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Policy group urges state to decouple from federal tax changes

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While lawmakers grapple with a loss of anticipated state revenue as a result of federal tax code changes, the Massachusetts Budget and Policy Center, a policy research and advocacy organization, called Thursday for the Legislature to respond quickly to the "significant threat to the stability of the state budget" by cutting a handful of the ties to the state tax regime.

Revenue Commissioner Geoffrey Snyder told budget managers on Sept. 30 that the federal changes are expected to reduce state tax collections by more than $650 million in fiscal year 2026, which began July 1. A Department of Revenue analysis of the tax code change impacts shows that some business filers and more likely high earners could stand to benefit by not paying taxes the state had counted on.

The commissioner said about a half dozen federal tax code changes form the bulk of the impact, and lawmakers said they would consider options that include decoupling the state tax code from the federal one in some or all instances.

MassBudget urged the Legislature to "protect $463 million in revenue that would otherwise be lost this fiscal year" by "imminently passing new state laws to address at least the five most costly corporate federal tax provisions." The center did not specify which provisions it wants to see Massachusetts decoupled from.

"Massachusetts has a history of opting out of federal policies that do not serve our interests or harm our most vulnerable populations. Lawmakers must act quickly and do it again," MassBudget said. "In this instance, it will keep our state's tax code aligned with equity values, while preserving resources for the difficult road ahead."

The center said Michigan and Rhode Island have taken steps to opt out of federal tax code changes in bids to protect their state revenue. The group said the federal changes "disproportionately benefit the highest income taxpayers and corporate shareholders" and that "without legislative action, our state will regress back to a less fair tax system."

The Healey administration and legislative Democrats agreed in January to build the state's fiscal 2026 budget on a $43.614 billion revenue estimate. They stuck with that even as the One Big Beautiful Bill Act passed through Congress this summer, and now Administration and Finance Secretary Matthew Gorzkowicz faces an Oct. 15 deadline to either reaffirm that estimate or revise it.

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