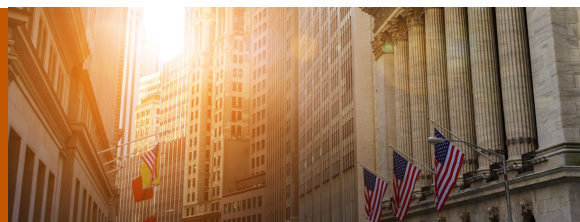


State Tax Law: Not So Status Quo

JULY 15, 2026 | BY: THE TAX TEAM



Generally, state tax law follows federal tax law with noted exceptions. This conformity can be tied to a specific year of the federal tax code, it can be rolling and continuously tied to the federal law or it might be specifically legislated. It's important to pay attention to these differences because often they can significantly impact your state tax obligation.

In June 2026, Massachusetts enacted a supplemental budget bill that decouples from federal law retroactively to 2025 on certain provisions included in the "One Big Beautiful Bill Act" (OBBBA) passed on July 4, 2025 and generally effective for the 2025 tax year for federal tax purposes.

Included in the Massachusetts legislation is a modification to the state-specific Pass-Through Entity tax regime which will allow eligible entities to elect to pay the additional 4% surtax on incomes over \$1 million.

Delayed Conformity to Federal Tax Law Changes (OBBBA)

Research & Expense Expenditures

- Under OBBBA, taxpayers may immediately deduct domestic research and experimental (R&E) expenditures beginning in 2025, and small taxpayers can retroactively deduct domestic R&E expenditures for years beginning after December 31, 2021.
- Massachusetts disallows the new federal law allowing for immediate expense of R&E expenditures and will conform to federal law beginning in 2026; there is no provision for retroactive deduction allowed federally for small taxpayers.

Interest Limitation (IRC §163(j)):

- Under OBBBA, taxpayers calculate the interest limitation based on a percentage of Adjusted Taxable Income (which is calculated as Earnings Before Interest, Taxes, Depreciation, and Amortization, otherwise known as EBITDA).
- Massachusetts continues using the EBIT-based limitation established by the Tax Cuts and Jobs Act for 2025–2026 (i.e., Depreciation and Amortization are not factored into this calculation).

Bonus Depreciation/Production Property (IRC §168(n)) and §179 Expensing:

- Under OBBBA, there is a higher dollar limitation for expensing certain depreciable business assets. Additionally, there is a special depreciation allowance for non-residential real property used in qualified US production activities.
- MA disallows the enhanced federal expensing provisions for 2025–2026 and instead follows the prior dollar limitation as set by the Tax Cuts and Jobs Act.

Expanded Pass-Through Entity Tax (PTET)

In 2021, Massachusetts enacted a PTET, an elective entity-level excise tax created to lessen the impact on some taxpayers of the individual limitation on the federal SALT (State and Local Tax) deduction imposed by the Tax Cuts and Jobs Act (TCJA).

After the enactment of the PTET, Massachusetts voters approved a constitutional amendment to impose an additional 4% surtax on incomes over \$1 million (adjusted for inflation) for tax years beginning on or after January 1, 2023.

High earners have been effectively paying 9% on their Massachusetts income over this threshold. Those that are qualified members of an electing pass-through entity only get the federal benefit up to the current 5% PTET rate.

The legislation adds a separate PTET election under Chapter 63E on income exceeding the \$1 million surtax threshold, allowing

eligible Pass-Through Entities to pay an excise tax on its qualified taxable income at a 4% rate. As such, high earners get the benefit of the PTE at an effective rate of 9%, beginning January 1, 2026.

Conformity with Future Federal Tax Changes.

The legislation automatically delays conformity to future federal tax policy changes by up to one year, where those changes impact revenue projections by \$20 million or more in lost or gained revenue based on a rolling three-year average (adjusted for inflation).

Retroactive Impact and Relief for 2025 Returns.

These changes apply retroactively for the tax year 2025, which may require amended returns. Massachusetts is offering penalty and interest relief if amended tax returns are filed within 90 days, or by September 10, 2026.

State Treatment is Not Consistent.

We have discussed Massachusetts in this communication, but the states are inconsistent in their approach though many have specifically legislated to delay conformity with OBBBA. As always, we will monitor the state tax regimes and be sure to alert our clients to the impact.

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