

Purpose

This memo explains the Massachusetts tax revenue implications of certain provisions in the federal “One Big Beautiful Bill Act” (“OBBBA”), which was enacted on July 4, 2025.

Background: How the state tax code ties to the Internal Revenue Code

Many of the tax changes in the federal OBBBA flow through to state tax laws. Massachusetts, like most other states, uses the Internal Revenue Code (“Code”) as the starting point in determining taxable income for individuals and businesses. The extent to which Massachusetts conforms to the Code—and the OBBBA’s changes to it—differs for corporations and individuals (including sole proprietorships, and partnerships and other passthrough entities owned by individuals).

Category	Tax Area	Effective Date
Individuals	Taxable income	Fixed date: January 1, 2024
	Trade or business deductions	The Code as currently in effect
Corporations	Corporate excise tax	

As shown above, the Massachusetts personal income tax generally determines taxable income based on the Code as amended and in effect as of a fixed date (currently January 1, 2024), although it conforms to the Code currently in effect for the determination of most trade or business expense deductions. The Massachusetts corporate excise, on the other hand, generally conforms to the Code currently in effect in determining taxable income, and therefore automatically conforms to federal changes. The personal income tax and the corporate excise are both significant sources of revenue for the Commonwealth.

Approximately half of states have automatic conformity (referred to as “rolling conformity”) and half follow the Code as in effect as of a certain date (“fixed-date conformity”). Massachusetts is the only state that conforms to the Code differently for the taxation of corporations and individuals.

Analysis of OBBBA tax provisions

The OBBBA changes over one hundred provisions in the Code. Of those changes, about thirty trigger an impact to Massachusetts tax collection. While not all of the OBBBA provisions are projected to have a negative revenue impact, some are expected to decrease Massachusetts personal income tax and corporate excise revenues significantly, in FY 2026 and future years. Overall, the Department of Revenue expects the OBBBA to cause a \$664 million loss in Massachusetts state tax revenue in FY26. Note that the FY26 impact is projected to be larger than outyears because some OBBBA tax provisions are retroactive.

As shown in the appendix, these changes to which Massachusetts conforms are wide-ranging, and many of them will benefit Massachusetts residents and businesses. For example, Massachusetts conforms to the sections of the OBBBA benefiting disabled individuals in

Massachusetts by increasing their contribution limits to tax-free investment accounts, and to the sections enabling disabled individuals to roll over their 529 education plans to those investment accounts. Massachusetts also conforms to the sections of the OBBBA helping Massachusetts families finance education expenses by expanding the types of expenses that are allowable for 529 education plans. Home builders in Massachusetts will benefit from Massachusetts conformity to the OBBBA's change to accounting rules for residential contracts. And the OBBBA helps small businesses in Massachusetts by raising the threshold for 1099-MISC reporting from \$600 to \$2,000.

Six OBBBA-triggered impacts are projected to significantly decrease Massachusetts tax revenues in FY 2026 and future years. The following table breaks out these OBBBA provisions and provides the projected personal income tax and corporate excise revenue costs (in millions of dollars) of each provision through FY 2034.

Provision (with OBBB #)	2026	2027	2028	2029	2030	2031	2032	2033	2034
Sec. 70302. Full expensing of domestic research and experimental expenditures.	(\$288)	(\$87)	(\$56)	(\$33)	(\$16)	(\$9)	(\$8)	(\$8)	(\$9)
Sec. 70303. Modification of limitation on business interest.	(\$52)	(\$25)	(\$23)	(\$21)	(\$21)	(\$21)	(\$22)	(\$23)	(\$24)
Sec. 70306. Increased dollar limitations for expensing of certain depreciable business assets.	(\$25)	(\$17)	(\$14)	(\$12)	(\$10)	(\$9)	(\$8)	(\$8)	(\$7)
Sec. 70307. Special depreciation allowance for qualified production property.	(\$98)	(\$131)	(\$134)	(\$118)	(\$82)	(\$31)	\$2	\$14	\$17
Sec. 70421. Permanent renewal and enhancement of opportunity zones.	\$0	(\$18)	(\$33)	(\$32)	(\$20)	(\$17)	(\$13)	\$4	\$6
Sec. 70120. Limitation on individual deductions for certain state and local taxes.	(\$222)	(\$48)	(\$48)	(\$48)	(\$48)	(\$48)	(\$48)	(\$48)	(\$48)

Remaining OBBBA impacts	\$21	\$43	\$57	\$56	\$51	\$49	\$49	\$50	\$52
Total	(\$664)	(\$282)	(\$251)	(\$208)	(\$146)	(\$85)	(\$48)	(\$19)	(\$13)

The remainder of the OBBBA tax provisions are projected to result in a total net increase in Massachusetts tax revenues of \$21 million in FY 2026.

Additional detail on provisions with the most significant revenue impact is included below.

OBBBA § 70302: full expensing of domestic research and experimental expenditures (\$288 million tax revenue loss in FY 2026)

- Restores the ability of businesses to fully deduct domestic research and experimental expenditures in the taxable year they incur such expenditures.
- The OBBBA seeks to return to pre-2022 rules, in which businesses could fully deduct such expenses in the year they were incurred. That ability was altered in the 2017 Tax Cuts and Jobs Act (“TCJA”), which required that, starting in 2022, businesses had to amortize domestic research and experimental expenditures over a five-year period.
- Massachusetts conforms with the Code for this provision for both corporate excise and personal income tax purposes.
- The full OBBBA deduction is effective for taxable years beginning on or after January 1, 2025.

OBBBA § 70303: modification of limitation on business interest (\$52 million tax revenue loss in FY 2026)

- Increases the cap on the deductibility of a business’s interest payments on its debt.
- The TCJA generally limited the deductibility of business interest to 30% of a taxpayer’s adjusted taxable income. Under the OBBBA the definition of adjusted taxable income is broadened, resulting in higher limits on the deduction. Such higher limits permit larger business interest expense deductions.
- Massachusetts conforms with the federal tax code for this provision for both corporate excise and personal income tax purposes.

OBBBA § 70306: increased dollar limitations for expensing of certain depreciable business assets (\$25 million tax revenue loss in FY 2026)

- Increases the dollar limitation for the expense deduction provided by Code § 179, which allows businesses to deduct the cost of certain business property in the year such property is first placed in service.
- Eligible property is broadly defined, but mostly consists of business assets such as office furniture, computers, and manufacturing equipment. Without an election, the cost of this property is generally deducted based on a depreciation schedule over a number of years.

- Prior to the OBBBA, the Code § 179 expense deduction claimed by a taxpayer could not exceed \$1,000,000 (adjusted for inflation) per year.
- The deduction was phased out for property that costs \$2,500,000 (adjusted for inflation) or more. As a result of OBBBA § 70306, the deduction limitation is increased to \$2,500,000 (adjusted for inflation) and the phase-out amount is increased to \$4,000,000 (adjusted for inflation).
- Massachusetts conforms with the Code for this provision for both corporate excise and personal income tax purposes.
- OBBBA § 70306 is effective for taxable years beginning on or after January 1, 2025.

OBBBA § 70307: special depreciation allowance for qualified production property (\$98 million tax revenue loss in FY 2026)

- Allows businesses to deduct the full cost of qualified production property in the year it is placed in service.
- Qualified production property is the portion of nonresidential real property integral to manufacturing, agricultural or chemical production, or the refining of tangible personal property other than meals prepared and sold on-site.
- The qualified production property must be constructed after January 19, 2025 and before January 1, 2029 and placed in service after July 4, 2025.
- Prior to the OBBBA, taxpayers generally depreciated property used in a trade or business and recovered the cost of the property over time through periodic deductions for depreciation.
- In general, nonresidential real property is depreciated over a 39-year recovery period.
- Massachusetts conforms with the federal tax code for this provision for both corporate excise and personal income tax purposes.

OBBBA § 70421: permanent renewal and enhancement of opportunity zones (\$0 in FY 2026, but \$18 million tax revenue loss for FY 2027)

- Permanently renews and enhances the opportunity zone tax benefits provided by Code § 1400Z-2.
- Under Code § 1400Z-2, taxpayers with capital gains from a sale or exchange with an unrelated party are eligible for certain tax benefits if they invest some or all of their gain into geographic areas that have been designated as opportunity zones.
- There are three main tax benefits:
 - Deferral of invested capital gain: This benefit was due to sunset on December 31, 2026. OBBBA permanently extends the window to invest and make a deferral election, allowing for new investments and a five-year deferral of the recognition of capital gain.
 - Partial exclusion of invested capital gain: This benefit expired for new investments on December 31, 2021. OBBBA renews this benefit, providing a 10% exclusion for general opportunity zone investments and a 30% exclusion for rural opportunity zone investments.

- Tax-free growth of the opportunity zone investment: This third benefit was due to sunset for new investments on December 31, 2026, with a December 31, 2047 cutoff for all tax-free appreciation. OBBBA permanently extends the eligibility of new investments for tax-free growth and replaces the December 31, 2047 cutoff with a rolling 30-year limit for all investments.
- Under current law, Massachusetts taxpayers can avail themselves of these tax benefits even if the opportunity zone is located in another state.
- Massachusetts conforms with the Code for this provision for corporate excise purposes only.
- These provisions are effective December 31, 2026.

Sec. 70120. Limitation on individual deductions for certain state and local taxes (\$222 million revenue loss for FY 2026)

- The federal deduction for state and local taxes (“SALT”), which was capped at \$10,000 under the TCJA, is being increased by the OBBBA to \$40,000 per household.
- Because of this expansion in the federal deduction, fewer Massachusetts filers will pay the Massachusetts pass-through entity, or “PTE”, excise, which was enacted as a workaround to the cap on the federal SALT deduction and has been a revenue generator for the Commonwealth.