Massachusetts Charitable Deduction

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You are likely familiar with the concept of a charitable deduction on your federal income tax return. Beginning with the 2023 tax year, Massachusetts taxpayers will also be able to claim a charitable deduction on their Massachusetts income tax returns. This deduction, briefly in effect in 2001, has been suspended since then. It generally applies to the same types of donations that would be deductible for federal income tax purposes (cash and non-cash gifts to public charities, excluding political donations or contributions to individuals). However, no deduction is allowed for donations of household goods and clothing.

This new Massachusetts deduction is available even to taxpayers who do not itemize their deductions on their federal income tax return, and may not receive a federal deduction for charitable contributions. Notably, the Massachusetts charitable deduction is only available to offset Massachusetts "Part B" income, which is generally items such as wages, retirement distributions, rental income, passthrough entity income, etc. It cannot be used to offset investment income including interest, dividends or capital gains.

The availability of this deduction in 2023 is particularly timely. Recall that 2023 is also the first year that the so-called "Massachusetts Millionaire's Tax" is in effect. As a result, taxpayers (including married couples) with income over $1M will pay an additional 4% surtax on their income in excess of $1M in 2023 and later years. Taxpayers have the opportunity to mitigate the impact of this new millionaire's tax through the careful use of charitable giving before the end of 2023. Carefully structured gifting could result in a tax savings of up to 46% for each $1 donated (maximum federal rate of 37% and maximum Massachusetts rate of 9% if the millionaire's tax applies to the taxpayer). These goals can be accomplished through direct gifts to public charities, via gifts to donor-advised funds or satisfying multiyear pledges upfront and may also be combined with donations of appreciated securities for additional income tax savings.

If you have any questions on how these changes may impact your Massachusetts income tax, please reach out to your advisor. We will share more information as it becomes available.

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