



Greater Boston
Chamber of Commerce



GBCC / MACPAs
2025/26 Tax Reform
Proposal

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Governor Healey,
Speaker Mariano,
Senate President
Spilka

Massachusetts Should Stay Proactive on Tax Reform

State and local spending are at record levels following five years of explosive growth and over a decade of strong growth.

- The state should use its strong tax revenues to strengthen its competitiveness so it can continue to ensure jobs and opportunities are available to all residents.
 - Between FY 2022 and FY 2026, GAA state spending grew by \$13.3 billion – almost 28% - from \$47.6 billion to \$60.9 billion.
 - At the end of FY 2025, tax collections increased by 7.1% over FY 2024, representing 5.1% more than state benchmarks.
 - Looking back 10 years to FY 2016, then Governor Baker signed a \$38.1 billion budget. The decade since represents an almost 60% increase in state appropriations.

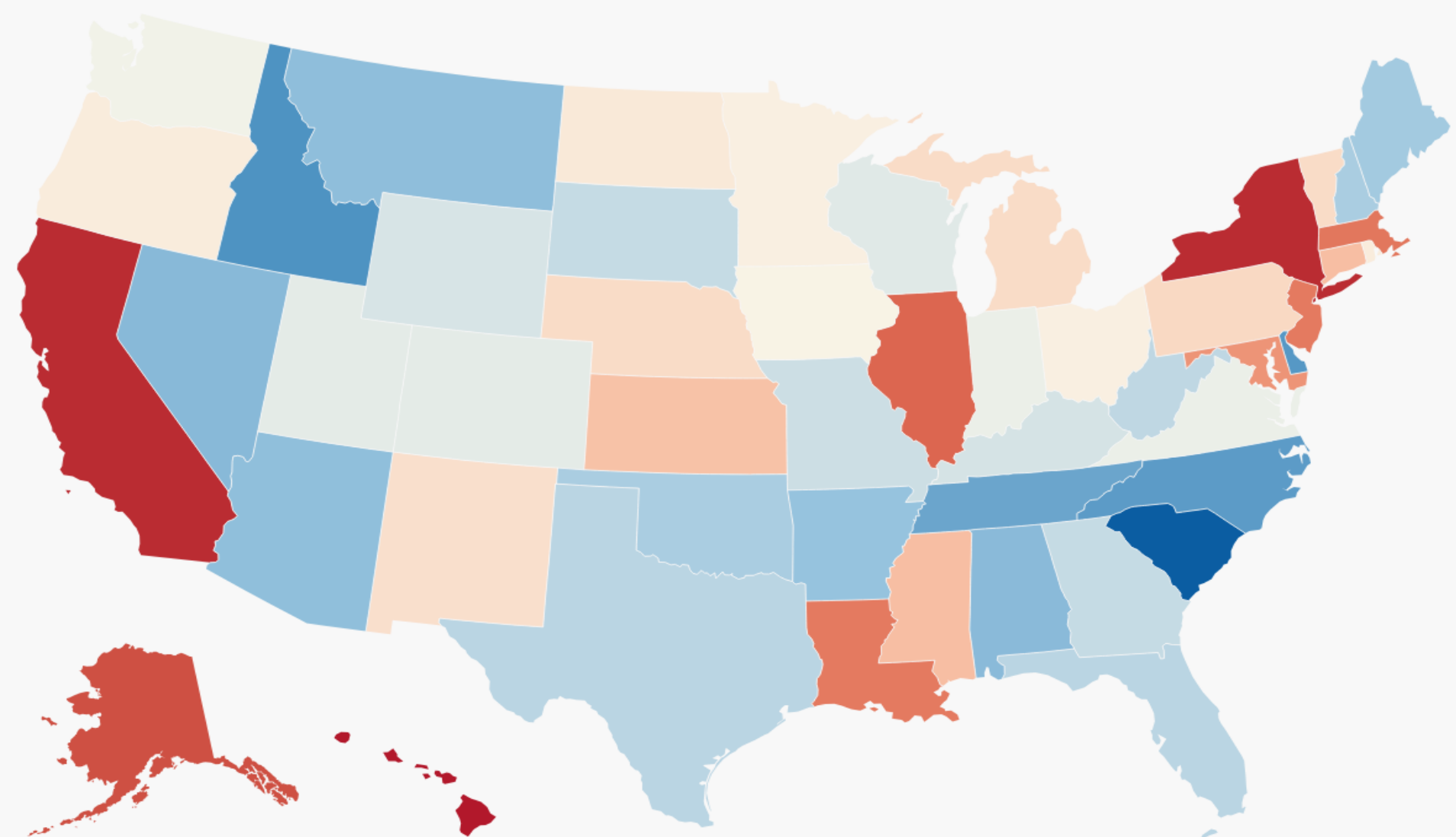
Massachusetts can't afford to keep losing residents & employees.

- From July 2023 through July 2024, Massachusetts lost more than 27,000 people to domestic migration at a time when every industry is searching for workers. Of the country's 20 largest metro areas, Greater Boston has the smallest share of population under age 18. Population growth was supported only by international migration, which may decrease substantially in the next few years.
- We rely on domestic and international migration to increase our workforce. A less competitive tax environment and federal immigration policy changes, combined with high costs of living, makes the state less attractive to potential movers.
- Federal policy changes may make immigration more difficult in future years. The inability to attract international workers in high-skilled and seasonal employment could have serious consequences for our economy.

State Population Changes Attributable to Interstate Migration (FY 2024)

State Net Population Changes from Interstate Migration, from Most Inbound to Most Outbound, FY 2024

−0.65% 0.00% 1.26%



On this map, population changes are rounded to the hundredths place, but ranks are based on unrounded Census figures. D.C.'s rank does not affect states' ranks, but indicates where it would have ranked if included. Source: U.S. Census Bureau.

Trend: States Are Reducing or Eliminating Taxes

Several states have moved to reduce or eliminate individual and/or corporate income tax rates over the last few fiscal years.

- At least 10 states reduced their personal income tax rate on Jan. 1, 2023, including 3 that are switching to a flat income tax. Massachusetts is the only state to implement an income tax increase not as a result of low revenue collections and to shift from a flat to graduated structure.
- At least 3 states reduced their corporate income tax rate on Jan 1, 2025.
- Some reductions and increases are the result of triggers tied revenue collections and were put in place over the last decade.
- Others are phased-in plans to reach a lower tax rate or implement a flat tax.

Tax Reform Proposal Goals

Building on the Commonwealth's signature 2023 tax reform law, we focus on several goals that ultimately will ensure there are jobs and opportunities for economic growth available to Massachusetts residents. Jobs and opportunities are critical factors to achieve an inclusive economy.

- Mitigate the negative effects from tax policy on employers, job creators, and economic decision makers in a new competitive environment
- Understand the explosive growth in state spending and the ability to direct positive tax relief to employers
- Adjust policies for which Massachusetts is an outlier
- Stimulate economic activity and protect the economic activity we already have
- Avoid competitive complacency by remaining proactive on fiscal policy
- Adjust tax policy to bolster our competitive strengths and mitigate our weaknesses.

	Estate tax elimination	Capital gains reform	Eliminate the sting tax	PTET changes	Small Business Personal Property Tax Exemption	R&D Expansion	Reduce Corp Tax Rate
Protect the economic activity we already have and stimulate new economic activity	✓		✓		✓	✓	✓
Mitigate the negative effects from tax policy on employers, job creators, and economic decision makers	✓	✓	✓	✓		✓	✓
Correct policies for which MA is a negative outlier	✓	✓	✓		✓	✓	✓
Address unintended consequences from the new tax on income > \$1m	✓	✓	✓	✓			✓

REPEAL THE ESTATE TAX

Proposal

- Eliminate the estate tax

Current Law

- After the Commonwealth's 2023 tax reform law, estates with a valuation of over \$2 million are subject to a .08-16% tax. The reform law eliminated the cliff effect, subjecting the estate to state taxes for only the portion above \$2 million.

Need & Impact

- Massachusetts is a clear outlier on the estate tax.
 - Massachusetts is one of only 12 states that impose an estate tax.
 - Despite the 2023 tax reform law, Massachusetts still has one of the lowest estate tax exemption thresholds in the country, along with Oregon, currently set at \$2 million.
 - Estate planning is a key reason to migrate to lower tax states.
 - Most competitor states do not have an estate tax, including CA, VA, NC, and FL. Those that do have higher thresholds (NY = \$7.1M, VT = \$5M, ME = \$7M, CT = \$13.99M, the Federal exemption)

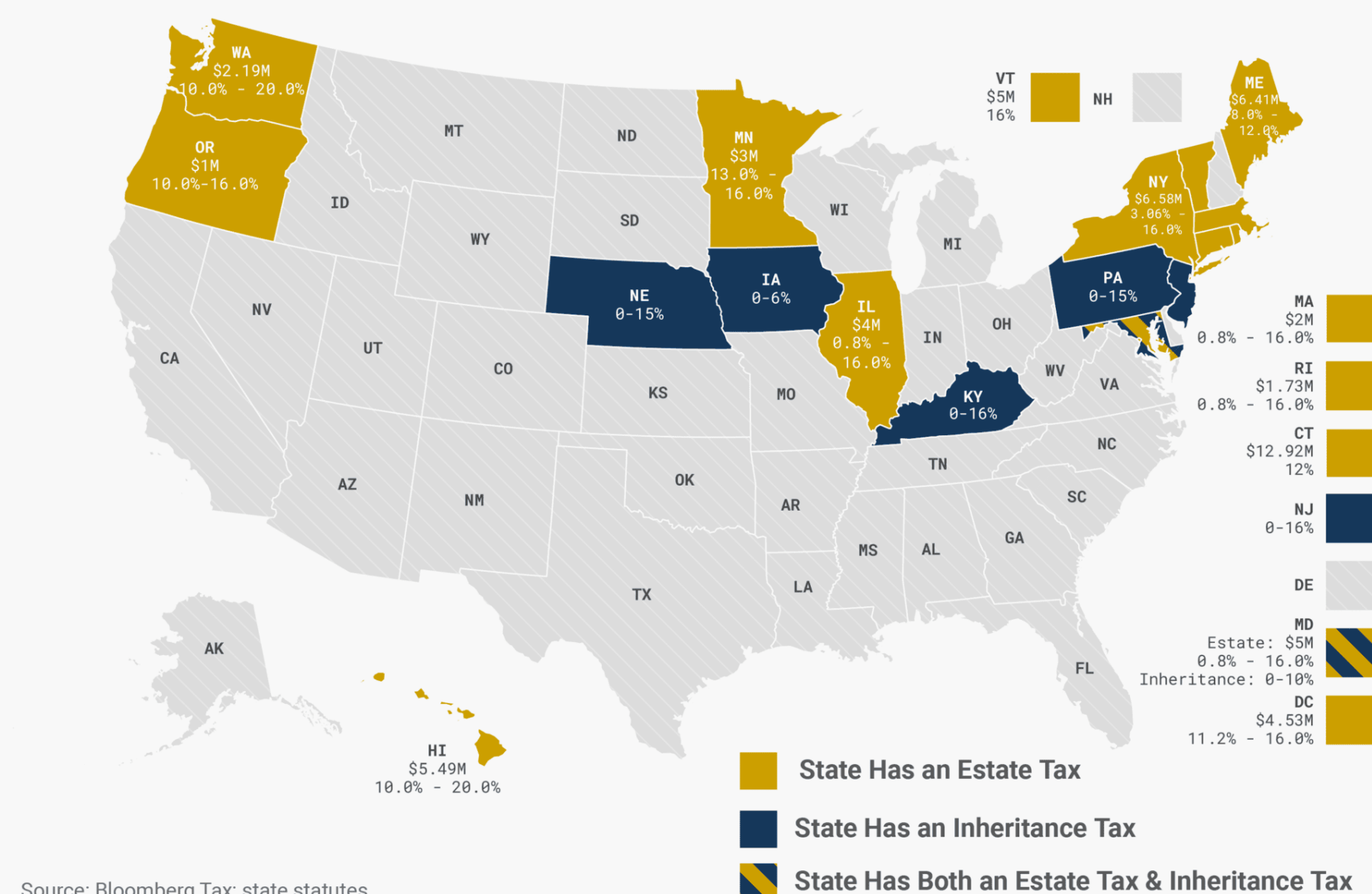
50 State Comparison

Estate tax reform

- 38 states do not have an estate tax, including key competitors
- Estate tax thresholds are much higher in New York (\$7.1M), Maine (\$7M), and Connecticut (\$13.99M), and Vermont (\$5M).
- New York, Maine, and Connecticut all increased thresholds in 2024.
- CT recently transitioned to mirroring the federal exemption on estate taxes

Does Your State Have an Estate or Inheritance Tax?

State Estate & Inheritance Tax Rates and Exemptions in 2023



Note: Iowa is phasing out its inheritance tax by 2025 and Nebraska is reducing its inheritance tax rate.

CAPITAL GAINS

Proposal

Short-term

- Reduce short-term capital gains tax rate to 5% from 8.5%, consistent with income tax rate – the approach most states follow.

Long-term

- Reduce long-term capital gains tax rate to less than 5% *or* return to pre-2002 long-term capital gains tax rate structure that phased the tax out the longer the asset is held.
- Create exclusion for sales of in-state primary residences and businesses held for a minimum time period.

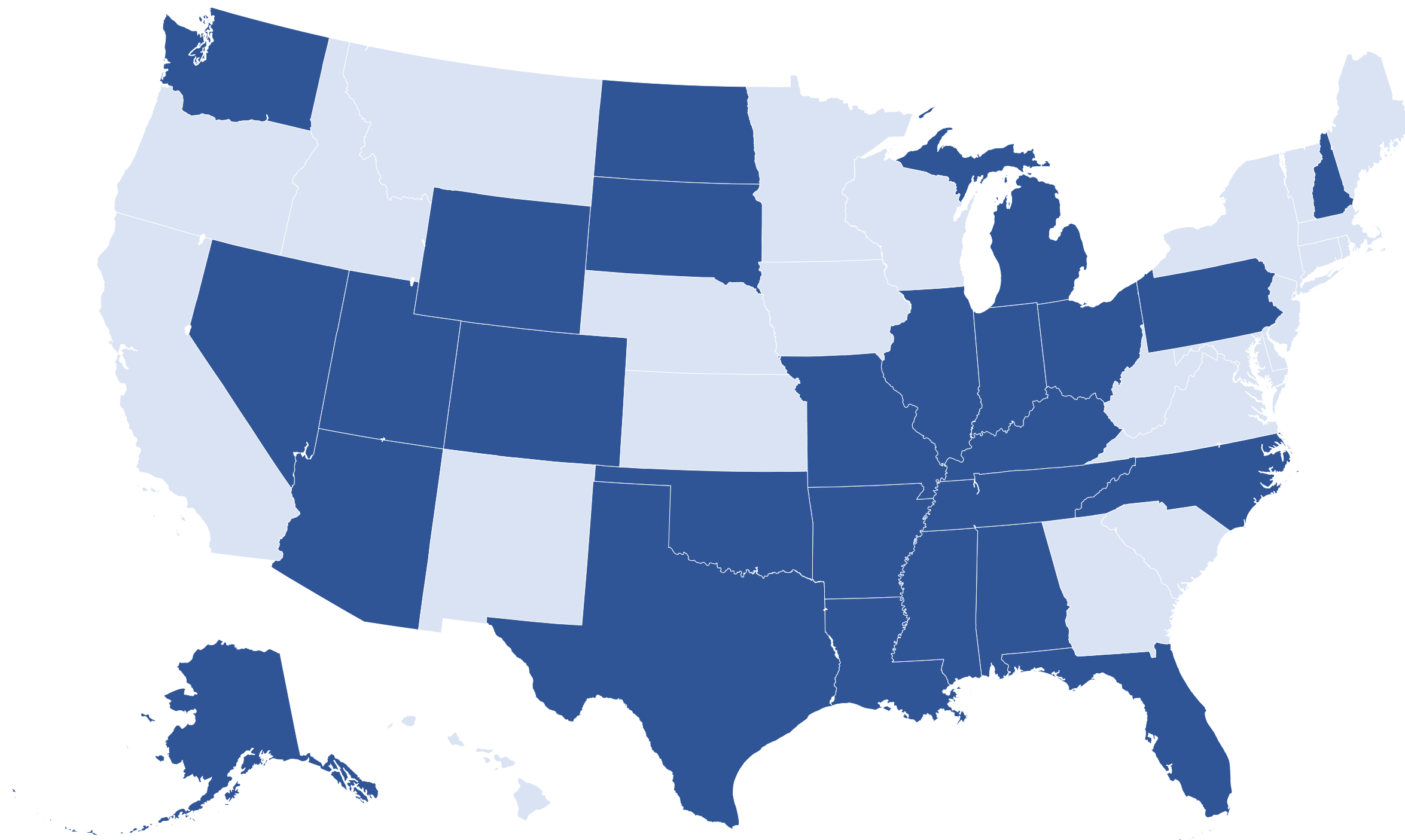
Need & Impact

- Massachusetts limits its reliance on capital gains to below actual collections. This means only a limited portion of capital gains revenues are in the state's operating budget structure which mitigate or eliminates state budget impact from reducing capital gains rates.
 - Capital gains are a volatile revenue source, often rising or falling with general economic conditions, so in 2012 the state changed its reliance on capital gains for budget purposes. Excess capital gains, defined as revenues over \$1.5 billion for FY 2023, must be siphoned into the state's stabilization fund.
 - Short-term capital gains are not included in the consensus revenue forecast or operating budget at all. Revenues are fully distributed to the stabilization fund.

50 State Comparison

If the short-term capital gains rate drops to 5 percent, Massachusetts would be among 26 states that tax short-term gains at 5 percent or lower.

States with a Short-Term Capital Gains Tax Rate at 5% or lower



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50 State Comparison

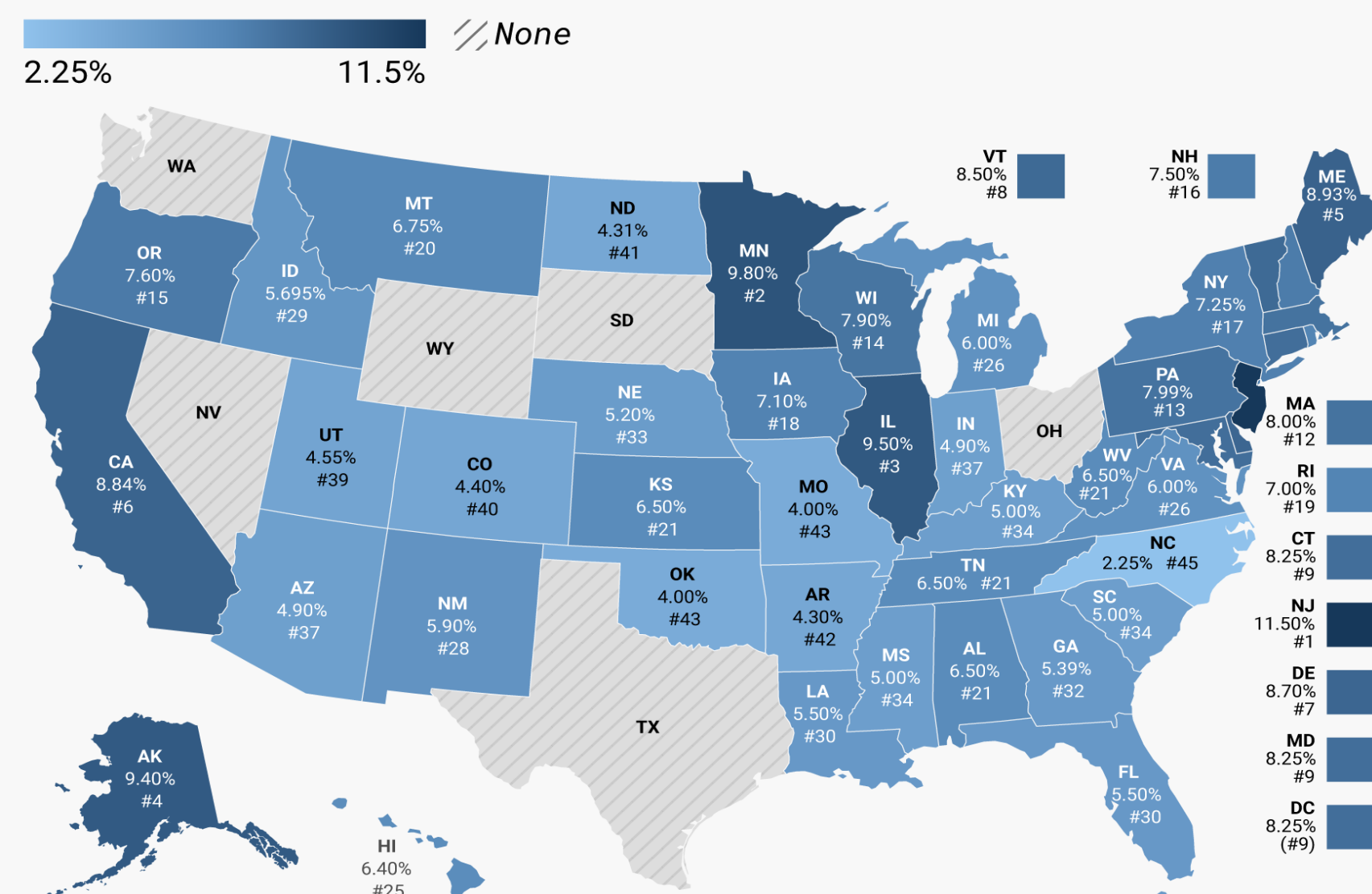
- Most states tax long-term capital gains at the same rate as personal income, but some offer full or partial exclusions/exemptions or deductions to reduce the tax base.
 - Exclusions/exemptions and deductions are typically for long-term capital gains related to the sale of an in-state business and/or the sale of a primary residence.
 - Some require minimum time periods for which the asset must be held, for example, Vermont requires 3 years.
 - Other states offer blanket exclusions. Washington only taxes gains above \$250,000 per year. Wisconsin, while taxing capital gains at the same level as income, allows taxpayers to deduct up to 30% of their long-term gains.

Reduce Corporate Tax Rate from 8% to 7%

- Massachusetts ranks 38th in its corporate excise tax rate of 8%.
- Many of our competitor states have lower corporate tax rates
- A small 1% reduction places Massachusetts in the middle of the pack, but still in the top 20 highest corporate tax rates in the country.
- Given higher than predicted revenue collections from the income surtax, easing the taxation rate on corporations will incentivize companies to stay in Massachusetts and invest locally in infrastructure and talent.
- This can mitigate the impact of the income surtax without relitigating the ballot proposal.

How High are Corporate Income Tax Rates in Your State?

Top Marginal Corporate Income Tax Rates as of January 1, 2025



Note: In addition to regular income taxes, many states impose other taxes on corporations, such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions. Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware, Oregon, and Tennessee have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level. New Jersey imposes a surtax that adds an additional 2.5% to the rate for corporations with taxable income above \$10 million. Connecticut charges a 10% surtax on a business's tax liability if it has gross proceeds of \$100 million or more, or if it files as part of a combined unitary group. This surtax was recently extended and is scheduled to expire on January 1, 2026. Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. In New Jersey, the rates indicated apply to a corporation's entire net income, rather than just income over the threshold.

Source: Tax Foundation; state statutes, forms, and instructions; Bloomberg Tax.

Competitors:

- North Carolina = 2.25%
- Connecticut = 7.5%
- Florida = 5.5%
- New York = 6.5%-7.25%
- Rhode Island = 7%
- Texas = n/a

STING TAX

Proposal

- Eliminate sting tax *or* increase thresholds to which sting tax applies from \$6 and \$9 million and reduce to a flat rate.

Current Law

S-Corporations are pass through entities, and normally are taxed at the regular 5% income tax level. However, Massachusetts uniquely taxes S-corps with revenues between \$6M-\$9M an extra 2% tax on those earnings, while those reporting more than \$9M must pay an additional 3%. Financial institutions pay higher rates.

Impact & Need

- Massachusetts applies an additional tax on S-corps with gross receipts over \$6 million. The rate applies to net income and increases based on income and/or business type.
- This form of additional taxation doesn't exist in most other states.

PASS THROUGH ENTITY EXCISE

Proposal

- Increase the credit for PTE Excise paid to 100%

Current Law

- Pass through entities may elect to pay the PTE excise tax and receive a 90% credit.

Need & Impact

- Massachusetts adopted a law to mitigate the effect of the federal cap on state and local tax (SALT) deductions for pass-through entities.
- With the new 4 percent tax enshrined in the constitution rather than statute, it is not reflected in the PTE Excise rate that was created.
- PTEs can claim only a 90% credit for the share of PTE Excise paid, undermining the goal of protecting PTE from the changes in federal policy.

SMALL BUSINESS PERSONAL PROPERTY TAX EXEMPTION

Proposal

- Create a statewide de minimis Business Personal Property Tax (BPPT) exemption to support small businesses throughout the Commonwealth.

Need & Impact

- All cities and towns in Massachusetts levy a personal property tax on taxable personal property (with several exemptions for residential property.)
- Massachusetts is one of 24 states to levy this tax without a general or de minimis exemption for small businesses. Neighboring and competing states such as Rhode Island, New York, New Hampshire, New Jersey and Pennsylvania either fully exempt personal property or have an exemption for small businesses in place.
- In most cases, the amount of revenue generated from personal property taxes small businesses is considerably less than the compliance cost.
- Adopting a moderate exemption of \$50,000, similar to Rhode Island, would eliminate compliance costs for small businesses while having a negligible impact on tax collections. Small businesses would instead have more resources for costs related to expansion, such as hiring, capital expenses and marketing.

Expand the Research & Development Sales Tax Exemption

Proposal

- Expand the Massachusetts sales tax exemption for research and development (R&D) to include entities beyond those currently taxed as corporations, including LLCs, partnerships, and other entities primarily engaged in research and filing Massachusetts returns.

Current Law

- Massachusetts currently limits the exemption to manufacturing or R&D corporations.

Need & Impact

- Currently 38 states have R&D Tax Incentives
 - CT passed a law in June 2025 that expands its R&D credits and increased the refund value of the credits for certain companies
 - Changes in federal policy are having significant impacts on the Commonwealth's research institutions. While a small change, allowing taxpayers an expanded credit for research related investments (wages and supplies) in Massachusetts will help retain talent and research opportunity here in addition to the Governor's effort to provide bolstered state funding sources.

Research & Development Expensing S-Corp Conformity

Proposal

- Conform with the IRC for S-Corps for section 174 R&D expensing, allowing domestic research expenditures to be fully expensed starting in 2025.

Current Law

- Massachusetts conforms to the IRC for corporate tax purposes. However, for individuals, the Commonwealth conforms to the Code as of January 1, 2024. This means that non-corporate entities, like S-Corps, will not have access to full expensing without a legislative change.

Need & Impact

- The OBBBA allows for domestic research expenditures to once again be fully expensed starting in 2025. This benefits R&D at corporations, but S-corps (usually smaller business) will not be able to take advantage.