

ADVISORY

SULLIVAN & WORCESTER BENEFITS ADVISORY

Critical Change to the Massachusetts Personal Income Statute Recently Adopted

Governor Mitt Romney recently signed into law a critical change to the Massachusetts personal income statute. Massachusetts now generally cross-references the federal Internal Revenue Code as of January 1, 2005 for purposes of the Massachusetts personal income tax, effective for the 2005 tax year. The federal Internal Revenue Code and Massachusetts personal income statute will now largely be the same (at least until changes are made to the federal Internal Revenue Code). As a result, several federal/Massachusetts personal income tax differences are eliminated for 2005. The following is a summary of the effect of this new law on various benefits issues, some of which will have 2005 Form W-2 reporting implications.

Parking and Transit Expenses: Individuals are able to use pre-tax dollars federally to pay for certain parking and transit expenses, but Massachusetts law only recognized the parking expense exclusion. Now, both types of expenses can be excluded, up to the applicable limits, for both federal and Massachusetts tax purposes. For 2005, the limit is \$200 for parking benefits and \$105 for transit benefits.

Educational Assistance Programs: For several years Massachusetts has not recognized the \$5,250 annual exclusion available for federal income tax purposes for qualified educational benefits paid by an employer. This update means that this exclusion is now available for both federal and Massachusetts income tax purposes.

Employer-Provided Adoption Assistance: Under prior Massachusetts law, the exclusion from income for employer-paid adoption assistance was not available. As a result of this law change, adoption assistance benefits are now available on a tax-favored basis in Massachusetts.

Health Savings Accounts: With the recent update, a deduction for contributions to Health Savings Accounts ("HSAs") and an exclusion from income for qualifying distributions from HSAs are now available in Massachusetts. In addition, earnings on amounts in an HSA will now grow on a tax-free basis.

We expect the Massachusetts Department of Revenue to shortly issue a release about this new law that will address all of the personal income tax changes. We will add a link to the release in a version of this Advisory posted on our website (www.sandw.com under "S&W Publications") as soon as it becomes available.

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