

July 7, 2008

MASSACHUSETTS TAX CHANGES – ARE YOU A WINNER OR LOSER?

In the last week we have seen two major tax increases in Massachusetts. This letter is a summary of the changes.

Massachusetts recently enacted legislation which is estimated to raise over \$1 billion dollars over the next 5 fiscal years. The following is a brief summary of the changes:

- Massachusetts corporate tax rates will be reduced based on the following schedule:

2008 & 2009	9.5 %
2010	8.75%
2011	8.25%
2012	8.0%

- The “sting tax” on S corporation rates will be reduced in a schedule consistent with the corporate tax reductions. When fully phased in the new sting tax rates will be:

	Current rate	Fully-phased in rate
Gross receipts of \$6M or more but less than \$9M	3.0%	1.8%
Gross receipts of \$9 M or more	4.5%	2.7%

- Massachusetts will conform to the “type of entity” used for federal income tax reporting. One effect of this change will be to make more entities subject to the Massachusetts “sting tax”. Use of the “Massachusetts Business Trust” will generally not be permitted.
- Effective for tax years beginning on or after January 1, 2009 Massachusetts will require businesses to use “combined tax reporting” (CTR). Businesses will no longer be able to shift income to affiliated entities taxed in lower tax rate states because, under CTR, the affiliated entities will be required to file combined returns.
- Starting with tax years beginning on or after January 1, 2009 Massachusetts will recognize qualified S corporation subsidiaries (QSUB) as disregarded entities. As such they will not be subject to entity level tax but rather have their revenues and deductions included with their parent’s return.

The Massachusetts Department of Revenue (DOR) recently ruled that self-employed individuals (partners and sole-proprietors) will be taxed currently on contributions to 401(k) plans. This interpretation is effective beginning 2008. The DOR indicated that the ruling is effective beginning this year and any deduction for previous years would be allowed.

The Massachusetts tax changes are complex and will impact many businesses and individuals. The Massachusetts tax changes will be discussed in detail at our Annual Tax Conference. For more information, please visit our website at www.gggcpas.com. If you have any questions about how these changes will affect you please contact our tax department at (781) 407-0300.

Gray, Gray & Gray, LLP