

Protect Massachusetts's Fiscal Stability: Which OB3 Tax Changes to Decouple From and Why

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Without State Intervention, Massachusetts Stands to Lose \$664 Million in State Tax Revenue in FY 2026 Due to Federal Tax Changes in “One Big Beautiful Bill Act” (OB3).

Currently, Massachusetts, like many states, stands to lose billions of dollars in federal funding for essential programs. These programs allow Massachusetts residents to access healthcare, put food on the family table, and have a roof over their heads. Preserving state tax revenue is critical, as lawmakers seek to fill anticipated funding gaps.

Unfortunately, changes to the federal corporate tax code included in the “One Big Beautiful Bill Act” (OB3) will make our state fiscal situation worse. Many of these changes will enter our state tax code automatically, costing the Commonwealth hundreds of millions of dollars in lost corporate tax revenue **unless state lawmakers opt out of these provisions**. Detaching the state’s tax code from specific provisions in the federal code is a common practice known as “decoupling.” The Massachusetts Department of Revenue (DOR) projects a net \$664 million loss in Fiscal Year (FY) 2026 from the six most costly OB3 changes.¹ Massachusetts lawmakers, however, can choose to decouple from five of these six changes (see appendix).² **DOR projections indicate that decoupling from these five changes would save the Commonwealth \$463 million in FY 2026, and an additional \$990 million from FY 2027 through FY 2031.**

The five OB3 tax changes the state should decouple from immediately are expensive and also suffer from three fundamental flaws:

- **Untargeted – Massachusetts would provide costly tax breaks to corporations for investments they make elsewhere in the U.S.**
 - While it is debatable whether corporate tax breaks are cost-effective, there at least is a logical coherence in giving corporations a *federal tax* break for investments that corporations make anywhere in the U.S.
 - At the *state-level*, it is senseless for Massachusetts to subsidize investments that corporations make in other states.
 - By remaining coupled to these OB3 changes, Massachusetts would forgo state tax revenue when companies invest in warehouses, factories, machinery, truck fleets, computers, furniture, etc., in *any* state.
 - Why would Massachusetts subsidize a warehouse in Texas, for example? This waste of Massachusetts’s limited resources is a flaw common to each of these OB3 tax breaks.

- **Retroactive – Most of these OB3 changes waste revenue by rewarding investment decisions made prior to OB3’s passage.**

- The stated purpose of such tax breaks is to encourage future business activity. There is no way, however, that a tax break passed and signed into law in July 2025 can generate additional business investment during the first half of 2025. Much less can it generate additional investments in prior years.
 - Three of DOR's five highlighted OB3 tax breaks are retroactive back to the start of Tax Year 2025. A fourth one is retroactive back through Tax Year 2022.
 - Providing retroactive tax breaks is a pure waste of state resources.
- **Regressive – The benefits of these OB3 changes will flow primarily to rich, white households** because corporate ownership is highly concentrated among such households.
- Nationally, it is estimated that OB3 will deliver federal tax breaks to corporations totaling \$165 billion in 2026 alone (plus an additional \$79 billion in 2026 for pass-through businesses) and more than \$1.4 trillion over a ten year time horizon.
 - Corporate and individual tax breaks in OB3 together will provide an average annual federal tax reduction of \$84,800 to the top 1 percent of Massachusetts households (those with incomes above \$1.1 million a year).
 - By contrast, the lowest income 20 percent of Massachusetts households (those with incomes below \$27,100 a year) will see federal tax cuts of just \$50 each from OB3.
 - High-income shareholders do not need a second round of state-level tax cuts layered on top of the large federal tax cuts they already will receive from OB3.

How Does Massachusetts's Situation Compare to the Situation in Other States?

No state in the nation completely adopts federal tax law. Massachusetts is among roughly half of states that *automatically* update their state corporate tax codes to include many types of changes made to the federal tax code. States that have this "rolling conformity" therefore must *actively decouple* from federal tax changes in order to protect state priorities and/or preserve state revenue when new federal rules are not appropriate. Decoupling is nothing new for Massachusetts.

Massachusetts, like other states, already is decoupled from numerous provisions in the federal tax code. (Massachusetts likewise has not been shy about decoupling from other types of federal policies, in areas such as marriage equality, reproductive rights, cannabis legalization, and vaccination requirements, to name but a few.) Decoupling from the five most expensive OB3 corporate tax breaks would be to follow a well-worn path. It is a path shared by other states. To date, Colorado, California, Rhode Island, Maine, Michigan, Illinois and D.C. have decoupled, in part or in whole, from the damaging federal tax changes in OB3 (with discussions underway in many additional states as well). Massachusetts should move quickly to join these states, thereby preserving millions of dollars of state corporate tax revenue, during the current fiscal year and in the years beyond.

APPENDIX

The five most expensive OB3 tax changes from which lawmakers can act to decouple:³

1. **Sec. 70302 (Full expensing of domestic and experimental expenditures)** - Allows corporations to deduct 100 percent of their domestic research and experimental expenses in the year in which they

incur these expenses. Previously, starting in 2022, corporations were required to spread the deduction for such expenses over a five year period. DOR estimates Massachusetts will lose \$288 million in FY 2026 due to this OB3 change, \$87 million in FY 2027, and significantly less in years thereafter. The especially large loss in FY 2026 results from this OB3 change being retroactive back through Tax Year 2022 for businesses with up to \$31 million in gross receipts.⁴

2. Sec. 70307 (Special depreciation allowance for qualified production property) - This change expands the definition of corporate expenses that qualify for “100 percent bonus depreciation.” Historically, corporations have been allowed to write-off 100 percent of the cost of machinery and equipment investments in the year those investments are made, rather than gradually, over the expected lifetime of the investment. This OB3 change adds factory buildings to the list of qualifying investments. DOR estimates this change will cost Massachusetts \$98 million in FY 2026, approximately \$120-130 million annually in FY 2027 through FY 2029, then drop significantly in cost thereafter. It is retroactive back to the start of Tax Year 2025.

3. Sec. 70303. (Modification of limitation on business interest) - The 2017 Tax Cuts and Jobs Act (TCJA) set a limit on how much of the interest that corporations pay on their loans could be deducted from corporation’s taxable income. Limiting deductibility keeps corporations from leveraging debt as a way to reduce their tax bills - a tax avoidance strategy employed particularly in many private equity deals. Under TCJA, corporations with sales above \$25 million per year could deduct interest equal to 30 percent of their pre-tax profits. In 2021, this limit was tightened. OB3 permanently returns to the looser TCJA rules for large corporations. DOR estimates Massachusetts will lose \$52 million in FY 2026 due to this OB3 change and some \$20-25 million per year thereafter. It is retroactive back to the start of Tax Year 2025.

4. Sec. 70306. (Increased dollar limits for expensing depreciable business assets) - While 100 percent bonus depreciation has been available only intermittently over the years, businesses have long been permitted to deduct immediately the full cost of certain types of purchases, such as furniture, computers, and manufacturing equipment. OB3 raises the limits on the dollar amount of such items that can be fully deducted in the year they are purchased. DOR estimates this change will cost \$25 million in FY 2026 and significantly less thereafter. It is retroactive back to the start of Tax Year 2025.

5. Sec. 70421. (Permanent renewal and enhancement of opportunity zones) - As part of TCJA, a new “Opportunity Zones” (OZ) program was created, with the intended purpose of incentivizing investments in job-generating businesses and in buildings in areas designated as economically depressed. Capital gains income generated by corporations or individuals from investments made in OZs became eligible for extremely generous tax breaks, including being exempted entirely from tax if the investments were held for 10 years. Set to expire at the end of 2026, under OB3 the program instead will become permanent. It has become clear, however, that the OZ program has failed to create many jobs in economically depressed communities. What it has done is deliver large tax breaks to wealthy individuals and corporations, including through investments in business and building projects that would have occurred even without the OZ tax break. To the extent that tax breaks play any role in these investment decisions, it is the much larger federal OZ tax breaks that will drive such investments. DOR estimates this change will cost \$20-30 million a year starting in FY 2027.

ENDNOTES

¹ DOR projects a loss of \$685 million in FY 2026 from these six OB3 changes. DOR also projects a \$21 million gain from other OB3 changes. Together, DOR's FY 2026 net loss estimate is \$664 million.

² Decoupling will not help Massachusetts avoid what DOR projects will be a \$222 million loss in FY 2026 from OB3 changes to the cap on deductibility of state and local taxes (SALT) from federal taxable income. For more detail on the interaction between the federal SALT cap and Massachusetts state revenues, see [Appendix A of this MassBudget report](#).

³ MassBudget summaries here are drawn from the Massachusetts Department of Revenue's analysis of OB3 tax changes, as well as an analysis performed jointly by the Center on Budget and Policy Priorities and the Institute on Taxation and Economic Policy.

⁴ [IRS Statistics of Income data for 2020](#) show that 99.95 percent of all non-farm proprietorships in the U.S. have annual gross receipts of less than \$5 million. To target this tax break to a subset of truly small businesses, the eligibility limit could be set well below \$5 million.