



DON'T TAX YOURSELF

A Publication of Bowditch & Dewey's Estate, Financial & Tax Planning Group

Is My State Tax Rebate Taxable?

BY SCOTT C. CASHMAN • FEBRUARY 14, 2023

Along with twenty other states, Massachusetts made special payments to taxpayers in 2022. In Massachusetts, the rebate was the result of state law that returned excess state revenue to taxpayers. In California these payments were labeled “middle class tax refunds.” In Connecticut and Rhode Island, these payments were called “Child Tax Rebates.”

A question arose during the current tax filing season as to whether these special tax rebates would be federally taxable.

The good news for most taxpayers is that these payments will not be considered taxable income. In guidance released by the IRS on February 10, 2023, the Service announced that in “the interest of sound tax administration,” these rebates will not be considered taxable income for most taxpayers.

However, for taxpayers in Massachusetts and three other states, some taxpayers may need to include these rebates in their income. Taxpayers in these four states will need to determine: (1) whether they itemized deductions in 2021; and (2) whether they received a benefit from the state taxes that were rebated. Because of the high standard deduction in 2021 (\$25,550 for joint filers) and the \$10,000 limit placed on state and local tax deductions by the Tax Cuts and Jobs Act of 2017, many taxpayers will find that either they did not itemize their deductions or that they did not benefit from the state income taxes that were rebated and therefore their rebates will be nontaxable.

For additional assistance, please contact your Bowditch attorney.