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Understanding the New Massachusetts Millionaires Tax

Massachusetts currently taxes all income (other than short-term capital gains and gains from collectibles) at a flat rate of 5%, irrespective of how much income a particular taxpayer earns.

However, starting on January 1, 2023, the new "Massachusetts Millionaires Tax" will impose an additional 4% surtax on income over $1 million, resulting in a total tax rate of 9% on income over $1 million. The $1 million threshold will be adjusted annually for inflation. The new tax is the result of an amendment to Article 44 of the Massachusetts constitution, which was approved by Massachusetts voters through a ballot referendum on November 8th of this year.

The language of the amendment does not limit the situations in which the new tax applies. Therefore, the additional 4% surtax applies to a taxpayer who has more than $1 million of annual income on a regular basis, but also applies to a taxpayer who has a significant one-time income event, such as the sale of a home or business.

As we approach year-end, it may be useful (depending on your circumstances) to consider several time-sensitive strategies for mitigating the new tax's impact, including:

- accelerating income into 2022 before the new 4% surtax takes effect (by recognizing capital gains, selling a home, completing a Roth conversion, etc.);
- timing the realization of capital losses (i.e., whether losses should be realized in 2022, or in 2023 when they may have a bigger tax benefit);
- spreading income across multiple tax years to stay below the $1 million annual threshold for the additional tax; and
- taking advantage of the new Massachusetts charitable deduction that is scheduled to go into effect in 2023, after being delayed several times. This state-level charitable deduction may make a charitable gift in 2023 more valuable than a charitable gift in 2022, depending on your circumstances.

There are several aspects of the new tax that require further clarification by the state. We will continue to monitor any further developments, and we invite you to reach out to any member of your Choate team for guidance.

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