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January 15, 2026

To the Honorable Senate and House of Representatives,

I am filing for your consideration a bill entitled "An Act to Manage Federal Tax Changes in Massachusetts."

Last summer, Congress passed the One Big Beautiful Bill Act (OBBBA), fundamentally changing our country's tax code and adding \$4 trillion to the national deficit. This legislation was signed by the President on July 4, 2025, the same day I signed our state's Fiscal Year 2026 budget.

Unlike the federal government, Massachusetts must balance its budget each year. However, the timing of the OBBBA meant that neither the Legislature nor our administration could adequately plan and budget for the revenue impacts - \$442 million - of the many federal tax policy changes to which our state automatically conforms under statute. And we are not alone. States around the country are facing and have made similar choices about if and when to implement OBBBA tax changes.

Because of these circumstances, this bill lays out a thoughtful, phased-in approach to implementing a number of key OBBBA tax reforms at the state level that will ensure our current Fiscal Year 2026 (FY26) budget -- and the critical services it provides -- remains intact while also delivering a predictable, competitive tax environment in which our residents, economy and workers can thrive.

This proposal is based on the recognition that many of our businesses, including our vital research and innovation ecosystem, stand to benefit from the new tax rules, and Massachusetts, in general, will be in a better competitive position compared to our competitor states if these provisions are allowed to take effect. It balances that goal against the reality that our ability to deliver the programs and services paid for through the budget that our communities, schools, workers and most vulnerable residents rely on would be at risk if the revenue impacts are not mitigated.

Under this proposal, I am recommending to phase in the implementation of the five costliest OBBBA provisions with which the state automatically conforms over two years, beginning on January 1, 2026 with OBBBA Section 70302. This provision enables businesses to fully deduct domestic research and experimental (R&E) expenditures within the year that those expenses are incurred. That is tax relief that is particularly important to Massachusetts' innovation economy. Under this plan, businesses will be able to utilize the R&E change on their payments for tax year 2026, and the state will avoid losing \$288 million in FY26.

Additionally, the legislation proposes a start date of tax year 2027 for Massachusetts to implement four additional OBBBA provisions:

- Section 70303: Modification of limitation on business interest
- Section 70306: Increased dollar limitations for expensing of certain depreciable business assets
- Section 70307: Special depreciation allowance for qualified production property
- Section 70421: Permanent renewal and enhancement of opportunity zones

This approach will allow Massachusetts to spread the tax revenue impact of the OBBBA provisions over multiple fiscal years while beneficiaries will immediately see the tax benefit of OBBBA at the federal level and realize the full benefits at the state level in one to two years.

This bill also proposes to expand the PTE excise to include the 4 percent surtax on high-income earners. The PTE excise currently is an elective 5 percent entity-level excise created in Massachusetts 2021 in response to the cap on the federal deduction for State and Local Tax (SALT) imposed in 2017.

The PTE excise provides an option for eligible taxpayers to use pass-through entities to pay their state and federal taxes. Because pass-through entities are not subject to the cap on the SALT deduction, this approach enables eligible residents to maximize their federal deduction of state tax payments, despite the cap on the SALT tax deduction, without impacting state collections.

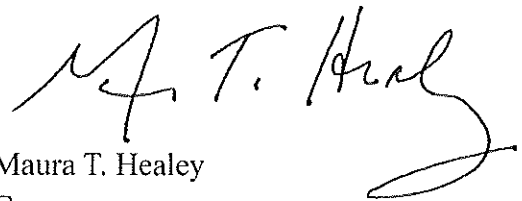
When the PTE excise was created in 2021, the surtax had not yet become law. This bill proposes to update this popular and successful tool beyond the current 5 percent standard state income tax rate to apply to the 4 percent surtax rate as well, thereby unlocking additional federal tax relief for residents without impacting surtax collections that fund critical education and transportation investments. It also has the added benefit of generating additional revenue for the state, estimated to be over \$100 million annually.

Finally, the bill contains several additional reforms related to OBBBA policy changes and a measure to safeguard against future mid-year revenue shocks. Based on a model used in Maryland, the bill proposes to automatically delay by up to one year implementation of federal tax policy changes that exceed a \$20 million impact on state revenue collections. The bill also

proposes to increase the threshold for gamblers to file form W-2G for slot machine winnings from \$1,200 to \$2,000, in alignment with new federal policy, adjusts the composition of employer contributions to the DFML trust fund in recognition of new Internal Revenue Service guidance and requires in-state investment to qualify for state Opportunity Zone tax benefits.

I look forward to partnering with the Legislature to deliver this tax relief to our businesses and residents and in a thoughtful and responsible manner that protects all our constituents, and I urge you to give this bill swift consideration so that we can provide clarity and certainty around our tax code as soon as possible this filing season.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "M. T. Healey", with a long, sweeping underline that extends to the right.

Maura T. Healey
Governor