, 2030.

Origin: M.G.L. c. 63, §38II

Estimate: \$1.0

2.626 Disability Hire Credit

Effective for tax years beginning on or after January 1, 2023, employers that hire disabled employees may claim a nontransferable, refundable credit equal to (i) the lesser of \$5,000 or 30% of the wages paid to a disabled employee in the employee's first year of employment, and (ii) the lesser of \$2,000 or 30% of the wages paid to a disabled employee in each subsequent year of the employee's employment. The credit cannot reduce the excise due below the minimum excise. The credit is available to employers provided that (i) the employee is certified by the Massachusetts Rehabilitation Commission as having a disability as defined under the Americans with Disabilities Act, 42 U.S.C. § 12102; (ii) the employee is capable of working independently; (iii) the employee has a mental or physical disability that constitutes or results in a substantial impediment to employment; (iv) the employee is hired after July 1, 2021; (v) the employee's primary place of employment and primary place of residence is in Massachusetts; (vi) the employer must obtain certification from the Massachusetts Rehabilitation Commission that the employee is qualified no later than the employee's first day of work; and (vii) the employer employs the employee for at least 12 consecutive months prior to and in the taxable year in which the credit is claimed.

Origin: M.G.L. c. 63, §38JJ

Estimate: \$1.0

2.627 Offshore Wind Tax Incentive Program

The Massachusetts offshore wind tax incentive program consists of two tax credits, a Wind Power Incentive Jobs Credit and a Wind Power Incentive Investment Credit, for offshore wind companies subject to either the personal income tax or the corporate excise. The credits are available to certified offshore wind companies only to the extent authorized by the Massachusetts Clean Energy Technology Center (the "Center"), may be claimed starting with taxable years beginning on or after January 1, 2023, share an annual cap of \$35 million, are subject to recapture in the event that the offshore wind company's certification is revoked by the Center, and expire on January 1, 2033. The Wind Power Incentive Jobs Credit is available to certified offshore wind companies that commit to the creation of a minimum of 50 net new permanent full-time employees in Massachusetts. Effective for taxable years beginning on or after January 1, 2024, certified offshore wind companies must commit to the creation of a minimum of 10 net new permanent full-time employees in Massachusetts. Where the credit exceeds the taxpayer's liability for the taxable year, 90 percent of such excess credit may be refunded to the taxpayer. Excess credit amounts cannot be carried forward to subsequent taxable years.

The Wind Power Incentive Investment Credit is available for certified offshore wind companies that make a capital investment in an offshore wind facility that they either own or lease in an amount up to 50 percent of such investment. The total amount of the credit awarded is distributed in equal parts over five taxable years that correspond to the period in which the offshore wind company is certified. Eligibility requirements vary depending on whether the certified offshore wind company owns or leases the offshore wind facility, but, in general, the certified offshore wind company must demonstrate to the Center that (i) it has a total capital investment in an offshore wind facility that equals not less than \$35 million; and (ii) the offshore wind facility must employ not less than 200 new full-time employees by the fifth year of the offshore wind company's certification. A certified offshore wind company claiming this credit may not also claim the Wind Power Incentive Jobs Credit or the Economic Development Incentive Program Credit provided by M.G.L. c. 63, § 38N in the same taxable year.

Origin: M.G.L. c. 23J, §8A; M.G.L. c. 63, §§38LL; 38MM

Estimate: \$7.3

2.628 National Guard Credit

A business corporation employing not more than 100 employees may be allowed a credit equal to \$2,000 for each member of the Massachusetts national guard hired by the business corporation. To be eligible for a credit: (i) the primary place of employment and the primary residence of the member of the Massachusetts national guard must be in Massachusetts; and (ii) not later than the day an individual begins work, the business corporation shall have obtained the applicable certification from the office of the adjutant general that the individual is a member of the Massachusetts national guard. A business corporation that claims this credit is eligible for a second credit of \$2,000 in the subsequent taxable year with respect to such member of the Massachusetts national guard, subject to certification of continued employment during the subsequent taxable year. The credit is nontransferable and nonrefundable. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward to any of the three subsequent taxable years. For business corporations subject to a minimum corporate excise, the credit cannot reduce the business corporation's excise liability below the minimum corporate excise amount. The personal income and corporate excise versions of this credit are subject to the same annual cap of \$1 million.

Origin: M.G.L. c. 63, §38KK; St.2022, c.154, §8

Estimate: \$0.1

2.629 Temporary Authorized Training Credit for Emergency Assistance

Starting with taxable years beginning on or after January 1, 2024, business corporations taxable under G.L. c. 63 that provide training to a qualified trainee through an authorized training program may claim a temporary authorized training tax credit for emergency assistance. A qualified individual is an individual receiving benefits through the emergency housing assistance program pursuant to G.L. c. 23B, § 30. To qualify for the credit, a taxpayer must (1) have a place of business in the Commonwealth; (2) conduct an authorized training program in the Commonwealth that is in compliance with recommendations of the Executive Office of Labor and Workforce Development ("EOLWD"); (3) enroll the qualified trainee in an authorized training program on or after April 30, 2024; and (4) meet any additional requirements determined by the Executive Office for Administration and Finance and EOLWD. The credit is equal to \$2,500 for each

qualified trainee that receives the training from the entity. The amount of the credit that exceeds the tax due for a taxable year may be carried forward to the subsequent taxable year. The credit is subject to an annual cap of \$10 million. The credit may no longer be claimed as of (1) January 1, 2026; or (2) the taxable year in which the end of the capacity limitation on the emergency shelter assistance program occurs, whichever is sooner. See TIR 24-7 for more information.

Origin: M.G.L. c. 63, § 38NN

Estimate: \$8.0

2.630 Massachusetts Homeownership Credit

Starting with taxable years beginning on or after January 1, 2025, taxpayers subject to tax under G.L. c. 63 may claim a Massachusetts homeownership tax credit in relation to a qualified homeownership development project to the extent authorized by the Executive Director of the Massachusetts Housing Finance Agency ("MHFA"). The credit is non-refundable but is transferrable. The amount of the credit authorized by MHFA cannot exceed the maximum credit amount, which is 35% of the lesser of either: (1) the project's total qualified project expenditures calculated on a per single-family dwelling basis; or (2) 80% of the area median new single-family dwelling sales price, subject to further limitations established by MHFA. A sponsor cannot claim the credit before the first taxable year stated on the eligibility certificate issued to the sponsor by MHFA. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward for the duration of the qualified homeownership development project's affordability period, which is a 10-year period that begins as of the date of the first sale of a single-family dwelling that was constructed as part of the project. The credit is subject to recapture if MHFA determines that a sponsor or qualified homeownership development project does not qualify for the credit, ceases to qualify for the credit, or did not qualify for the credit at the time they claimed the credit. The amount of credits that MHFA can authorize annually cannot exceed the sum of (1) \$10 million; (2) any credit amounts not authorized in the preceding taxable year; and (3) any credits returned to MHFA by a sponsor. Effective January 1, 2030, the amount of credits that can be authorized annually is the sum of (1) any credit amounts not authorized in the preceding taxable year; and (2) any credits returned to MHFA by a sponsor.

Origin: M.G.L. c. 63, § 38PP

Estimate: \$8.0

2.631 Qualified Conversion Project Credit

Starting with taxable years beginning on or after January 1, 2025, taxpayers subject to tax under G.L. c. 63 may claim a refundable, non-transferable qualified conversion credit in relation to a qualified conversion project that has been certified by the Executive Office of Housing and Livable Communities ("EOHLC"). To claim the credit, a sponsor must submit a project proposal to EOHLC requesting the certification of a housing development project as a qualified conversion project. After certifying the project, EOHLC determines the amount of credit awarded to the sponsor, which cannot exceed 10% of the qualified conversion's project's development costs. The credit is allowed for the taxable year in which EOHLC notifies the Commissioner of the certified qualified conversion project's completion. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward to

any of the 10 taxable years subsequent to the taxable year that the credit was allowed. The credit is subject to recapture. The credit is no longer available for taxable years ending after December 31, 2029.

Origin: M.G.L. c. 63, § 38OO

Estimate: \$9.0

2.632 Climatetech Tax Incentive Program

Massachusetts provides a climatetech tax incentive program, which is administered by the Massachusetts clean energy center ("CEC"), in consultation with DOR. The tax incentives consist of three tax credits, the climatetech capital investment tax credit, a refundable climatetech jobs tax credit, and a climatetech qualified research expenses tax credit; as well as a sales and use tax exemption for purchases of tangible personal property to be used for the construction of research, development or manufacturing or other commercial climatetech facilities. The incentives all share an annual cap of \$30 million and are effective for taxable years beginning on or after January 1, 2024. The climatetech capital investment tax credit is a refundable tax credit available to personal income and corporate excise taxpayers who make capital investments in a climatetech facility. The amount of the credit is determined by the CEC, but cannot exceed 50% of the owner's total capital investment in the facility. The climatetech qualified research expenses tax credit is available to corporate excise taxpayers. The credit amount is based on the taxpayer's qualified research expenses in a manner similar to the standard research expense tax credit. The credit is not refundable, but unused amounts of the credit may be carried forward to the next subsequent 15 taxable years.

Origin: M.G.L. c. 63, § 38RR; M.G.L. c. 63, § 38SS

Estimate: \$24.0

2.633 Live Theater Credit

The live theater tax credit program is administered by the Massachusetts Office of Business Development, in consultation with DOR. The credit is available to personal income and corporate excise taxpayers. The amount of the credit cannot exceed \$7 million and is equal to (1) 35% is of the total in-state payroll costs; (2) 25% of production and performance expenditures; and (3) 25% of transportation expenditures. The credit is not refundable, but is transferrable. Any unused amount of credit may be carried forward to the next 5 taxable years. The annual amount of credits that can be authorized cannot exceed \$7 million. The credit is effective for taxable years beginning on or after January 1, 2025 and expires on January 1, 2030.

Origin: M.G.L. c. 63, § 38QQ

Estimate: \$3.5

2.634 Qualified Internship Credit

The qualified internship tax credit is available to personal income and corporate excise taxpayers that hire a qualified intern. The credit is equal to the lesser of \$5,000 or 50% of the wages paid to the intern. The annual amount of credits that can be authorized cannot exceed \$10 million. A single employer cannot claim more than \$100,000 in credits in a taxable year. The credit is effective starting the taxable year beginning on or after January 1 of the first calendar year following the next fiscal year that closes after November 20, 2024 with a consolidated net surplus of at least \$400 million. The credit expires on January 1 of the sixth tax year following the effective date of the credit.

Origin: M.G.L. c. 63, § 38UU

Estimate: N.A.

2.700 ENTITY EXEMPT FROM TAXATION

2.701 Exemption of Credit Union Income

Credit unions, which are member-owned financial cooperatives, are considered tax-exempt organizations for both federal and state income tax purposes and therefore are generally exempt from the income measure of the corporate excise. However, like other nonprofit entities, unrelated business income of credit unions is subject to the income measure of the corporate excise. In 1909, the enactment of the Massachusetts Credit Union Act (Chapter 419 of the Acts of 1909) authorized the creation of Massachusetts chartered credit unions as tax-exempt entities. In 1934, the enactment of the Federal Credit Union Act, 12 USC § 1751, et seq., authorized the creation of federally chartered credit unions, which are exempt from federal income tax pursuant to 26 USC § 501(c)(14)(a).

Origin: IRC §501(c)(14)(A); M.G.L. c. 63, §30

Estimate: \$23.5

2.702 Tax-Exempt Organizations

Internal Revenue Code (IRC) § 501 provides a general exemption from federal income tax for non-profit corporations. As provided in IRC § 512, the exemption does not apply to unrelated business income that such corporations earn from activities outside the scope of their exempt purposes. Massachusetts provides a corporate excise exemption for corporations that qualify for the federal exemption, but subjects unrelated business income to the net income measure of the excise.

Origin: IRC § 501; M.G.L. c. 63, § 30, M.G.L. c. 63, §38Y, M.G.L. c. 63, § 39.

Estimate: \$445.6

2.703 Exemption for Regulated Investment Companies

Regulated Investment Companies (RICs) are specialized corporations that serve as investment vehicles. RICs hold securities, receive earnings from those securities and pay out virtually all of their earnings to shareholders. They hire service providers for investment advice and administrative services. RICs are typically established by financial services corporations that sponsor the RIC, provide the RIC's corporate management, and market

shares of the RIC to the investing public. The RIC's management decides whom to hire to provide investment advice and administrative services to the RIC. The service providers hired are frequently subsidiaries or affiliates of the financial services corporation that established the RIC. The RIC itself has no employees and no property other than the securities it holds and its own books and records. Federal tax and securities law imposes limitations on the type of assets RICs can hold and requires RICs to distribute at least 90% of their income as dividends to shareholders. Federal tax law allows RICs a deduction for dividends paid, which is generally not available to other corporations. See Internal Revenue Code § 852(b). The Massachusetts exemption for RICs is a statutory provision that employs the federal definition of a RIC but is not otherwise tied to the federal deduction. The Massachusetts corporate excise imposes a tax on a corporation's apportioned net income and a tax on the corporation's apportioned net worth or tangible property located in Massachusetts. See MG.L. c. 63, § 39. RICs are exempt from both taxes because they are not taxable corporations pursuant to MG.L. c. 63, § 68C(8). This exclusion constitutes a tax expenditure in Massachusetts because, absent the exclusion, RICs would be subject to the corporate excise.

Origin: M.G.L. c. 63, §68C(8); c. 63, §30

Estimate: \$516.3

KEY	ORIGIN	
	IRC	Federal Internal Revenue Code (26 U.S.C.)
	M.G.L.	Massachusetts General Laws
	U.S.C	United States Code
	ESTIMATES	All estimates are in \$ millions.

Introduction - Sales and Use Tax

Massachusetts imposes a sales and use tax on retail sales. In addition to the sales and use tax, there are several separate excises, each limited to a particular type of commodity. These special excises have not been included in this tax expenditure budget.

The Massachusetts sales and use tax, first imposed in 1966, was levied at a rate of 5%. Effective on and after August 1, 2009, the rate was changed from 5% to 6.25%. The sales tax applies to sales made within the state, and the use tax to property and services purchased outside of Massachusetts but intended for use within the state.

Revenue from the sales and use tax represented 22.9% of total Department of Revenue tax collections for Fiscal Year 2024 and was the second largest source of tax revenue after the income tax.

Sales and Use Tax: Basic Structure

Tax Base: For the purposes of this tax expenditure budget, we have chosen not to make any assumptions about the base of the Massachusetts sales and use tax. Some people take a narrow view of what a retail sale is, limiting the term to sales to final consumers, i.e., individuals. Others would include sales to businesses, especially in instances where the purchase will not become an ingredient or component in a product to be sold. In an effort to acknowledge both theories, we will simply list the various exemptions under the sales tax. Some or many of these exemptions could be properly excluded from the tax base depending upon one's point of view.

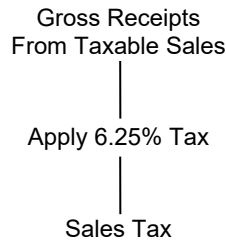
Taxable Unit: The sales and use tax is levied on the property or service to be sold or used.

Rate Structure: The sales and use tax rate is 6.25% of the price.

Taxable Period: Except for sales of motor vehicles, in which the tax is imposed and paid by the purchaser to the Registry of Motor Vehicles, the tax is imposed at the time of sale and remitted at specified intervals by the vendor. The use tax is paid directly to the Department of Revenue by the user of the item and may be paid annually or more often (typically monthly).

Interstate and International Aspects: Massachusetts applies the destination principle to international and interstate sales. Accordingly, exports are exempt, and imports are taxable under the sales and use tax. Statutory exemptions for exports of property and for services used outside of the Commonwealth are therefore not listed as tax expenditures.

Computation of Massachusetts Sales and Use Tax by Vendor*



* A purchaser is also responsible for paying use tax directly to the Commonwealth on the sales price of taxable property or services purchased out-of-state and stored, used, or otherwise consumed in the Commonwealth, provided that a sales and use tax of 6.25% or more has not been paid separately to another state.

Types of Tax Expenditures under the Sales and Use Tax

In the case of the sales and use tax, all tax expenditures are of a single type. They all result from the exclusion of certain transactions from the taxable base. The exclusion can be based on any of a number of characteristics of the transaction - who the buyer is, who the seller is, what the product or service is, what the product or service will be used for, etc. - but structurally all such tax expenditures operate in the same way. Hence, we have omitted the designation of tax expenditure types from the descriptions in this section.

List of Sales and Use Tax Expenditures

3.000 EXEMPT ENTITIES

3.001 Exemption for Sales to the Federal Government

Sales to the federal government and its agencies are not subject to the sales and use tax because the US Constitution prohibits states from taxing such sales. The prohibition is effectuated by an exemption set out in the Massachusetts sales and use tax statutes.

Origin: M.G.L. c. 64H, § 6(d)

Estimate: \$62.4

3.002 Exemption for Sales to the Commonwealth

Sales to the Commonwealth, its agencies and political subdivisions are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(d)

Estimate: \$119.2

3.003 Exemption for Sales to Tax-Exempt Organizations

Non-profit organizations that are exempt from taxation under Internal Revenue Code (the "Code") § 501(c)(3) are exempt from sales and use tax on purchases of tangible personal property and services used in carrying out their tax-exempt purposes. Purchases by nonprofit volunteer fire departments and ambulance services are also exempt.

Origin: M.G.L. c. 64H, § 6(e) and (x)

Estimate: \$953.5

3.004 Exemption for Sales of Tangible Personal Property to Motion Picture Production Companies

Sales of tangible personal property to a qualifying motion picture production company or to an accredited film school student for the production expenses related to a school film project are exempt from the sales tax.

Origin: M.G.L. c. 62, § 6(l), c. 63, § 38X, c. 64H, § 6(ww)

Estimate: \$0.3

- 3.005 Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Life Sciences Company
- Sales of tangible personal property purchased for a certified life sciences company, to the extent authorized pursuant to the life sciences tax incentive program, for use in connection with the construction, alteration, remodeling, repair or remediation of research, development or manufacturing facilities and utility support systems, are exempt from sales tax.
- Origin: M.G.L. c. 62, §§ 6(m), (n), (r), and (t); c.63, §§ 31M, 38M(k), 38U, 38W, 38V, and 38CC; c. 64H, § 6(xx)
- Estimate: \$0.4
- 3.006 Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Climatetech Company
- Sales of tangible personal property purchased for a certified climatetech company, to the extent authorized pursuant to the climatetech tax incentive program, for use in connection with the construction, alteration, remodeling, repair or remediation of research, development or manufacturing facilities and utility support systems, are exempt from sales tax.
- Origin: M.G.L. 64H, § 6(yy)
- Estimate: N.A.
- 3.007 Exemption for Sales of Equipment, Software, and Electricity Used in Qualified Data Center
- A sales and use tax exemption is available to the owner or operator of a qualified data center for the purchase of eligible data center equipment, software, electricity used in a qualified data center, and construction costs incurred in the building, renovation, or refurbishment of a qualified data center. For a data center to be qualified, it must meet certain criteria and be certified by the Secretary of the Executive Office of Economic Development ("EOED"). However, EOED will not accept applications for certification until it completes its development, in consultation with DOR, of the required regulations and a standardized application form for the certification of qualified data centers.
- Origin: M.G.L. c. 64H, § 6(zz)
- Estimate: \$17.0
- 3.100 EXEMPT PRODUCTS/SERVICES**
- 3.101 Exemption for Food
- Food for human consumption is exempt from sales tax, including food purchased with federal food stamps. The exemption does not cover meals served in restaurants and similar establishments. Meals are taxed under the sales tax at a rate of 6.25%.
- Origin: M.G.L. c. 64H, § 6(h) and (kk)
- Estimate: \$1,283.8

3.102 Exemption for Certain Food and Beverages Sold in Restaurants

Although generally food and beverages sold in restaurants are taxed, there are certain exceptions. These are: a) food sold by weight, measure, count, or in unopened original containers or packages (for example, milk, meat, bread); b) beverages in unopened original containers which have a capacity of at least 26 fluid ounces; and c) bakery products sold in units of six or more.

Origin: M.G.L. c. 64H, § 6(h)

Estimate: N.A.

3.103 Exemption for Clothing

Sales of clothing or footwear up to \$175 per item are exempt from sales and use tax. The exemption does not include special clothing or footwear designed for athletic or protective uses and not normally worn except for these uses.

Origin: M.G.L. c. 64H, § 6(k)

Estimate: \$214.2

3.104 Exemption for Medical and Dental Supplies and Devices including Breast Pumps

Sales of certain medicines, medical supplies and devices, and dental supplies and devices are exempt from sales and use tax. Comment: This estimate includes new estimate of \$19.2 million of medical marijuana for FY22, \$15.9 million for FY23, \$13.0 million for FY24, \$14.4 million for FY25, and \$15.4 million for FY26. This estimate also includes new estimate of \$0.6 million of breast pumps for FY22 - FY26.

Origin: M.G.L. c. 64H, § 6(l), (z)

Estimate: \$871.0

3.105 Exemption for Water

Sales of water are exempt from sales and use tax whether the water is provided through utility services, in containers or otherwise, and regardless of how the water is used, except that charges for water provided as part of meals served by restaurants are taxable.

Origin: M.G.L. c. 64H, § 6(i)

Estimate: \$159.3

3.106 Exemption for Newspapers and Magazines

Sales of periodicals such as newspapers and magazines are exempt from the sales and use tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: \$13.6

3.107 Exemption for the American Flag

Sales of the flag of the United States are exempt from sales and use tax.

Origin: M.G.L. c. 64H, § 6(w)

Estimate: \$1.3

3.108 Exemption for Certain Precious Metals

The tax expenditure provides for a sales tax exemption for transactions with a sale amount of \$1,000 or more of certain precious metals. The exempt items are: rare coins of numismatic value; gold or silver bullion or coins; and gold or silver tender of any nation which is traded and sold according to its value as precious metal. Fabricated precious metals that have been processed or manufactured for industrial, professional, or artistic use do not qualify for the exemption.

Origin: M.G.L. c. 64H, § 6(LL)

Estimate: \$11.4

3.109 Exemption for Cement Mixers

Concrete mixing units mounted on the back of trucks are exempt from sales tax. Spare parts for such units are also exempt. The truck chassis is subject to sales tax.

Origin: M.G.L. c. 64H, § 6(y)

Estimate: \$1.8

3.112 Exemption for Aircraft & Aircraft Parts

Airplanes, helicopters, gliders and other aircraft are exempt from sales tax. Parts used exclusively for the repair of aircraft are also exempt.

Origin: M.G.L. c. 64H, § 6(uu) and (vv); M.G.L. c. 64I, § 7(d) and (e).

Estimate: \$25.3

3.113 Exemption for Breast Pumps

Physician-prescribed, medically necessary breast pumps are exempt from sales tax.

Estimate: included in 3.104

Origin: M.G.L. c. 64H, § 6(l)

Estimate: included in 3.104

3.114 Exemption for Sales of Commercial Gun Safes and Trigger Lock Devices

Safes designed for storing firearms and ammunitions, equipped with a tamper-resistant mechanical lock or other safety device, and safety devices designed to prevent the discharge of weapons by unauthorized users are exempt from the sales tax.

Origin: M.G.L. c. 64H, § 6(rr)

Estimate: \$2.0

3.200 **EXEMPT, TAXED UNDER ANOTHER EXCISE**

3.201 Exemption for Alcoholic Beverages

Alcoholic beverages, except those sold as part of a meal, are exempt from sales tax. They are instead subject to an excise tax determined by volume rather than retail price under another provision of state law. Comment: Revenues collected under the alcoholic beverages excise were \$98.3 million in Fiscal Year 2023 and \$97.6 million in Fiscal Year 2024.

Origin: M.G.L. c. 64H § 6(g)

Estimate: \$149.2

3.202 Exemption for Motor Fuels

Motor fuels are exempt from sales and use tax. They are instead subject to an excise tax determined by price per gallon under another provision of state law. Comment: Revenues collected under the motor fuels excise were \$701.9 million in Fiscal Year 2023 and \$713.2 million in Fiscal Year 2024.

Origin: M.G.L. c. 64H § 6(g)

Estimate: \$614.3

3.300 **EXEMPT COMPONENT OF A PRODUCT OR CONSUMED IN PRODUCTION**

3.301 Exemption for Items Used in Making Clothing

Sales of materials used in making clothes, such as thread and fabric, are exempt from sales and use tax.

Origin: M.G.L. c. 64H, § 6(v)

Estimate: Negligible

- 3.302 Exemption for Materials, Tools, Fuels, and Machinery Used in Manufacturing
- Materials, tools, fuels and machinery, and replacement parts, used directly and exclusively in manufacturing are exempt from sales tax if they become components of a product to be sold, or are consumed or directly used in the manufacturing process.
- Origin: M.G.L. c. 64H, § 6(r) and (s)
- Estimate: \$656.2
- 3.303 Exemption for Materials, Tools, Fuels, and Machinery Used in Research and Development
- Materials, tools, fuels, machinery, and replacement parts used directly and exclusively in research and development by manufacturing or research and development corporations are exempt from sales tax. Comment: This estimate includes sales /use tax exemption of \$7.9 million for qualifying limited partnership engaged in research activities under Section 66 in St. 2014, c. 287.
- Origin: M.G.L. c. 64H, § 6(r) and (s)
- Estimate: \$98.6
- 3.304 Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power
- The tax expenditure provides for an exemption from the sales and use tax for sales of materials, tools, fuels, and machinery, including replacement parts, used in furnishing gas, water, steam, or electricity to consumers through mains, lines, or pipes.
- Origin: M.G.L. c. 64H, § 6(r) and (s)
- Estimate: \$51.1
- 3.306 Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing
- Materials, tools, fuels, and machinery, including replacement parts, are exempt from sales tax if they are consumed and used directly and exclusively in an industrial plant for purposes of publishing a newspaper to be sold.
- Origin: M.G.L. c. 64H, § 6(r) and (s)
- Estimate: \$3.6
- 3.308 Exemption for Materials, Tools, Fuels, and Machinery Used in Agricultural Production
- Materials, tools, fuels, and machinery, including spare parts, are exempt from sales and use tax if they are consumed or used directly and exclusively in agricultural production. Also exempt under this expenditure are sales of livestock and poultry used for food for human consumption, and sales of feed, and the bags in which the feed is contained, used for animals that either (i) ordinarily constitute food for human consumption, (ii) are used for research or testing for health and safety purposes, or (iii) are fur-bearing animals whose pelts are sold in the regular course of business. In addition, seeds and plants are exempt if used to grow food for human consumption. Comment: This estimate includes sales/use tax exemption of \$11.7 million for FY26 for materials, tools, fuel, machinery and replacement parts, used directly and exclusively in production and manufacturing of marijuana.

Origin: M.G.L. c. 64H, § 6(p), (r) and (s)

Estimate: \$27.3

3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing

Vessels, materials, tools, fuels, and machinery, and replacement parts which are consumed and used directly and exclusively in commercial fishing are exempt from sales tax.

Origin: M.G.L. c. 64H, §§ 6(o), (r), and (s)

Estimate: \$17.6

3.310 Exemption for Materials, Tools, Fuels, and Machinery Used in Radio and TV Broadcasting

The tax expenditure provides for an exemption from the sales and use tax for sales of materials, tools, fuels and machinery, including replacement parts, used in commercial radio and television broadcasting.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: \$8.3

3.400 EXEMPTIONS FOR SPECIFIED USES OF PRODUCTS/SERVICES

3.401 Exemption for Electricity

The tax expenditure provides a sales and use tax exemption for sales of (i) electricity for residential use, (ii) electricity purchased by certain small businesses, and (iii) electricity purchased for use in an industrial plant.

Origin: M.G.L. c. 64H, § 6(i) and (qq)

Estimate: \$500.7

3.402 Exemption for Fuel Used for Heating Purposes

The tax expenditure provides a sales and use tax exemption for sales of (i) fuel used for residential heating purposes, (ii) fuel used for heating purposes by certain small businesses and (iii) fuel used for heating purposes in industrial plants.

Origin: M.G.L. c. 64H, § 6(j) and (qq)

Estimate: \$89.0

3.403 Exemption for Gas

The tax expenditure provides a sales and use tax exemption for sales of (i) gas used for residential purposes, (ii) gas purchased for use by certain small businesses and (iii) gas purchased for use in an industrial plant.

Origin: M.G.L. c. 64H, § 6(i) and (qq)

Estimate: \$272.6

3.404 Exemption for Steam

The tax expenditure provides a sales and use tax exemption for sales of (i) steam used for residential purposes, (ii) steam purchased for use by certain small businesses and (iii) steam purchased for use in an industrial plant subject.

Origin: M.G.L. c. 64H, § 6(i) and (qq)

Estimate: \$0.7

3.405 Exemption for Certain Energy Conservation Equipment

Equipment for a solar, wind or heat pump system used as a primary or auxiliary energy source in a principal residence is exempt from sales and use tax.

Origin: M.G.L. c. 64H, § 6(dd)

Estimate: \$11.5

3.406 Exemption for Funeral Items

Coffins, caskets, burial garments, and other materials that are generally sold by a funeral director as part of the business of funeral directing are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(n)

Estimate: \$14.9

3.407 Exemption for Certain Motor Vehicles

The tax expenditure provides an exemption from the sales and use tax for the sale of a motor vehicle that is purchased by and for the use of: (i) a person that has permanently lost the use of two or more limbs or (ii) a permanently disabled veteran.

Origin: M.G.L. c. 64H, § 6(u)

Estimate: \$2.3

3.408 Exemption for Textbooks

Sales of textbooks and other books required for instructional purposes at educational institutions are exempt from sales and use tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: \$12.2

3.409 Exemption for Books used for Religious Worship

Books used for religious worship are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: \$1.0

3.410 Exemption for Containers

Sales of several types of containers are exempt from sales tax. Sales eligible for the exemption include sales of empty containers to be filled and resold, containers the contents of which are exempt from the sales tax, and returnable containers when sold with the contents or resold for refilling.

Origin: M.G.L. c. 64H, § 6(q)

Estimate: \$169.6

3.411 Exemption for Certain Sales by Typographers, Compositors and Color Separators

Sales by typographers, compositors or color separators of composed type, film positives and negatives and reproduction proofs, or the fabrication or transfer of such items to a printer, publisher, or manufacturer of folding boxes, for use in printing are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(gg)

Estimate: \$3.6

3.412 Exemption for Sales of Building Materials and Supplies Used in federal and Massachusetts Government Construction Contracts and Construction Contracts with Tax Exempt Organizations

Massachusetts allows a sales and use tax exemption for the sale of building materials and supplies used by contractors in fulfilling construction contracts with federal and Massachusetts government entities or with certain tax-exempt organizations.

Origin: M.G.L. c. 64H, § 6(f)

Estimate: \$213.6

3.417 Exemption for Commuter Boats

Boats used exclusively to provide scheduled commuter passenger service and parts, materials and tools used to maintain and repair such vessels, are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(pp)

Estimate: \$7.0

3.418 Exemption for Fuels, Supplies, and Repairs for Vessels Engaged in Interstate or Foreign Commerce

The tax expenditure provides for an exemption from the sales and use tax for sales in Massachusetts of fuels, supplies, and repairs for vessels engaged in interstate or foreign commerce.

Origin: M.G.L. c. 64H, § 6(o)

Estimate: \$1.8

3.419 Exemption for Fuel Used in Operating Aircraft and Railroads

The tax expenditure provides an exemption from the sales and use tax for purchases of fuel used in the operation of aircraft or railroads. Note that a separate fuel excise applies to aircraft fuel.

Origin: M.G.L. c. 64H, § 6(j)(3)

Estimate: \$97.8

3.420 Exemption for Sales of Certain New and Used Buses

New and used buses purchased by carriers that provide scheduled intra-city bus service as certified by the Department of Public Utilities are exempt from sales and use tax. The exemption includes replacement parts, materials and tools used to maintain or repair these buses. The exemption has been interpreted as applying to all buses and equipment purchased by a carrier that has at least one DPU certificate.

Origin: M.G.L. c. 64H, § 6(aa)

Estimate: \$7.7

3.421 Exemption for Films

Motion picture films sold for commercial exhibition are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: \$6.1

3.600 MISCELLANEOUS EXEMPTIONS**3.601 Exemption for Casual or Isolated Sales**

Certain sales made outside a seller's regular course of business are exempt from the Massachusetts sales and use tax. Such sales are referred to as "casual and isolated" sales and include: (i) non-recurring sales by schools, churches, and other non-profits for fundraising purposes (such as a church bazaar); (ii) nonrecurring sales by individuals (such as a garage sale); (iii) non-recurring sales by businesses of used business equipment and fixtures (such as a store selling its used cash registers); and (iv) bulk sales of assets when an entire business is sold to new owners. Sales of motor vehicles, trailers, boats, or airplanes do not qualify for this exemption, unless they are between family members.

Origin: M.G.L. c. 64H, § 6(c) and M.G.L. c. 64I, § 7(b).

Estimate: \$43.1

3.602 Exemption for Vending Machine Sales

Vending machine sales of items costing ten cents or less are exempt from sales tax. In addition, sales through vending machines which exclusively sell snacks and candy with a sales price of less than three dollars and fifty cents are exempt from the sales tax on meals

Origin: M.G.L. c. 64H § 6(h) and (t)

Estimate: \$1.5

3.603 Exemption for Certain Meals

A sales and use tax exemption is allowed for meals provided by (i) religious institutions, (ii) hospitals, (iii) facilities for senior citizens or individuals with disabilities, (iv) educational institutions that provide meals to students, and (v) other meal providers enumerated in M.G.L. c. 64H, § 6(cc) except summer camps, which are covered in TE 3.605.

Origin: M.G.L. c. 64H, § 6(cc)

Estimate: \$136.4

3.604 Exemption for Certain Bed and Breakfast Businesses from Sales Tax on Meals

Meals at bed and breakfast businesses are exempt from sales tax on meals unless (i) they are provided by a bed and breakfast that has four or more rooms; and (ii) the meals are included in rent subject to the room occupancy excise.

Origin: M.G.L. c. 64H, § 6(h)

Estimate: \$0.1

- 3.605 Exemption for Certain Summer Camps from Sales Tax on Meals and Room Occupancy Excise
- A sales and use tax exemption is allowed for meals provided by summer camps for children aged 18 and under, or by summer camps for developmentally disabled individuals.
- Origin: M.G.L. c. 64H, § 6(cc)
- Estimate: \$0.7
- 3.606 Exemption for Trade-in Allowances for Motor Vehicles and Trailers
- In most cases, motor vehicles and trailers bought from a dealer in a trade-in transaction are subject to tax only on the excess of the purchase price over the amount credited for the trade-in, rather than on the full purchase price.
- Origin: M.G.L. c. 64H, § 26, c. 64I, § 27
- Estimate: \$136.0
- 3.607 Exemptions for Publications of Tax-Exempt Organizations in an accessible format used by disabled individuals.
- Sales of publications of 501(c)(3) organizations are exempt if such publications are produced in an accessible format, including, but not limited to, braille, enlarged print, audio or electronic text, for use by individuals unable to read other print due to disability. Note: Before September 27, 2024, the exemption applied to sales of all publications of any corporation, foundation, organization or institution that is an exempt organization pursuant to Code § 501(c)(3).
- Origin: M.G.L. c. 64H, § 6(m)
- Estimate: \$1.0
- 3.608 Exemption for Gifts of Scientific Equipment
- Massachusetts provides a sales and use tax exemption for donations of scientific equipment by manufacturers to non-profit educational institutions, to the Massachusetts Technology Park Corporation, or to the Bay State Skills Corporation.
- Origin: M.G.L. c. 64H, § 6(jj)
- Estimate: N.A.
- 3.609 Exemption for Vessels or Barges 50 Tons and Over
- Vessels or barges of 50 tons burden or over are exempt from sales tax when constructed in-state and sold by the builder.
- Origin: M.G.L. c. 64H, § 6(o)
- Estimate: \$0.4

3.610 Exemption for Rental Charges for Refuse Bins and Containers

Rental charges for refuse containers or bins in connection with service contracts by wasteservice firms are exempt from sales and use tax when the containers are placed on the customer's premises by the waste service firm.

Origin: M.G.L. c. 64H, § 6(ii)

Estimate: \$1.0

3.611 Exemption for Honor Snack Trays

Snacks and candy purchased from honor trays are exempt from the sales tax on meals, provided all items in the tray are sold for less than \$3.50.

Origin: M.G.L. c. 64H, § 6(h)

Estimate: \$0.7

3.612 Sales Tax Holiday

Retail sales of tangible personal property during a 2-day weekend Sales Tax Holiday in August each year are exempt from sales tax.

Origin: St. 2018, c. 121, § 4

Estimate: \$38.6

KEY**ORIGIN****M.G.L.****ESTIMATES**

Massachusetts General Laws

All estimates are in \$ millions.



Appendix A - Recent Law Changes Affecting Tax Expenditures

The following tax expenditures have been revised or created due to recent law changes.

Personal Income Tax Changes:

“An Act Making Appropriations for the Fiscal Year 2023 for Supplementing Certain Existing Appropriations and for Certain Other Activities and Projects,” “An Act Making Appropriations for the Fiscal Year 2024 to Provide for Supplementing Certain Existing Appropriations and for Certain Other Activities and Projects,” the Fiscal Year 2025 (FY25) Budget, “An Act Relative to the Affordable Homes Act”, “An Act Honoring, Empowering, and Recognizing Our Servicemembers and Veterans”, and “An Act Relative to Strengthening Massachusetts’ Economic Leadership” enacted various changes to the personal income tax.

The following personal income tax expenditures have been revised or created due to recent law changes:

Repeal of the deduction of interest and dividends from Massachusetts banks (TE Item 1.413)

For taxable years beginning on or after January 1, 2024, personal income taxpayers can no longer deduct interest and dividends from savings deposits, savings accounts, shares or share savings accounts that are in a Massachusetts bank. Prior to the repeal, taxpayers could deduct such interest and dividends in the amount of \$100 for a single person, head of household or a married person filing a separate return, or \$200 for a husband and wife filing a joint return.

Expansion of wagering loss deduction to sports wagering losses (TE Item 1.428)

For taxable years beginning on or after January 1, 2023, the wagering loss deduction has been expanded to allow personal income taxpayers to deduct losses from sports wagering that are incurred from wagers placed through a licensed sports wagering operator. Taxpayers may claim this deduction for sports wagering losses incurred in a calendar year only if they had wagering winnings from any such sports wagering operator, gaming establishment, racing meeting licensee, or simulcasting licensee in the same calendar year. The deduction allowed for sports wagering losses may not exceed the amount of any wagering winnings included in gross income for the calendar year. See TIR 24-6 for more information.

Increase of the annual cap for and extension of the Massachusetts historic rehabilitation credit (TE Item 1.610)

For taxable years beginning on or after January 1, 2024, the Massachusetts historic rehabilitation credit’s annual cap has been increased from \$55 million to \$110 million. The credit was due to expire on December 31, 2027, but has been extended to taxable years ending on or before December 31, 2030.

Increase of the annual cap for and extension of the community investment credit (TE Item 1.617)

For taxable years beginning on or after January 1, 2025, the community investment credit’s annual cap has been increased from \$12 million to \$15 million. The credit was due to expire on December 31, 2025, but has been made permanent.

Increase to the Qualified Veterans Hire Tax Credit (TE Item 1.620)

For taxable years beginning on or after January 1, 2024, the amount of credit a business can claim for each qualified veteran it hires has been increased from \$2,000 to \$2,500.

Cranberry Bog Renovation Credit (TE Item 1.623)

Effective for tax years beginning on or after January 1, 2020, taxpayers primarily engaged in cranberry production may claim a nontransferable, refundable credit equal to 25% of expenses incurred in the renovation, repair, replacement, regrading or restoration of a cranberry bog for the cultivation,

harvesting or production of cranberries. The Secretary for Energy and Environmental Affairs determines eligible costs and the amount of the credit. The amount of credit that can be claimed by a taxpayer for a taxable year cannot exceed \$100,000. The annual total cap amount is \$2 million. The credit is no longer available for taxable years beginning on or after January 1, 2030.

Temporary authorized training tax credit for emergency assistance (New TE Item 1.629)

Starting with taxable years beginning on or after January 1, 2024, partnerships, limited liability corporations, or other legal entities subject to the personal income tax that provide training to a qualified trainee through an authorized training program may claim a temporary authorized training tax credit for emergency assistance. A qualified individual is an individual receiving benefits through the emergency housing assistance program pursuant to G.L. c. 23B, § 30. To qualify for the credit, a taxpayer must (1) have a place of business in the Commonwealth; (2) conduct an authorized training program in the Commonwealth that is in compliance with recommendations of the Executive Office of Labor and Workforce Development ("EOLWD"); (3) enroll the qualified trainee in an authorized training program on or after April 30, 2024; and (4) meet any additional requirements determined by the Executive Office for Administration and Finance and EOLWD. The credit is equal to \$2,500 for each qualified trainee that receives the training from the entity. The amount of the credit that exceeds the tax due for a taxable year may be carried forward to the subsequent taxable year. The credit is subject to an annual cap of \$10 million.

The credit may no longer be claimed as of (1) January 1, 2026; or (2) the taxable year in which the end of the capacity limitation on the emergency shelter assistance program occurs, whichever is sooner. See TIR 24-7 for more information.

Massachusetts homeownership credit (New TE Item 1.630)

Starting with taxable years beginning on or after January 1, 2025, personal income taxpayers may claim a Massachusetts homeownership tax credit in relation to a qualified homeownership development project to the extent authorized by the Executive Director of the Massachusetts Housing Finance Agency ("MHFA"). The credit is non-refundable but is transferrable. The amount of the credit authorized by MHFA cannot exceed the maximum credit amount, which is 35% of the lesser of either: (1) the project's total qualified project expenditures calculated on a per single-family dwelling basis; or (2) 80% of the area median new single-family dwelling sales price, subject to further limitations established by MHFA. A sponsor cannot claim the credit before the first taxable year stated on the eligibility certificate issued to the sponsor by MHFA. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward for the duration of the qualified homeownership development project's affordability period, which is a 10-year period that begins as of the date of the first sale of a single-family dwelling that was constructed as part of the project. The credit is subject to recapture.

The amount of credits that MHFA can authorize annually cannot exceed the sum of (1) \$10 million; (2) any credit amounts not authorized in the preceding taxable year; and (3) any credits returned to MHFA by a sponsor. Effective January 1, 2030, the amount of credits that can be authorized annually is the sum of (1) any credit amounts not authorized in the preceding taxable year; and (2) any credits returned to MHFA by a sponsor.

Qualified conversion credit (New TE Item 1.631)

Starting with taxable years beginning on or after January 1, 2025, personal income taxpayers may claim a refundable, non-transferable qualified conversion credit in relation to a qualified conversion project that has been certified by the Executive Office of Housing and Livable Communities ("EOHLC"). To claim the credit, a sponsor must submit a project proposal to EOHLC requesting the certification of a housing development project as a qualified conversion project. After certifying the project, EOHLC determines the amount of credit awarded to the sponsor, which cannot exceed 10% of the qualified conversion's project's development costs.

The credit is allowed for the taxable year in which EOHLC notifies the Commissioner of the certified qualified conversion project's completion. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward to any of the 10 taxable years subsequent to the taxable year that the credit was allowed. The credit is subject to recapture.

The credit is no longer available for taxable years ending after December 31, 2029.

Climatetech Tax Incentive Program (New TE item 1.632)

Massachusetts provides a climatetech tax incentive program, which is administered by the Massachusetts clean energy center ("CEC"), in consultation with DOR. The tax incentives consist of three tax credits, the climatetech capital investment tax credit, a refundable climatetech jobs tax credit, and a climatetech qualified research expenses tax credit; as well as a sales and use tax exemption for purchases of tangible personal property to be used for the construction of research, development or manufacturing or other commercial climatetech facilities. The incentives all share an annual cap of \$30 million and are effective for taxable years beginning on or after January 1, 2024.

The climatetech capital investment tax credit is a refundable tax credit available to personal income and corporate excise taxpayers who make capital investments in a climatetech facility. The amount of the credit is determined by the CEC, but cannot exceed 50% of the owner's total capital investment in the facility.

The refundable climatetech jobs tax credit is a refundable tax credit available to personal income taxpayers who commit to creating at least 5 net new jobs in Massachusetts. The amount of credit is determined by the CEC. Where the credit exceeds the taxpayer's liability, 90% of excess credit amount is refunded to the taxpayer.

Live Theater Tax Credit (New TE item 1.633)

The live theater tax credit program is administered by the Massachusetts Office of Business Development, in consultation with DOR. The credit is available to personal income and corporate excise taxpayers. The amount of the credit cannot exceed \$7 million and is equal to (1) 35% of the total in-state payroll costs; (2) 25% of production and performance expenditures; and (3) 25% of transportation expenditures. The credit is not refundable, but is transferrable. Any unused amount of credit may be carried forward to the next 5 taxable years. The annual amount of credits that can be authorized cannot exceed \$7 million.

The credit is effective for taxable years beginning on or after January 1, 2025 and expires on January 1, 2030.

Qualified Internship Tax Credit (New TE item 1.634)

The qualified internship tax credit is available to personal income and corporate excise taxpayers who hire a qualified intern. The credit is equal to the lesser of \$5,000 or 50% of the wages paid to the intern. The annual amount of credits that can be authorized cannot exceed \$10 million. A single employer cannot claim more than \$100,000 in credits in a taxable year.

The credit is effective starting for the taxable year beginning on or after January 1 of the first calendar year following the next fiscal year that closes after November 20, 2024 with a consolidated net surplus of at least \$400 million. The credit expires on January 1 of the sixth tax year following the effective date of the credit.

Corporate Excise Changes:

“An Act Making Appropriations for the Fiscal Year 2024 to Provide for Supplementing Certain Existing Appropriations and for Certain Other Activities and Projects”, “An Act Relative to the Affordable Homes Act”, “An Act Honoring, Empowering, and Recognizing Our Servicemembers and Veterans”, and “An Act Relative to Strengthening Massachusetts’ Economic Leadership” enacted various changes to the corporate excise.

The following corporate expenditures have been revised or created due to recent law changes:

Economic Development Incentive Program Credit (TE Item 2.605)

Under the Economic Development Incentive Program (EDIP), the Economic Assistance Coordination Council (EACC) may award tax credits to taxpayers that participate in a "certified project" (as defined in G.L. c. 23A, §§ 3A and 3F). The amount of credit allowed in each case is determined by the EACC based on numerous factors set forth in G.L. c. 23A, § 3D, including the number of jobs expected to be created, the amount of capital to be invested, and the net new economic benefit expected to be created. The EACC may designate the credit as refundable for any certified project. Prior to January 1, 2024, the EACC could not annually designate more than \$5 million in refundable credits. This limitation is eliminated effective January 1, 2024.

Increase of the cap for and extension of the Massachusetts historic rehabilitation credit (TE Item 2.610)

For taxable years beginning on or after January 1, 2024, the Massachusetts historic rehabilitation credit’s annual cap has been increased from \$55 million to \$110 million. The credit was due to expire on December 31, 2027, but has been extended to taxable years ending on or before December 31, 2030.

Life Sciences Tax Incentive Program (TE Item 2.617)

Effective for taxable years beginning on or after January 1, 2024, the Angel Investor Tax Credit is no longer available. In addition, the annual amount of life science tax incentives that can be authorized has been increased from \$30 million to \$40 million.

Increase of the cap for and extension of the community investment credit (TE Item 2.621)

For taxable years beginning on or after January 1, 2025, the community investment credit’s annual cap has been increased from \$12 million to \$15 million. The credit was due to expire on December 31, 2025, but has been made permanent.

Increase to the qualified veterans hire tax credit (TE Item 2.623)

For taxable years beginning on or after January 1, 2024, the amount of credit a business can claim for each qualified veteran it hires has been increased from \$2,000 to \$2,500.

Cranberry Bog Renovation Credit (TE Item 2.625)

Effective for tax years beginning on or after January 1, 2020, taxpayers primarily engaged in cranberry production may claim a nontransferable, refundable credit equal to 25% of expenses incurred in the renovation, repair, replacement, regrading or restoration of a cranberry bog for the cultivation, harvesting or production of cranberries. The Secretary for Energy and Environmental Affairs determines eligible costs and the amount of the credit. The amount of credit that can be claimed by a taxpayer for a taxable year cannot exceed \$100,000. The annual total cap amount is \$2 million. The credit is no longer available for taxable years beginning on or after January 1, 2030.

Temporary authorized training tax credit for emergency assistance (New TE Item 2.629)

Starting with taxable years beginning on or after January 1, 2024, business corporations taxable under G.L. c. 63 that provide training to a qualified trainee through an authorized training program may claim a temporary authorized training tax credit for emergency assistance. A qualified individual is an individual receiving benefits through the emergency housing assistance program pursuant to G.L. c.

23B, § 30. To qualify for the credit, a taxpayer must (1) have a place of business in the Commonwealth; (2) conduct an authorized training program in the Commonwealth that is in compliance with recommendations of the Executive Office of Labor and Workforce Development (“EOLWD”); (3) enroll the qualified trainee in an authorized training program on or after April 30, 2024; and (4) meet any additional requirements determined by the Executive Office for Administration and Finance and EOLWD. The credit is equal to \$2,500 for each qualified trainee that receives the training from the entity. The amount of the credit that exceeds the tax due for a taxable year may be carried forward to the subsequent taxable year. The credit is subject to an annual cap of \$10 million.

The credit may no longer be claimed as of (1) January 1, 2026; or (2) the taxable year in which the end of the capacity limitation on the emergency shelter assistance program occurs, whichever is sooner. See TIR 24-7 for more information.

Massachusetts homeownership credit (New TE Item 2.630)

Starting with taxable years beginning on or after January 1, 2025, taxpayers subject to tax under G.L. c. 63 may claim a Massachusetts homeownership tax credit in relation to a qualified homeownership development project to the extent authorized by the Executive Director of the Massachusetts Housing Finance Agency (“MHFA”). The credit is non-refundable but is transferrable. The amount of the credit authorized by MHFA cannot exceed the maximum credit amount, which is 35% of the lesser of either: (1) the project’s total qualified project expenditures calculated on a per single-family dwelling basis; or (2) 80% of the area median new single-family dwelling sales price, subject to further limitations established by MHFA. A sponsor cannot claim the credit before the first taxable year stated on the eligibility certificate issued to the sponsor by MHFA. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward for the duration of the qualified homeownership development project’s affordability period, which is a 10-year period that begins as of the date of the first sale of a single-family dwelling that was constructed as part of the project. The credit is subject to recapture if MHFA determines that a sponsor or qualified homeownership development project does not qualify for the credit, ceases to qualify for the credit, or did not qualify for the credit at the time they claimed the credit.

The amount of credits that MHFA can authorize annually cannot exceed the sum of (1) \$10 million; (2) any credit amounts not authorized in the preceding taxable year; and (3) any credits returned to MHFA by a sponsor. Effective January 1, 2030, the amount of credits that can be authorized annually is the sum of (1) any credit amounts not authorized in the preceding taxable year; and (2) any credits returned to MHFA by a sponsor.

Qualified conversion credit (New TE Item 2.631)

Starting with taxable years beginning on or after January 1, 2025, taxpayers subject to tax under G.L. c. 63 may claim a refundable, non-transferable qualified conversion credit in relation to a qualified conversion project that has been certified by the Executive Office of Housing and Livable Communities (“EOHLC”). To claim the credit, a sponsor must submit a project proposal to EOHLC requesting the certification of a housing development project as a qualified conversion project. After certifying the project, EOHLC determines the amount of credit awarded to the sponsor, which cannot exceed 10% of the qualified conversion’s project’s development costs.

The credit is allowed for the taxable year in which EOHLC notifies the Commissioner of the certified qualified conversion project’s completion. Any amount of the credit that exceeds the tax due for a taxable year may be carried forward to any of the 10 taxable years subsequent to the taxable year that the credit was allowed. The credit is subject to recapture.

The credit is no longer available for taxable years ending after December 31, 2029.

Climatetech Tax Incentive Program (New TE Item 2.632)

Massachusetts provides a climatetech tax incentive program, which is administered by the Massachusetts clean energy center (“CEC”), in consultation with DOR. The tax incentives consist of three tax credits, the climatetech capital investment tax credit, a refundable climatetech jobs tax credit, and a climatetech qualified research expenses tax credit; as well as a sales and use tax exemption for purchases of tangible personal property to be used for the construction of research, development or manufacturing or other commercial climatetech facilities. The incentives all share an annual cap of \$30 million and are effective for taxable years beginning on or after January 1, 2024.

The climatetech capital investment tax credit is a refundable tax credit available to personal income and corporate excise taxpayers who make capital investments in a climatetech facility. The amount of the credit is determined by the CEC, but cannot exceed 50% of the owner’s total capital investment in the facility.

The climatetech qualified research expenses tax credit is available to corporate excise taxpayers. The credit amount is based on the taxpayer’s qualified research expenses in a manner similar to the standard research expense tax credit. The credit is not refundable, but unused amounts of the credit may be carried forward to the next subsequent 15 taxable years.

Live Theater Credit (New TE Item 2.633)

The live theater tax credit program is administered by the Massachusetts Office of Business Development, in consultation with DOR. The credit is available to personal income and corporate excise taxpayers. The amount of the credit cannot exceed \$7 million and is equal to (1) 35% of the total in-state payroll costs; (2) 25% of production and performance expenditures; and (3) 25% of transportation expenditures. The credit is not refundable, but is transferrable. Any unused amount of credit may be carried forward to the next 5 taxable years. The annual amount of credits that can be authorized cannot exceed \$7 million.

The credit is effective for taxable years beginning on or after January 1, 2025 and expires on January 1, 2030.

Qualified Internship Credit (New TE Item 2.634)

The qualified internship tax credit is available to personal income and corporate excise taxpayers that hire a qualified intern. The credit is equal to the lesser of \$5,000 or 50% of the wages paid to the intern. The annual amount of credits that can be authorized cannot exceed \$10 million. A single employer cannot claim more than \$100,000 in credits in a taxable year.

The credit is effective starting the taxable year beginning on or after January 1 of the first calendar year following the next fiscal year that closes after November 20, 2024 with a consolidated net surplus of at least \$400 million. The credit expires on January 1 of the sixth tax year following the effective date of the credit.

Sales and Use Tax Changes

The FY25 Budget and “An Act Relative to Strengthening Massachusetts’ Economic Leadership” enacted the following changes to the sales and use tax.

Repeal of the sales tax exemption for certain publications of tax-exempt organizations (TE Items 3.607)

Effective September 27, 2024, the sales and use tax exemption for sales of publications of any corporation, foundation, organization or institution that is an exempt organization pursuant to Code § 501(c)(3) and described in G.L. c. 64H, § 6(e) is repealed, except in cases where such publications are produced in an accessible format, including, but not limited to, braille, enlarged print, audio or electronic text, for use by individuals unable to read other print due to disability.

Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Climatetech Company (New TE Item 3.006)

Effective for taxable years beginning on or after January 1, 2024, sales of tangible personal property purchased for a certified climatetech company, to the extent authorized pursuant to the climatetech tax incentive program, for use in connection with the construction, alteration, remodeling, repair or remediation of research, development or manufacturing facilities and utility support systems, are exempt from sales tax.

Qualified Data Center Sales and Use Tax Exemption (New TE Item 3.007)

A sales and use tax exemption is available to the owner or operator of a qualified data center for the purchase of eligible data center equipment, software, electricity used in a qualified data center, and construction costs incurred in the building, renovation, or refurbishment of a qualified data center. For a data center to be qualified, it must meet certain criteria and be certified by the Secretary of the Executive Office of Economic Development (“EOED”). However, EOED will not accept applications for certification until it completes its development, in consultation with DOR, of the required regulations and a standardized application form for the certification of qualified data centers.



Appendix B - Tax Expenditure Glossary

Amortization: Annual deduction allowed for the gradual exhaustion or obsolescence of intangible assets having a limited useful life which are used in the production of income, such as patents and copyrights; analogous to depreciation of tangible assets.

Capital Expenditure: An expenditure made in acquiring, adding to or bettering a fixed asset. For accounting purposes, capital expenditures are not charged against current revenue. They are added to capital account or "capitalized" and then may be depreciated, amortized, or recovered when a business is sold. This concept should be distinguished from an expense.

Credit: Amount by which a taxpayer is allowed to reduce a tax liability, as computed by applying the tax rates to the tax base, to be distinguished from a deduction from the tax base.

Deduction: Amount that a taxpayer is allowed to subtract from the gross tax base.

Depreciation: Annual deduction allowed for the gradual exhaustion or obsolescence of tangible property used in the production of income.

Exclusion: The legal elimination from the tax base of items recognized as falling within its definition. The federal term for what is sometimes called an exemption for Massachusetts. (See below.)

Exemption: The legal elimination from the tax base of items or transactions recognized as falling within its definition, or of taxable units that would normally be subject to tax.

Expense: A revenue expenditure or cost, which, for accounting purposes, is charged against current revenue. To be distinguished from a capital expenditure.

Gross income: The total of all items included in the concept of income that a taxpayer receives during the taxable period.

Net income: Amount remaining after subtracting exempt income and deductions from gross income.

Personal exemption: A specific amount or percentage of net income on which the tax rate is zero. To be distinguished from an exemption as defined above, which applies to a class of income or taxpayers. Sometimes called an "allowance".

Taxable income: Amount to which the tax rates are applied in computing tax liability, after subtracting personal exemptions from net income.



**Fiscal Year 2026 Tax Expenditure Budget: Appendix C
Summary Table**

The following table shows tax expenditure estimates for the three major taxes from Fiscal Year 2022 to Fiscal Year 2026. In general, the revenue estimate for a tax expenditure tends to follow the anticipated growth of tax collections. However, year-to-year changes in estimates may vary for four other principal reasons: new data sources; refinements to the estimate methodology; changes to federal tax expenditure estimates which are used as the basis for many of the state tax expenditure estimates; and changes in tax laws.

Where possible, we have recalculated past estimates based on revised data, improved methodologies, and changes in statute.

Personal Income Tax (In Millions)

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
EXCLUSIONS FROM GROSS INCOME						
Exclusions from Gross Income	1.000	5,516.4	6,032.6	6,381.2	6,730.7	7,084.0
Exemption of Premiums on Accident and Accidental Death Insurance ¹	1.001	Included in 1.004	Included in 1.004	Included in 1.004	Included in 1.004	Included in 1.004
Exemption of Premiums on Group-Term Life Insurance ¹	1.002	22.9	25.6	29.0	30.3	32.1
Exemption of Death Benefits and Interest on Life Insurance Policy and Annuity Cash Value	1.003	335.8	371.4	408.6	420.3	442.7
Exemption of Employer Contributions to Accident and Health Plans and Certain Benefits Received	1.004	1,308.4	1,403.8	1,486.5	1,565.9	1,627.3
Exemption of Annuity or Pension Payments to Fire and Police Personnel	1.005	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Distributions from Certain Contributory Pension and Annuity Plans ²	1.006	442.8	464.4	485.0	506.4	528.8
Exemption of Railroad Retirement Benefits	1.007	1.4	1.4	1.5	1.5	1.6
Exemption of Public Assistance Benefits	1.008	1,180.1	1,552.0	1,600.9	1,666.2	1,734.3
Exemption of Social Security Benefits	1.009	482.3	526.3	589.5	626.2	658.9
Exemption of Workers' Compensation Benefits	1.010	48.6	50.7	52.1	53.1	54.5
Exemption for Dependent Care Expenses ¹	1.011	5.0	5.2	5.4	5.6	5.7
Exemption of Certain Foster Care Payments	1.012	3.8	4.0	4.1	4.2	3.9
Exemption of Payments Made to Coal Miners	1.013	Negligible	Negligible	Negligible	Negligible	Negligible
Exemption of Rental Value of Parsonages	1.014	3.6	3.9	4.1	4.4	4.5
Exemption of Scholarships, Fellowships, and Tuition Reductions	1.015	42.8	45.3	46.9	48.5	55.5
Exemption of Certain Prizes and Awards	1.016	2.9	3.4	3.5	3.6	3.5
Exclusion of Payments Received Under Government Conservation, Reclamation and Restoration Programs	1.017	0.4	0.4	0.4	0.4	0.4
Exclusion from Employee Income of Meals and Lodging Furnished for the Convenience of the Employer ¹	1.018	47.2	60.3	75.2	75.2	75.8
Exclusion from Employee Income of Business-	1.019	28.1	29.3	30.3	31.3	32.4

FY2026 Governor's Budget Recommendation

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Related Meals and Entertainment ¹						
Exemption of Income from the Sale, Lease, or Transfer of Certain Patents	1.020	N.A.	Expired	Expired	Expired	Expired
Exemption of Capital Gains on Home Sales	1.021	414.1	395.9	387.7	398.7	429.2
Exemption for Capital Gains at Time of Death	1.022	789.4	701.8	766.7	837.6	915.0
Exemption of Interest from Massachusetts Obligations	1.023	71.9	78.4	85.1	86.4	87.7
Exemption of Benefits and Allowances to Armed Forces Personnel ¹	1.024	14.2	15.3	16.2	16.6	17.4
Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits	1.025	49.7	57.4	61.0	63.9	69.5
Exemption of Military Disability Pensions	1.026	0.6	0.6	0.6	0.7	0.8
Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel	1.027	10.6	11.1	11.9	12.5	12.8
Exemption for Taxpayers Killed in Military Action or by Terrorist Activity	1.028	Negligible	Negligible	Negligible	Negligible	Negligible
Exemption for Retirement Pay of the Uniformed Services	1.029	23.8	24.0	24.2	24.4	24.6
Exclusion from Gross Income of Parking, T-Pass and Vanpool Fringe Benefits	1.030	41.9	59.6	56.2	57.7	59.6
Health Savings Accounts	1.031	30.7	19.6	25.8	52.7	61.1
Employer-Provided Adoption Assistance	1.032	not active	2.1	2.0	2.4	2.5
Employer-Provided Educational Assistance	1.033	13.7	14.1	14.2	14.8	13.7
Department of Defense Homeowners Assistance Plan	1.035	Negligible	Negligible	Negligible	0.2	0.2
Survivor Annuities of Fallen Public Safety Officers	1.036	N.A.	N.A.	N.A.	N.A.	N.A.
Survivor Annuities of Fallen Astronauts	1.037	N.A.	N.A.	N.A.	N.A.	N.A.
Discharge of Indebtedness for Health Care Professionals	1.039	0.9	1.0	1.1	1.2	1.2
Archer Medical Savings Accounts	1.040	0.1	0.1	0.1	0.2	0.2
Earnings of Pre-paid and Tuition Savings ("529" plans)	1.041	15.9	27.0	32.5	34.2	37.3
Exclusion of Gains of Qualified Small Business Stock (QSBS) Gain	1.042	29.3	21.3	16.2	23.9	25.2
Exclusion of Alimony Payments Made	1.043	8.2	7.9	7.6	7.3	7.0
Exclusion From Gross Income Of Discharged Qualified Principal Residence Indebtedness	1.044	1.1	1.2	1.2	1.2	0.3
Exclusion From Gross Income Of Amounts Received Under The Work Colleges Program	1.045	30.4	32.5	33.9	35.3	40.3
Exclusion Of Benefits Provided To Volunteer Firefighters And Emergency Medical Responders	1.046	0.6	0.7	0.7	0.7	0.7
Exclusion From Gross Income Of Indian Healthcare Benefits	1.047	12.7	13.5	13.3	15.0	15.8
Exclusion From Gross Income Of Indian General Welfare Benefits	1.048	0.1	0.1	0.1	0.1	0.1
Exclusion From Gross Income Of Certain Amounts Received By Wrongfully Incarcerated Individuals	1.049	0.1	0.1	0.1	0.1	0.1
DEFERRALS OF GROSS INCOME						
Deferrals of Gross Income	1.100	2,152.2	2,283.0	2,778.4	2,906.2	3,343.1
Net Exemption of Contributions to Employee	1.101	847.2	913.1	1,010.9	1,137.4	1,349.2

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Stock Bonus Plans, Pensions, and Profit-Sharing Trusts						
Treatment of Incentive Stock Options	1.102	5.9	5.7	5.8	6.0	6.8
Exemption of Earnings on Stock Bonus Plans, Pensions or Profit-Sharing Trusts	1.103	1,051.0	1,131.9	1,518.5	1,504.6	1,683.5
Exemption of Earnings on IRAs and Keogh Plans	1.104	184.4	198.2	211.6	225.7	270.3
Exemption for Capital Gains at Time of Gift	1.106	62.2	32.8	30.2	31.1	31.9
Teacher's Expense Deduction	1.107	1.4	1.4	1.4	1.4	1.4
DEDUCTIONS FROM GROSS INCOME						
Deductions from Gross Income	1.200	16.8	17.1	17.3	17.6	17.9
Capital Gains Deduction for Collectibles	1.201	2.2	2.2	2.3	2.4	2.4
Deduction of Capital Losses Against Interest and Dividend Income	1.202	14.3	14.5	14.7	14.9	15.1
Excess Natural Resource Depletion Allowance	1.203	0.4	0.4	0.4	0.4	0.4
Abandoned Building Renovation Deduction	1.204	Negligible	Negligible	Negligible	Negligible	Negligible
ACCELERATED DEDUCTIONS FROM GROSS INCOME						
Accelerated Deductions from Gross Income	1.300	85.4	106.7	104.5	94.5	99.5
Modified Accelerated Depreciation on Rental Housing	1.301	29.3	29.6	27.3	25.1	23.4
Modified Accelerated Depreciation on Buildings (other than Rental Housing)	1.303	3.6	3.8	3.8	3.8	3.8
Modified Accelerated Cost Recovery System (MACRS) for Equipment	1.304	37.2	48.9	39.6	30.6	31.9
Expense Deduction for First-Year Business Assets	1.305	13.9	22.9	32.2	33.4	38.5
Election to Deduct and Amortize Business Start-up Costs	1.306	1.0	1.0	1.0	1.0	1.4
Expensing Exploration and Development Costs	1.308	Negligible	Negligible	Negligible	Negligible	Negligible
Expensing Research and Experimental Expenditures in One Year	1.309	Negligible	Negligible	Negligible	Negligible	Negligible
Five-Year Amortization of Pollution Control Facilities	1.310	N.A.	N.A.	N.A.	N.A.	N.A.
Seven-Year Amortization for Reforestation	1.311	0.2	0.2	0.2	0.2	0.2
Expensing Certain Capital Outlays of Farmers	1.312	0.1	0.2	0.2	0.1	0.1
Expenditures to remove architectural and transportation barriers to the handicapped and elderly	1.313	0.1	0.2	0.2	0.2	0.2
DEDUCTIONS FROM ADJUSTED GROSS INCOME						
Deductions from Adjusted Gross Income	1.400	789.2	878.6	1,205.1	1,240.1	1,281.6
Deduction for Employee Social Security and Railroad Retirement Payments	1.401	319.4	328.4	332.7	337.0	341.4
Deduction for Employee Contributions to Public Pension Plans ²	1.402	Included in 1.401	Included in 1.401	Included in 1.401	Included in 1.401	Included in 1.401
Additional Exemption for the Elderly	1.403	28.8	28.9	29.7	31.5	34.3
Additional Exemption for the Blind	1.404	0.7	0.6	0.6	0.6	0.6
Dependents Exemption Where the Child Earns Income ³	1.405	N.A.	N.A.	N.A.	N.A.	N.A.
Deduction for Dependents Under 12	1.406	N.A.	N.A.	N.A.	N.A.	N.A.
Personal Exemption for Students Age 19 or Over	1.407	10.0	10.4	10.5	10.6	10.6
Deduction for Adoption Fees	1.408	0.3	0.3	0.3	0.3	0.3

FY2026 Governor's Budget Recommendation

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Deduction for Business-Related Child Care Expenses	1.409	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Medical Expenses	1.410	160.0	176.0	182.7	194.8	206.6
Rental Deduction	1.411	144.3	145.5	183.7	187.3	191.0
Nontaxation of Charitable Purpose Income of Trustees and Estates	1.412	15.4	14.6	15.3	15.6	15.9
Exemption of Interest on Savings in Massachusetts Banks	1.413	4.1	3.0	3.0	Expired	Expired
Tuition Deduction	1.414	17.4	17.5	17.5	17.6	17.7
Charitable Contributions and Gifts	1.415	Not Active	64.0	321.3	330.4	338.8
Deduction for Costs Involved in Unlawful Discrimination Suits	1.418	N.A.	N.A.	N.A.	N.A.	N.A.
Business Expenses of National Guard and Reserve Members	1.419	1.5	1.6	1.6	1.6	1.6
Archer Medical Savings Accounts	1.420	Negligible	Negligible	Negligible	Negligible	Negligible
Deduction for Clean-Fuel Vehicles and Certain Refueling Property	1.421	Negligible	Expired	Expired	Expired	Expired
Health Savings Accounts	1.422	5.3	5.3	5.9	6.4	7.4
Commuter Deduction	1.423	7.6	7.7	18.9	19.2	19.5
Self-Employed Health Insurance Deduction	1.424	45.1	46.0	47.3	48.4	49.5
Deduction for Employer Payments of Employee Qualified Education Loans	1.425	16.6	15.6	16.2	16.9	17.5
Expenses of Human Organ Transplant	1.426	Negligible	Negligible	Negligible	Negligible	Negligible
Prepaid Tuition or College Savings Plan Deduction2	1.427	3.2	3.3	3.4	3.6	3.7
Gambling Loss Deduction	1.428	6.3	8.1	10.3	13.2	16.8
Moving Deduction	1.429	1.5	0.2	0.2	0.2	1.3
Deduction for Student Loan Payment Assistance	1.430	N.A.	N.A.	2.2	3.4	5.6
Whistleblower Attorneys' Fees Deduction	1.431	1.7	1.6	1.6	1.6	1.6
PREFERENTIAL RATE OF TAXATION						
Preferential Rate of Taxation	1.500	11.2	3.8	1.1	0.3	0.1
Small Business Stock, Capital Gains Tax Rate	1.501	11.2	3.8	1.1	0.3	0.1
CREDITS AGAINST TAX						
Credits Against Tax	1.600	527.3	524.3	847.7	1,065.4	1,222.9
Renewable Energy Source Credit	1.601	5.2	5.6	5.9	6.3	6.7
Credit for Removal of Lead Paint	1.602	3.1	2.3	5.2	5.8	6.4
Economic Development Incentive Program Credit	1.603	2.7	1.9	2.0	6.4	6.5
Credit for Employing Former Full-Employment Program Participants	1.604	Not Active	Not Active	Not Active	Not Active	Not Active
Earned Income Credit	1.605	226.8	210.9	300.0	341.4	459.5
Septic System Credit	1.606	8.8	8.8	11.8	15.7	19.9
Low Income Housing Credit	1.607	8.5	10.1	13.0	15.5	18.1
Brownfields Credit	1.608	2.3	2.4	2.6	2.7	2.8
Refundable State Tax Credit Against Property Taxes for Seniors ("Circuit Breaker")	1.609	98.4	106.4	163.6	169.5	175.3
Massachusetts Historic Rehabilitation Credit	1.610	7.0	7.3	7.6	15.8	16.4
Film Production Incentives (tax credit and sales tax exemption)	1.611	1.8	2.0	2.0	2.0	2.0
Medical Device User Fee Credit	1.613	Expired	Expired	Expired	Expired	Expired
Dairy Farmer Tax Credit	1.614	3.8	3.7	5.0	5.0	5.0

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Conservation Land Credit	1.615	1.9	1.6	1.6	1.6	1.6
Employer Wellness Program Tax Credit	1.616	Negligible	Negligible	Expired	Expired	Expired
Community Investment Tax Credit	1.617	5.6	6.2	6.8	6.8	8.4
Farming and Fisheries Tax Credit	1.618	0.2	0.2	0.2	0.3	0.3
Certified Housing Development Tax Credit	1.619	2.0	2.0	2.0	4.0	7.4
Veteran's Hire Tax Credit	1.620	0.0	0.0	0.0	0.0	0.5
Apprentice Tax Credit	1.621	Negligible	Negligible	Negligible	Negligible	Negligible
Disability Hire Credit	1.622	N.A.	1.0	1.0	1.0	1.0
Cranberry Bog Renovation Credit	1.623	0.0	0.5	1.0	1.0	1.0
Credit for Eligible Dependents	1.624	117.5	119.3	Expired	Expired	Expired
Dependent Care Expenses Credit	1.625	31.6	32.1	Expired	Expired	Expired
Offshore wind tax incentive program: cover the Wind Power Incentive Jobs Credit and Wind Power Incentive Investment Credit	1.626	N.A.	N.A.	2.5	2.5	2.5
National Guard Credit	1.627	N.A.	0.0	0.1	0.1	0.1
Child and Family Tax Credit	1.628	N.A.	N.A.	313.7	460.0	467.0
Renewable Energy Source Credit	1.629	N.A.	N.A.	N.A.	2.0	2.0
First-Time Homeownership Development Credit	1.630	N.A.	N.A.	N.A.	N.A.	2.0
Qualified Conversion Project Tax Credit	1.631	N.A.	N.A.	N.A.	N.A.	1.0
Climatetech Tax Incentive Program	1.632	N.A.	N.A.	N.A.	N.A.	6.0
Live Theater Tax Credit	1.633	N.A.	N.A.	N.A.	N.A.	3.5
Qualified Internship Tax Credit	1.634	N.A.	N.A.	N.A.	N.A.	N.A.

Fiscal Year 2026 Tax Expenditure Budget: Appendix C Summary Table

Corporate Tax (In Millions)

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
EXCLUSIONS FROM GROSS INCOME						
Exclusions from Gross Income	2.000	260.7	272.7	282.1	285.3	281.1
Small Business Corporations	2.001	260.7	272.7	282.1	285.3	281.1
Exemption of Income from the Sale, Lease or Transfer of Certain Patents	2.002	N.A.	Expired	Expired	Expired	Expired
DEFERRALS OF GROSS INCOME						
Deferrals of Gross Income	2.100	12.2	10.9	10.6	11.4	6.1
Deferral of Tax on Certain Shipping Companies	2.101	1.0	1.0	1.0	1.0	1.0
Deferral of Federal Gain Invested in Qualified Opportunity Zones	2.102	11.2	9.8	9.6	10.4	5.1
DEDUCTIONS FROM GROSS INCOME						
Deductions from Gross Income	2.200	299.9	314.8	330.9	343.6	355.7
Charitable Contribution and Gift Deduction	2.201	62.7	65.6	67.8	68.6	67.6
Net Operating Loss (NOL) Carry-Forward	2.203	229.0	240.2	253.8	266.1	279.3
Excess Natural Resource Depletion Allowance	2.204	2.8	3.7	4.0	3.7	3.6
Deduction for Certain Dividends of Cooperatives	2.205	5.4	5.3	5.3	5.2	5.1
Deduction for Renovation of Abandoned Buildings as Part of Certified Project	2.206	Negligible	Negligible	Negligible	Negligible	Negligible
ACCELERATED DEDUCTIONS FROM GROSS INCOME						
Accelerated Deductions from Gross Income	2.300	167.2	191.1	151.0	128.3	136.2
Modified Accelerated Cost Recovery System on Rental Housing	2.301	8.5	8.5	7.7	7.4	6.7
Expenditures to remove architectural and transportation barriers to the handicapped and elderly	2.303	0.5	0.5	0.5	0.5	0.5
Election to Deduct and Amortize Business Start-up Costs	2.304	0.6	0.5	0.5	0.5	0.5
Modified Accelerated Cost Recovery System for Equipment	2.305	135.5	168.2	129.4	107.3	115.4
Expense Deduction for Excess First-Year Business Assets	2.306	10.6	8.2	9.0	8.8	9.3
Modified Accelerated Depreciation on Buildings (other than Rental Housing)	2.307	2.1	2.9	3.2	3.2	3.2
Expensing Research and Experimental Expenditures in One Year	2.308	8.3	1.6	0.0	0.0	0.0
Expensing Exploration and Development Costs	2.309	0.4	0.0	0.0	0.0	0.0
Five-Year Amortization of Pollution Control Facilities	2.311	0.3	0.3	0.3	0.3	0.3
Expensing of Alternative Energy Units	2.312	Not Active	Not Active	Not Active	Not Active	Not Active
Seven-Year Amortization for Reforestation	2.313	0.2	0.2	0.2	0.2	0.2
Expensing of Certain Capital Outlays of Farmers	2.314	0.1	0.1	0.1	0.1	0.1
ADJUSTMENTS TO APPORTIONMENT FORMULA						
Adjustments to Apportionment Formula	2.400	328.2	328.9	326.8	364.2	0.0
Unequal Weighting of Sales, Payroll, and Property in the Apportionment Formula	2.401	328.2	328.9	326.8	364.2	N.A.
EXCLUSIONS FROM PROPERTY COMPONENT						

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Exclusions from Property Component	2.500	365.9	379.9	399.1	414.6	420.6
Nontaxation of Certain Energy Property	2.501	Not Active	Not Active	Not Active	Not Active	Not Active
Exemption for Property Subject to Local Taxation	2.502	365.9	379.9	399.1	414.6	420.6
CREDITS AGAINST TAX						
Credits Against Tax	2.600	1,042.2	1,170.0	1,302.0	1,514.4	1,726.8
Investment Credit	2.602	98.1	112.6	113.6	126.2	135.1
Vanpool Credit	2.603	Negligible	Negligible	Negligible	Negligible	Negligible
Research Credit	2.604	642.6	727.2	823.1	931.5	1,054.2
Economic Development Incentive Program Credit	2.605	14.0	12.9	10.6	29.6	29.7
Credit for Employing Former Full-Employment Program Participants	2.606	Not Active	Not Active	Not Active	Not Active	Not Active
Harbor Maintenance Credit	2.607	0.4	Expired	Expired	Expired	Expired
Brownfields Credit	2.608	22.2	23.2	24.2	25.3	26.5
Low Income Housing Credit	2.609	128.6	152.5	176.3	195.4	214.4
Historic Buildings Rehabilitation Credit	2.610	32.1	33.4	38.7	73.3	84.8
Film or Motion Picture Credit	2.614	68.3	77.8	76.0	76.0	78.0
Medical Device-User Fee Credit	2.615	0.5	Expired	Expired	Expired	Expired
Life Sciences Tax Incentive Program	2.617	19.6	11.1	15.8	16.4	17.0
Dairy Farmer Credit	2.618	1.1	1.5	1.5	1.5	1.5
Conservation Land Credit	2.619	0.0	0.0	0.0	0.0	0.0
Employer Wellness Program Credit	2.620	0.0	0.1	0.1	0.1	0.1
Community Investment Credit	2.621	3.5	4.8	5.2	5.2	6.5
Certified Housing Development Credit	2.622	11.1	12.0	12.0	16.0	16.0
Veteran's Hire Credit	2.623	0.0	0.0	0.0	0.0	0.5
Apprentice Credit	2.624	0.1	0.3	0.3	0.5	0.5
Cranberry Bog Renovation Credit	2.625	0.0	0.5	1.0	1.0	1.0
Disability Hire Credit	2.626	N.A.	0.1	1.0	1.0	1.0
Offshore Wind Tax Incentive Program	2.627	N.A.	N.A.	2.5	7.3	7.3
National Guard Credit	2.628	N.A.	N.A.	0.1	0.1	0.1
Temporary Authorized Training Credit for Emergency Assistance	2.629	N.A.	N.A.	N.A.	8.0	8.0
Massachusetts Homeownership Credit	2.630	N.A.	N.A.	N.A.	N.A.	8.0
Qualified Conversion Project Credit	2.631	N.A.	N.A.	N.A.	N.A.	9.0
Climatetech Tax Incentive Program	2.632	N.A.	N.A.	N.A.	N.A.	24.0
Live Theater Credit	2.633	N.A.	N.A.	N.A.	N.A.	3.5
Qualified Internship Credit	2.634	N.A.	N.A.	N.A.	N.A.	N.A.
ENTITY EXEMPT FROM TAXATION						
Entity Exempt from Taxation	2.700	855.4	883.1	929.2	965.2	985.5
Exemption of Credit Union Income	2.701	27.5	27.4	27.2	24.5	23.5
Tax-Exempt Organizations	2.702	377.9	396.7	424.6	444.2	445.6
Exemption for Regulated Investment Companies	2.703	450.0	459.0	477.4	496.5	516.3

Fiscal Year 2022 Tax Expenditure Budget: Appendix C Summary Table

Sales Tax (In Millions)						
Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
EXEMPT ENTITIES						
Exempt Entities	3.000	868.0	941.7	997.0	1,081.2	1,152.9
Exemption for Sales to the Federal Government	3.001	50.9	53.5	56.4	59.3	62.4
Exemption for Sales to the Commonwealth	3.002	96.0	101.4	107.0	112.9	119.2
Exemption for Sales to Tax-Exempt Organizations	3.003	720.3	786.1	833.0	891.2	953.5
Exemption for Sales of Tangible Personal Property to Motion Picture Production Companies	3.004	0.3	0.3	0.3	0.3	0.3
Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Life Sciences Company	3.005	0.4	0.4	0.4	0.4	0.4
Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Climatetech Company	3.006	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Sales of Equipment, Software, and Electricity Used in Qualified Data Center	3.007	N.A.	N.A.	N.A.	17.0	17.0
EXEMPT PRODUCTS/SERVICES						
Exempt Products/Services	3.100	2,094.8	2,223.6	2,367.4	2,468.7	2,583.6
Exemption for Food	3.101	1,048.9	1,120.9	1,209.7	1,247.9	1,283.8
Exemption for Certain Food and Beverages Sold in Restaurants	3.102	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Clothing	3.103	167.1	177.3	185.6	194.4	214.2
Exemption for Medical and Dental Supplies and Devices including Breast Pumps	3.104	679.8	721.2	766.0	818.5	871.0
Exemption for Water	3.105	139.2	145.8	148.9	152.0	159.3
Exemption for Newspapers and Magazines	3.106	21.4	19.1	17.0	15.2	13.6
Exemption for the American Flag	3.107	1.1	1.2	1.2	1.3	1.3
Exemption for Certain Precious Metals	3.108	10.0	10.4	10.7	10.9	11.4
Exemption for Cement Mixers	3.109	1.7	1.7	1.7	1.8	1.8
Exemption for Aircraft & Aircraft Parts	3.112	23.6	24.0	24.4	24.8	25.3
Exemption for Breast Pumps	3.113	included in 3.104	included in 3.104	included in 3.104	included in 3.104	included in 3.104
Exemption for Sales of Commercial Gun Safes and Trigger Lock Devices	3.114	2.0	2.0	2.0	2.0	2.0
EXEMPT, TAXED UNDER ANOTHER EXCISE						
Exempt, Taxed Under Another Excise	3.200	894.2	851.0	800.3	780.2	763.5
Exemption for Alcoholic Beverages	3.201	131.6	135.8	140.1	144.6	149.2
Exemption for Motor Fuels	3.202	762.6	715.2	660.2	635.6	614.3
EXEMPT COMPONENT OF A PRODUCT OR CONSUMED IN PRODUCTION						
Exempt Component of a Product or Consumed in Production	3.300	849.5	850.1	854.2	858.4	862.7
Exemption for Items Used in Making Clothing	3.301	Negligible	Negligible	Negligible	Negligible	Negligible
Exemption for Materials, Tools, Fuels, and Machinery Used in Manufacturing	3.302	643.3	646.5	649.7	653.0	656.2
Exemption for Materials, Tools, Fuels, and Machinery Used in Research and Development	3.303	95.1	95.9	96.8	97.7	98.6

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power	3.304	60.1	55.2	53.8	52.4	51.1
Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing	3.306	3.6	3.6	3.6	3.6	3.6
Exemption for Materials, Tools, Fuels, and Machinery Used in Agricultural Production	3.308	25.5	26.0	26.4	26.9	27.3
Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing	3.309	15.0	15.6	16.2	16.9	17.6
Exemption for Materials, Tools, Fuels, and Machinery Used in Radio and TV Broadcasting	3.310	7.1	7.3	7.6	7.9	8.3

EXEMPTIONS FOR SPECIFIED USES OF PRODUCTS/SERVICES

Exemptions for Specified Uses of Products/Services	3.400	1,129.6	1,247.8	1,297.7	1,353.9	1,412.2
Exemption for Electricity	3.401	398.9	455.7	470.2	485.2	500.7
Exemption for Fuel Used for Heating Purposes	3.402	74.1	77.5	81.0	84.9	89.0
Exemption for Gas	3.403	193.0	218.9	233.3	252.2	272.6
Exemption for Steam	3.404	0.6	0.7	0.7	0.7	0.7
Exemption for Certain Energy Conservation Equipment	3.405	8.2	8.9	9.7	10.6	11.5
Exemption for Funeral Items	3.406	12.7	13.4	13.8	14.3	14.9
Exemption for Certain Motor Vehicles	3.407	1.7	1.9	2.1	2.2	2.3
Exemption for Textbooks	3.408	10.2	10.7	11.4	11.7	12.2
Exemption for Books used for Religious Worship	3.409	0.8	0.8	0.9	0.9	1.0
Exemption for Containers	3.410	140.5	148.9	157.7	163.5	169.6
Exemption for Certain Sales by Typographers, Compositors and Color Separators	3.411	3.3	3.4	3.4	3.5	3.6
Exemption for Sales of Building Materials and Supplies Used in federal and Massachusetts Government Construction Contracts and Construction Contracts with Tax Exempt Organizations	3.412	204.8	197.2	198.9	206.8	213.6
Exemption for Commuter Boats	3.417	6.6	6.7	6.8	6.9	7.0
Exemption for Fuels, Supplies, and Repairs for Vessels Engaged in Interstate or Foreign Commerce	3.418	1.7	1.7	1.7	1.8	1.8
Exemption for Fuel Used in Operating Aircraft and Railroads	3.419	64.6	91.8	95.3	96.6	97.8
Exemption for Sales of Certain New and Used Buses	3.420	6.4	6.7	7.0	7.3	7.7
Exemption for Films	3.421	1.6	2.9	3.7	4.8	6.1

MISCELLANEOUS EXEMPTIONS

Miscellaneous Exemptions	3.600	358.5	354.1	363.6	355.6	359.6
Exemption for Casual or Isolated Sales	3.601	38.0	39.2	40.5	41.8	43.1
Exemption for Vending Machine Sales	3.602	1.4	1.4	1.4	1.5	1.5
Exemption for Certain Meals	3.603	128.0	118.3	124.1	130.1	136.4
Exemption for Certain Bed and Breakfast Businesses from Sales Tax on Meals	3.604	0.1	0.1	0.1	0.1	0.1
Exemption for Certain Summer Camps from Sales Tax on Meals and Room Occupancy Excise	3.605	0.7	0.7	0.7	0.7	0.7
Exemption for Trade-in Allowances for Motor Vehicles and Trailers	3.606	134.2	134.7	135.1	135.6	136.0
Exemptions for Publications of Tax-Exempt Organizations in an accessible format used by disabled individuals.	3.607	20.9	21.9	23.0	6.1	1.0

FY2026 Governor's Budget Recommendation

Tax Expenditure	Item Number	FY2022	FY2023	FY2024	FY2025	FY2026
Exemption for Gifts of Scientific Equipment	3.608	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Vessels or Barges 50 Tons and Over	3.609	0.4	0.4	0.4	0.4	0.4
Exemption for Rental Charges for Refuse Bins and Containers	3.610	0.9	0.9	1.0	1.0	1.0
Exemption for Honor Snack Trays	3.611	0.3	0.3	0.4	0.6	0.7
Sales Tax Holiday	3.612	33.7	36.2	36.9	37.9	38.6

Appendix D - Non-Tax Expenditure Budget Items

In July 2012 legislation was enacted stating explicitly that “sales that do not involve tangible personal property shall not result in tax expenditures”. See St 2012, c.165, §112. Pursuant to this legislation, from fiscal year 2014 on, we remove some items from our tax expenditure estimates, which we regularly reported in prior years. But to facilitate comparison to tax expenditure estimates in prior years, we list these items in this appendix.

Items:

3.203 Exemption for Hotel/Motel Rooms

Rental charges for real property are exempt from sales tax. However, rentals of rooms in hotels, motels or lodging houses are subject to a state excise at a rate of 5.7% of the rental price, and, at a municipality’s option, to a local excise of up to 6% of the rental price (6.5% in the city of Boston). A Convention Center financing fee of 2.75% is also included in certain areas.

Origin: General exclusion of real property transactions
Estimate: \$319.2

Comment: Revenues collected under the budgeted state room occupancy excise were \$235.7 million in Fiscal Year 2023 and \$248.4 million in Fiscal Year 2024. Beginning July 1, 2019, the room occupancy excise also applies to short-term rentals of property for 31 days or less.

3.422 Exemption for Telephone Services

Sales of residential telecommunications services of up to \$30 per month are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(i)
Estimate: \$18.1

Comment: Telegraph services are also exempt but are not included in this estimate.

3.501 Nontaxation of Transfers of Real Property

Real estate is exempt from sales tax but is subject to a deeds excise at a rate of 0.456% of the taxable price of the property (0.342% in Barnstable County). The estimate represents revenues that would be collected under the sales tax if sales of real property were taxed at 6.25%.

Origin: General exclusion of real property transactions
Estimate: \$5,059.1

Comment: Revenues collected under the Deeds Excise Tax (including Secretary State Deeds) were \$336.9 million in Fiscal Year 2023 and \$303.5 million in Fiscal Year 2024.

3.502 Nontaxation of Rentals of Real Property

Rental charges for real property, whether for residential or business purposes,

are exempt from sales tax.

Origin: General exclusion of real property transactions
Estimate: \$2,380.6

Comment: This estimate excludes rentals of hotel/motel rooms, which are separately stated under item 3.203.

- 3.503 Nontaxation of Certain Services
Certain services are not subject to sales tax. This estimate includes a range of services to individuals and businesses which are excluded from taxation by their omission from the statutory definition of services.

Origin: M.G.L. c. 64H § 1
Estimate: \$26,053.3

- 3.504 Nontaxation of Internet Access and Related Services
Internet access services, electronic mail services, electronic bulletin board services, web hosting services or similar on-line computer services are not subject to the sales and use tax.

Origin: M.G.L. c. 64H § 1
Estimate: \$238.1

Summary:

Description of Item	Former TEB number	FY2022	FY2023	FY2024	FY2025	FY2026
Exemption for Hotel/Motel Rooms	3.203	204.2	258.4	272.4	287.5	319.2
Exemption for Telephone Services	3.422	18.3	17.5	17.7	17.7	18.1
Nontaxation of Transfers of Real Property	3.501	7,037.7	5,018.9	4,521.5	5,004.7	5,059.1
Nontaxation of Rentals of Real Property	3.502	2,069.7	2,158.2	2,246.9	2,312.4	2,380.6
Nontaxation of Certain Services	3.503	18,864.3	20,665.3	22,219.3	23,853.9	26,053.3
Nontaxation of Internet Access and Related Services	3.504	209.7	218.2	224.4	231.2	238.1