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Massachusetts Taxpayers Find More Complexity in Differences Between Massachusetts and Federal Tax Law

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It seems every year there are changes to the Internal Revenue Code (IRC). It is a challenge, even for tax pros, to keep up with the ever-changing tax code. Massachusetts taxpayers also have an added challenge in keeping up with the differences between federal and Massachusetts tax law.

As a general rule, Massachusetts follows the Internal Revenue Code in effect on January 1, 2005. However, in some instances, Massachusetts follows the current federal tax law or the current federal tax law with modification.

Some notable differences between Massachusetts and the federal tax law are listed below.

- **Alimony:** The Tax Cuts and Jobs Act of 2017 made big changes to the federal tax treatment of alimony. The recipient of alimony is no longer taxed on alimony received for divorces executed after December 31, 2018. In a break from long-standing tax law principles, the payer of alimony is no longer able to deduct these payments on their federal tax return. However, for Massachusetts purposes, the payments remain deductible by the payer and are includible in the income of the recipient. [For further details, see Attorney Maria Remillard's post on the effect of recent tax laws on divorcing parties.](#)
- **Mortgage debt forgiveness:** Mortgage debt forgiven prior to January 1, 2021 is not taxable for federal purposes but is taxable in Massachusetts.
- **Capital Losses:** Capital losses can offset capital gains and up to \$3,000 of ordinary income for federal purposes. Massachusetts allows capital losses to offset gains and up to \$2,000 of interest and dividend income. Massachusetts does not allow a deduction against ordinary income.
- **Traditional IRA contributions:** Contributions to a traditional IRA may be deductible for federal purposes depending on income and whether the taxpayer is a participant in a qualified pension plan. Massachusetts does not allow a deduction for IRA contributions for any taxpayer. Therefore, Massachusetts taxpayers will need to keep good records as long as the IRA exists, since once distributions are being made from the IRA, the contributions that were deductible federally but not in Massachusetts can be recovered in Massachusetts tax-free.
- **Roth IRA:** Roth IRA contributions are not deductible for federal or Massachusetts purposes.
 - Roth distributions may be tax-free federally if certain age and holding requirements are met. In Massachusetts, distributions are not taxable to the extent the distributions are tax-free federally.
- **Social Security:** Social Security may be partly taxable for federal purposes but is not taxed at all under Massachusetts law.
- **Pensions:** Pensions are generally taxable for both federal and Massachusetts purposes. However, Massachusetts does not tax contributory pension plans of the Commonwealth of Massachusetts, its cities and towns, contributory plans of other states, or the federal government.

There are many other differences between Massachusetts and federal tax law, and taxpayers and tax professionals not familiar with these differences should review the [Massachusetts Department of Revenue June 11, 2021 news release](#) for more details.