Guide for Massachusetts Tax-Aide Volunteers (Mass Manual)

Updated January 2018
Preface

Massachusetts tax law differs in important ways from the Federal tax code. The purpose of this Guide for Massachusetts Tax-Aide Volunteers (Mass Manual) is to provide training and reference material relative to Massachusetts tax law and use of the TaxSlayer software in preparing Massachusetts tax returns for our clients.

The TaxSlayer on-line software was a new product in TY 2016. As such it had many deficiencies in its treatment of Massachusetts tax issues, making necessary a number of “workaround” and adjustments in order to prepare an accurate state tax return. Some corrections were made during the Tax Year and many others were requested for inclusion in the 2017 software release. As of late January 2018 when this revision was prepared, a few changes have been made. It is possible that some corrections will occur even as tax season begins. As additions or changes are made, they will be posted on the Mass TaxAide website (https://mataxaide.org) with notification via the Mass TaxAide Blog (available at the Mass TaxAide website). Most changes made to the 2017 software are not incorporated in prior year versions. For that reason, the 2016 Mass Manual will continue to be available on the Mass TaxAide website.

This book contains three sections:

Section 1 describes important ways in which Massachusetts tax law differs from Federal tax law, differences that are likely to affect some of our clients and describes how to use TaxSlayer to successfully prepare a Massachusetts return for Full Year Mass residents (the majority of our clients).

Section 2 is a place-holder for future instructions for completing a Massachusetts return for Part-Year (PY) residents, Non-Residents (NR) with Massachusetts income or combined PY/NR returns.

Note: In general we recommend that non-Massachusetts residents have their returns prepared in their Resident State if they have already had a Federal and Resident State return prepared elsewhere. This will avoid conflicts over the Federal return which will have to be redone before the Massachusetts return can be prepared.

Section 3 provides information on tax issues that are allowed for Tax Aide completion (In-Scope) according to IRS and AARP guidelines. In addition, further restrictions to Scope that Massachusetts has determined are listed.

The State Management Team would like to thank you for all of your efforts in support of our clients and the Tax-Aide program. We thank those who have assisted in updating this guide, Peter Viles, Harry Gong, Frank Dutt (2017 Edition), and Holly Stratford (2016 Edition).

Have a great tax season and a terrific year.

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Section 1: Massachusetts Tax Law and TaxSlayer

Massachusetts does not follow IRS rules and regulations in many cases. Therefore counselors are advised to obtain Form 1 Instructions for Massachusetts Income Taxes (available on the Massachusetts Department of Revenue (DoR) website or, in some cases, from libraries).

If entries are made correctly on the Federal return, in many cases the appropriate amounts will be carried forward by TaxSlayer to the Massachusetts return. Note: TaxSlayer does NOT carry forward retained data from past years to the State return.

TaxSlayer

- Carry-forward data from TY2016 returns prepared at AARP sites that are still active will be available for TY2017. It is unlikely that state specific data will be carried forward.
- Several Federal entries such as those for municipal / governmental pensions, interest from Massachusetts banks, and Massachusetts lottery winnings require additional field completion at the time of initial entry to conform to Massachusetts DoR requirements (see specific items below). Modification of data input for many of these items has been requested and current status should be checked on the Mass TaxAide Blog. We continue to recommend use of the worksheet(s) posted on the Mass TaxAide website to keep track of these items as it systematizes items that need to be manually entered and makes 2nd person Quality review easier.
- In order to save entries or changes in the State return, click "Save" at the bottom of each screen. This will also flag an error or omission on that screen that must be fixed before being able to save the data. You must back out the state section until the main State entry screen is seen before the state refund amount is updated and before you can choose another item on the left hand menu (for example, go back to the Federal section).

Filing Requirements / Who must file? (see Form 1 Instructions, Pg 10)

Full-year residents of Massachusetts need to file if their adjusted gross income was more than $8,000 whether received from sources inside or outside of the state. Note Massachusetts income includes interest and dividends from obligations issued by other states and foreign employment (not taxed Federally) and excludes interest on US bonds, Massachusetts or US government pension income, and Social Security, Veterans Administration disability, worker’s compensation.

Partial-year residents are subject to the same requirements as full-year residents (file Form 1-NR/PY).

1. Non-residents must file Form1-NR/PY if they received Massachusetts source income in excess of their personal exemption - 4,400 (S, MFS), $6,800 (HoH), or $8,800 (MF) - multiplied by the ratio of their Massachusetts income to their total income.

2. See Section 2 for discussion on completion of Form 1-NR/PY for the last two categories

TaxSlayer

- Unlike 2016 returns, a preparer starts a Mass return by choosing the State Section item on the left hand menu. Choose Massachusetts on the next screen. The following screen requires a choice of a full year resident, part year (PY) resident or non-resident (NR). Most clients will be full year residents. All the material in Section 1 relates to full-year residents. The next bullet addresses the other categories. The state refund monitor will not show an amount until the Mass return is started. If a preparer wants to see the state refund amount as data is entered in the Federal Section, then the Mass return should be initiated after completing the Basic Information in the Federal Section.
In addition to returns for full-year residents, PY residents and NR, some clients may be a combined PY and NR taxpayer (e.g. someone who moved from Mass during the tax year and continues to receive Mass income in their new state). Their Mass return must designate both statuses, PY/NR. While there is a method to accommodate this type of return, it is complicated and not recommended for most preparers. There are also manual adjustments that maybe required for PY resident and NR returns, so again these are not recommended for most preparers. Future guidance will be provided in Section 2 of this Manual, but not for TY2017. See your District Coordinator for guidance if you have these returns this year.

Filing Status

Filing Status basis is the same as Federal with the exception that Massachusetts does not have a Qualified Widow(er) status. Federal returns with this designation will be changed to Head of Household (HoH) on the Massachusetts return.

Massachusetts does not allow a married couple to file MFJ if both members are not residents of Massachusetts at the same time during the tax year, even if they file MFJ on their Federal return

**TaxSlayer**

- Will auto-populate from Federal Basic Information.

- Note that if the filing status is Head of Household (HoH) and the qualifying person is not a dependent, use the following procedure:

  At Basic Information, Dependents/Qualifying Person, click, Click If this qualifying person is NOT YOUR DEPENDENT. TaxSlayer will then allow the HoH filing status. However, at the Summary view of the Federal return, where the HoH status is shown and states: *If the qualifying person is a child but not your dependent enter this child's name* here the line may be blank. Upon printing the Federal return, however, the child’s name will appear on the 1st page of the Federal 1040.

- If the filing status is HoH, but the qualifying person is not a dependent, go to the State Section, Edit, Enter Myself, Basic Information. Select “Yes” to the second question and TaxSlayer will check the box next to HoH filing status on page 1 of Form 1 that says the custodial parent has released claim for exemption. If this box is not checked, the e-file return has been rejected by the DoR in the past.

Dependents

Same as Federal

**TaxSlayer**

- Will auto-populate from Basic Information and print on Sched DI

Exemptions

Massachusetts gives a standard exemption amount of $4,400 with increases for taxpayers over 65 and blindness.

**TaxSlayer**

- Amounts will be auto-entered according to information from Basic Information.
INCOME

Because TaxSlayer does not allow direct entry into either Federal or State forms, in many cases "workarounds" or patches are necessary. This is particularly true for many Massachusetts income items. In order to keep track of necessary manual entries, an Income Worksheet is STRONGLY recommended so that both a reminder is available when the State return is prepared and a check-list is available for Quality Review. A sample Income Worksheet is available on the Mass TaxAide website in the “Resources” section.

Income - Wages

• Generally the same as Federal.
• Income earned in a different state by a Massachusetts resident is subject to Massachusetts taxes.

TaxSlayer

• Will be auto-entered from W-2 Lines 16 and 17.
• Disability payment income, reported on a Form 1099-R, should appear as wages on both the Federal and Mass returns, if the taxpayer has not yet reached retirement age. (This is not often seen.) TaxSlayer has a box on the 1099-R to click to ensure this income appears on the 1040 line 7 and Mass Form 1, Ln 3 as wages.
• If wages are received from a municipal, state, or Federal entity and are not subject to Social Security (FICA) taxes, then enter any mandatory contributions to municipal, state, or federal retirement plans (found in W-2, Box 14). See Appendix A, Table 2 for specific examples of government employers where this applies. These include Mass state agencies, Mass municipalities, railroads and the MBTA.
  o These entries will NOT carry over from the W-2.
  o In TaxSlayer, State Section; Edit; Enter myself; Deductions; 2nd item down, enter amount from Box 14, not to exceed $2000. There is no need to calculate the difference between amounts carried forward by TaxSlayer (for example, Medicare taxes paid) and $2000. If you enter a number much greater than $2000 by mistake, TaxSlayer will indicate an error and ask the preparer to limit the amount to $2000.

Income Interest (see Appendix B)

• Massachusetts allows a $100/200 deduction for interest earned in a Massachusetts bank (a bank or credit union with a physical presence in Massachusetts).
• Massachusetts excludes interest earned from US government securities and obligations (e.g. savings bonds), Massachusetts municipal bonds and Massachusetts bond funds, and bonds/bond funds from Puerto Rico, Guam and the US Virgin Islands (See Appendix B for more details).
• The percentage of income derived from municipal bond sources that are not taxable in Massachusetts will be indicated on a summary sheet accompanying the 1099-Consolidated Brokerage Statement received by the taxpayer. [The counselor may want to make a copy of the fund’s “Income Source Allocation” sheets to use for future taxpayers with the same funds who fail to bring all necessary documentation.]
TaxSlayer (Form 1 and Sched B)

There are five variations, depending on the payer, for entering interest in TaxSlayer:

a) Ordinary interest from a non-Mass bank, taxed both federal and Mass

b) Ordinary interest from a Mass bank, taxed federal, Mass partially tax exempt

c) U.S. Government interest obligations, taxed federal, Mass tax exempt

d) Mass state and municipal obligations, both federal and Mass tax exempt

e) Non-Mass state and municipal obligations, federal tax exempt, Mass taxed

Follow the pertinent procedure below to make the various interest entries. Also make the appropriate entries on a worksheet to remind the preparer to manually enter these items in the State Section and to aid the Quality Reviewer.

a) Non-Mass bank interest (for example, from a consolidated statement).

Enter on TaxSlayer 1099-INT form. TaxSlayer considers this type of interest taxable on Federal and Mass return; nothing more needs be done.

b) Mass bank: (Fully taxable on Federal / subject to $100/$200 exclusion in Mass.)

Enter the interest on TaxSlayer 1099-INT. If there are multiple Mass banks, enter all of them in the Federal Section, but keep a manual record of the total amount.

To allow for state exclusion go to State Section; Edit; Enter myself; choose Additions to Income option; enter total Mass bank interest on 2nd line down for Mass Banks (2nd line down is labelled: Enter interest income included on your return received from Massachusetts banks.)

c) US Gov’t bonds: Fully taxable Federal but Mass tax exempt;

Enter interest on TaxSlayer 1099-INT screen. To make tax exempt in Mass, go to State Section; Edit; Enter myself; choose Income Subject to Tax. Choose Schedule B; enter amount on 3rd line down and a description of interest on 4th line down. 3rd line down is labelled: Enter interest and dividends not taxable to Massachusetts included on federal return.

d) Mass municipal bonds: Tax exempt both Federal and Massachusetts:

Enter tax exempt interest on screen 1099-INT Tax Exempt. TaxSlayer assumes interest is taxable in Mass unless excluded, so follow same instructions as for US Government bonds. If the taxpayer has both US Government bond interest and Mass municipal bond interest, you must add the two amounts together and enter the total amount. Make sure the explanation for excluding the interest covers both types of interest.

e) Non-Mass municipal bonds (Tax exempt Federal; taxable in Mass): Enter tax exempt interest on form for this purpose in TaxSlayer Federal Section; interest will be taxed in state return; nothing more need be done.
The following Table is a summary of the tax treatment of these five categories

<table>
<thead>
<tr>
<th>INTEREST TYPE</th>
<th>TAXED US</th>
<th>TAXED Mass</th>
<th>ENTRIES IN Mass SECTION OF TAXSLAYER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-MA bank</td>
<td>YES</td>
<td>YES</td>
<td>None</td>
</tr>
<tr>
<td>MA Bank *</td>
<td>YES</td>
<td>$100/200 Exclusion</td>
<td>Additions to Income; enter on second line “Enter interest income included on your return received from Massachusetts banks”</td>
</tr>
<tr>
<td>US Govt. Bonds</td>
<td>YES</td>
<td>NO</td>
<td>State Section; Edit; Enter myself; choose “Income Subject to Tax”, choose Sch. B; enter amount on 3rd line &amp; description of interest on 4th line</td>
</tr>
<tr>
<td>MA Muni Bond</td>
<td>NO</td>
<td>NO</td>
<td>Same as above for US Govt. Bonds</td>
</tr>
<tr>
<td>Non-MA Muni Bond</td>
<td>NO</td>
<td>YES</td>
<td>None</td>
</tr>
</tbody>
</table>

*Keep a manual record of all MA bank interest – amount entered in one entry

In the rare case when Mass taxes are withheld on either the taxpayer’s 1099-INT or 1099-DIV form, keep the forms available and enter the Mass taxes withheld, as described later in Other Massachusetts Issues.

**Income – Dividends (Sched B)**

Exclusions include dividends from the Commonwealth of Massachusetts or its political sub-divisions ( Counties, Cities or Towns) – similar to interest exclusions.

*TaxSlayer*

- Most dividends are taxable both Federally and by Mass. If so, enter on TaxSlayer dividend form (1099-DIV, Box 1); nothing more needs to be done.
- Some dividends may be taxable Federally, but not by Mass. If so, follow the instructions for US government bonds above. This usually occurs if the payer designates income from municipal bonds as dividends as opposed to interest.
- Some will be non-taxable Federally, but taxable in Mass. These dividends will appear on the taxpayer’s 1099-DIV, Box 10. Follow the instructions above for non-Mass municipal bond interest.
- Some will be non-taxable Federally and by Mass. If so, follow the same instructions above for Mass municipal bond interest.
- Complete any explanatory statements necessary for Ln 3 and Ln 6 on Massachusetts Sched B at the Schedule B page.

**Income – Alimony (Sched X, Ln 1)**

Massachusetts taxes Alimony income the same as Federal

*TaxSlayer*

- Auto-entered on Massachusetts Sch X, Ln 1 from Federal 1040.
**Income – Business**

Business income is taxed the same as Federal.

*TaxSlayer*

- Massachusetts does not accept Federal Sched C-EZ for e-filing. Complete Federal Sched C.
- *TaxSlayer* creates a Mass Schedule C when the Mass return is created under *State Section* and transfers all data from the Federal Schedule C. No other action is required.

**Income – Capital Gains / Losses**

- Similar rules for taxation as Federal.
- Massachusetts allows short-term (ST) or long-term (LT) capital losses – up to $2,000 – to offset non-Massachusetts bank interest and dividend income; Massachusetts does NOT allow any other offset of income by any Capital Loss. Losses and gains can offset each other – same as Federal.
- Carry-over ST losses and current year ST gains/losses are combined on Massachusetts Sched B. Any excess ST losses are then applied against certain LT gains (on collectibles and from Sched D) or used to offset current year interest/dividends. Remaining ST losses can be carried over for similar use in subsequent years.
- Carry-over LT losses and current year LT gains/losses are combined on Massachusetts Sched D with similar offsets to those on Sched B. Any remaining LT losses can be carried over to subsequent years.

*TaxSlayer*

- Choose the *Capital gains and Losses (Schedule D)* option on the *Income* menu in the *Federal Section*. When the next screen comes up, choose *Capital Gain and Loss Items* to enter any stock or mutual fund sales.

Each transaction sale requires a separate form to be filled out. Note there are Alternate Options for Date Acquired and Date Sold. There are three options for *Select cost basis type*, depending on whether the cost basis is reported or not reported to the IRS or there is no 1099-B. Choose the first option if the 1099-B says cost basis is reported to the IRS. Choose the second option if the cost basis is not reported to the IRS. *TaxSlayer* will use the buy and sell dates and the chosen cost basis option to put the transaction on the appropriate Form 8949.

When Federal Sched D information is entered *TaxSlayer* will transfer any short term and long term results to Mass Schedules B and D, respectively.

- **Entering prior year carryover short and long term losses**: In the *State Section*, select *Income Subject to Tax* which will show both Schedules B and D. For a short term carryover loss, select *Schedule B*. At the bottom under *Enter your prior short-term unused losses for years beginning after 1981* put the carryover short loss as a **NEGATIVE** number. If a long term loss is being carried over, choose *Schedule D* and enter the carryover loss as a **NEGATIVE** number.

**Income – IRA Distributions**

**Traditional IRAs**

- Unlike the Federal treatment, Massachusetts taxes IRA contributions at the time of contribution. Thus the amount contributed by the taxpayer is **POST-TAX** money. Until the taxpayer recovers the amount originally contributed, those amounts are tax-exempt in Massachusetts.
• This applies **ONLY** to IRA contributions made while the taxpayer was a Massachusetts resident.

• The taxpayer is responsible for determining the total original contribution. In the absence of accurate records, an attempt should be made to arrive at a “Reasonable and Defensible” figure (per the Mass DoR).
  
  o Once determined, this amount is used for all subsequent tax years until the full contributed amount is recovered. The taxpayer needs to supply the prior year’s records.

*TaxSlayer*

• Enter the 1099-R in the *Federal Section of TaxSlayer*. In contrast to 2016, 2017 *TaxSlayer* now carries forward IRA distributions to the Mass return as taxable income. If some of the IRA distribution is non-taxable because the taxpayer made contributions, *TaxSlayer* added a worksheet to calculate how much is taxable. This worksheet is found in the *State Section, Edit, Enter Myself. Choose Additions to Income option*. A printout of this worksheet is included in the Qualify Review PDF of the return. These changes do not apply to 2016 or earlier returns. Refer back to the 2016 Mass Manual for guidance if you prepare a 2016 return.

• If the taxpayer is eligible for the Senior Circuit Breaker Credit AND some of the IRA distribution is not taxable because of prior post-tax contributions, the non-taxable part must be manually entered as a **positive** number into the *State Section, Credits, Senior Circuit Breaker*. at the bottom of the screen on the line labeled *Additions/Adjustments to Pensions and Annuities not Taxed in MA*

*Roth IRAs*

• Same as Federal, subject to the age and 5-year holding requirements.

*TaxSlayer*

• AARP scope allows only distributions that have code Q in Box 7 or T in Box 7 if the taxpayer is over 59 ½ and the 5-year rule is met. For these cases, the Roth IRA distributions are not taxable both Federally and in Mass. Fill out a 1099-R in the Federal Section, however. If the Roth distribution is not taxable in Mass, nothing has to be entered in the State Section.

• If the taxpayer is eligible for the Senior Circuit Breaker Credit, the Roth distribution must be manually entered as a **positive** number into the *State Section, Deductions, Senior Circuit Breaker* at the bottom on the screen on the line labeled: *Additions/Adjustments to Pensions and Annuities Not Taxed in MA*

*IRA and other Roll-Overs (1099-R, Code 6 or G)*

• Prior to the 2017 software, *TaxSlayer* erroneously includes these roll-over amounts as Mass Income for the Senior Circuit Breaker although they are appropriately excluded from Mass income on Form 1. Therefore, a “workaround” for the Circuit Breaker Credit is necessary for prior year (2016 and earlier) returns. See the Mass Manual for 2016 for instructions.

*Non-Deductible IRAs/Form 8606*

• If a taxpayer requires an 8606 on the Federal return because he/she made non-deductible IRA contributions, Parts I and II of this form are in-scope. See Pub 17, Chapter 17 for further information. It is also recommended that a preparer consult someone who has experience with 8606’s. The taxpayer needs to provide the prior year’s 8606 and the total value of all traditional IRAs at the end of 2017 in order to complete the current year’s form.
• If the taxpayer has recovered all prior contributions, Massachusetts will tax the entire distribution of the IRA. Therefore, an adjustment must be made in the Mass return.

**TaxSlayer**

• Complete the 8606 for the Federal return.

• Enter the difference between the Total Distribution (1099-R, Box 1) and the calculated taxable federal amount as a **POSITIVE** number on the Mass Return, **Enter Myself, Additions to Income** in the box labeled “Enter the amount to adjust from Form 1, Ln 9 (as a negative number) to account for the conversion above”. Be sure to enter as a **POSITIVE** number. [Ignore the direction to enter as a negative number.]

**Qualified Charitable Deductions (QCD)**

• QCD’s are entered in the **Federal Section, Enter Myself, Income, IRA/Pension Distributions, Non-Taxable Distribution**. The preparer must manually adjust the taxable portion (Box 2a) of the 1099-R to account for the QCD amount.

**TaxSlayer**

• Massachusetts follows the Federal code in this situation; the correct amount will be carried over to the state return. Mass Sch X will reflect the taxable amount.

• If the preparer happens to open the **Taxable IRA/Keogh and Roth IRA Conversion Distribution Worksheet**, do not enter any amount in the box labeled: **Total qualified charitable IRA distributions in total IRA/Keogh plan distributions**.

**Income - Pensions and Annuities**

• Pensions received from Massachusetts municipal or State entities (Massachusetts State Retirement, Massachusetts Teachers Retirement) as well as Federal sources (typically from Office of Personnel Management - OPM – or Defense Finance and Accounting Service – DFAS) are **TAX-EXEMPT** in Massachusetts. See table in Appendix A, titled Retirement Plan Contributions and Distributions, for specific pensions. Pensions for MBTA retirees are paid by State Street, not by one of the Commonwealth’s Retirement Commissions. They can be identified as the second payer name line includes "MBTA Retirement" but are easily mistaken for a non-Mass municipal pension distribution. In addition, some US State Department pensions are paid by a proprietary entity. Ask the Taxpayer for clarification as to the source of the pension when in doubt.

• Pensions received from states with no income tax or full or partial reciprocity with Massachusetts are **TAX-EXEMPT** in full or part, but must be entered differently than tax-exempt pensions. See list in Appendix A for the reciprocal agreements with Massachusetts.

**TaxSlayer**

• All pension income is entered in the **TaxSlayer Federal Section** on its equivalent of a 1099-R. Mass figures entered in Boxes 12 (state withheld taxes) and Box 14 (state distribution) will be transferred to Mass return (Box 12 taxes to Form 1, line 37 and Box 14 income to Form 1 line 4).

• For pensions that are tax exempt in Mass, go to **State Section; Edit; Enter myself; Income Subject to Tax; Exempt Pensions and Annuities**; enter income to be excluded as a **NEGATIVE** number. Be sure to include these amounts on your **Income Worksheet**. For 2017, a note is included on this screen that shows the total pension amount on the Federal return. If there are only Mass tax-exempt pensions, the preparer can subtract that amount. If there are both Mass tax-exempt AND taxable pensions, the amount will be the total of these two types. In this instance, the preparer can only exclude the tax-exempt amount that is entered on the Income Worksheet.
For 2017, TaxSlayer transfers only the taxable distribution in Box 2a of the 1099-R to Ln 3 of the Senior Circuit Breaker schedule and tax-exempt pensions to Ln 5, not the gross distribution amount in Box 1. The difference between gross and taxable amounts should be entered on the Income Worksheet and entered manually on the TaxSlayer Circuit Breaker screen. See section on Senior CB credit (page 31) for further details.

- Pensions from states outside Mass:
  
Pension income from other states are entered by TaxSlayer on Form 1, line 4 as taxable income once the TaxSlayer 1099-R in the Federal Section is filled out. If some or all of a pension is tax exempt (see Appendix A), a deduction is allowed on Mass Schedule Y. In TaxSlayer, go to the State Section, and choose Deductions. Enter the amount to be excluded on the line labelled: Enter the deductible amount of qualified contributory pension income from another state or political subdivision included in income.

Income – Unemployment

- Subject to Massachusetts taxes same as Federal.

TaxSlayer

- Carried over from 1099-G automatically

Income not taxed by Massachusetts.

TaxSlayer

- Enter Social Security by going to the IRA/Pension Distributions, Social Security Benefits screen in the Federal Section, Income. TaxSlayer recognizes Social Security to be non-taxable in Mass, but correctly adds it back for the Circuit Breaker calculation.

  If a taxpayer receives Railroad Retirement Tier 1 benefits, enter those benefits on the same Social Security Benefits screen. For the rare situation when a taxpayer has both Social Security and RR Retirement Tier 1, add like entries together and enter the totals on this screen.

- Railroad Retirement Tier II is entered on an RRB-1099R form (from TaxSlayer forms list).
  
  TaxSlayer brings this income over to Mass as taxable. To make Tier II income non-taxable, follow the instructions for non-taxable government pensions. Enter the amount on your Income Worksheet.

Other Income (Gambling)

- Subject to Massachusetts taxes same as Federal.

- Massachusetts allows offset of gambling winnings from the three casinos and the one slot parlor approved in 2014. As of January, 2018, only the Plainridge Park Casino is open.

- All gambling losses from other venues, including the Massachusetts State Lottery, cannot be excluded.

- Massachusetts allows a deduction for winning lottery tickets.

  TaxSlayer

- Mass Lottery: TaxSlayer recognizes the Payer ID of the Massachusetts Lottery (04-2628159) as belonging to the Lottery and transfers the lottery winnings to Form 1, line 8b. Be sure to enter the correct Payer ID when filling out the W2G in TaxSlayer.
• Other gambling winnings: Gambling winnings that are not Massachusetts Lottery are entered on Mass Sch X and then transferred to Form 1, Ln 9 by TaxSlayer once the W2G is filled out in the Federal Section.

• Enter the cost of winning Mass Lottery Tickets in the State Section, Income Subject to Tax, Massachusetts Lottery Winnings.

Other Income (Miscellaneous)

• Subject to Massachusetts taxes same as Federal.

TaxSlayer

• If a taxpayer has miscellaneous income that is entered on 1040, Ln 21 (other than gambling), TaxSlayer will transfer those amounts to Mass Sch X, Ln 4.

• In the State Section, Additions to Income screen, there are two lines for additional fees and other 5.3% income. These lines are reserved for interest and dividend income described in the Mass Form 1 instructions, page 28 that is associated with a business that is reported on Mass Sch C. Consider these Out-of-Scope.

Adjustments

Massachusetts makes no adjustments to income per se.

TaxSlayer

• Early withdrawal penalty: This amount is brought over to Mass Sch Y when it is entered on the TaxSlayer 1099-INT screen.

• Alimony Paid: If entered as alimony paid in the Federal Section, Deductions, Adjustments, the amount will be entered on Mass Sch Y.

HSA Adjustment (requires counselor to have HSA certification)

Health Savings Accounts (HSA) requires separate certification for the Tax-Aide program. Tax documents that indicate a taxpayer has an HSA are: a W-2 with a code W and an amount in Box 12, a 5498-SA (contributions made), and/or a 1099-SA (distributions taken).

TaxSlayer

• If the taxpayer has a W-2, enter that W-2 into the TaxSlayer W-2 form. While in the Federal Section, enter 8889 into the Enter the Form Number box at the top of the main menu. Open and fill out the Form 8889 using the taxpayer's documents. If the taxpayer does not have a W-2 showing a W in Box 12, but has a 5498-SA and/or a 1099-SA, call up the 8889 and fill it out using data from these forms. If the taxpayer qualifies for an adjustment of income because of contributions made, TaxSlayer brings over the HSA adjustment to Mass Sch Y.

• If the taxpayer took a distribution from an HSA that was not used for eligible health care expenses, that distribution is taxable and subject to a 20% penalty on the Federal return. The taxable income shows up on Ln 21 of the Federal return; TaxSlayer transfers the amount to Mass Sch X, Ln 4 as miscellaneous income.

Deductions (Form 1 and Sched Y)

• Massachusetts does not allow any deductions from income that would normally be allowed on 1040 Sched A. The one exception is for allowable (excess) medical expenses (Ln 2e). Therefore, it is sometimes advantageous for taxpayers with large medical expenses to itemize on the Federal return and take a Federal itemized deduction that is less than their standard deduction in order
to offset some Massachusetts taxable income and thus have a lower total (Federal plus state) tax burden. Only a “what if” trial using the both situations will indicate which choice results in the lower total (Federal plus state) tax.

- **Massachusetts allows deductions for contributions to Social Security and Medicare (from W-2 or Sched SE) up to $2,000/person (Ln 11). Also allowed are deductions for required contributions to Railroad Retirement and US government and Mass pensions. The total is limited to $2,000 for each person.**

- **Massachusetts allows a deduction for a child under 13 or disabled dependent/spouse expenses (Ln 12).**

- **Massachusetts allows a deduction (up to $3,600 x 2) for dependents under 12 or over 65 if not otherwise claimed (Ln 13).**

- **Massachusetts allows a deduction for 50% of rent paid, up to $3,000 ($1,500 for MPS) (Ln 14). This applies to those in subsidized housing as well as those paying market rate.**

- **Other deductions are listed on Sched Y. Note two possible entries for student loan interest (Ln 10 or Ln 12). You must determine which is applicable and if both are, which is most beneficial to taxpayer. Exclusions from Massachusetts income for reciprocity agreements on pensions paid by other states are entered on Sched Y, Ln 13. Calculate commuter deduction, Ln 14, if applicable. Note also that Massachusetts treats deductions for Tuition and Fees differently from any calculated Federal Education Credits.**

- **Losses from gambling activities at Massachusetts casinos and slot parlors are deductible to the extent that they are less than or equal to winnings at those same locales on Schedule Y, Ln 17.**

**NOTE:** The Form 1 Instructions do not specifically refer to “casinos and slot parlors” but to “gambling establishment(s) licensed in accordance with Chap 23K or a racing meeting licensee or simulcasting licensee.” The only such establishment currently open is the Plainridge Casino Park; other Mass licensed gambling casinos are still pending approval or under construction.

- **Starting in 2017, Massachusetts allows a deduction for contributions to "a pre-paid or college savings plan established by the Commonwealth" on Ln 18. The Fidelity 529 Plan, its U-Fund, is the only plan meeting these requirements. The contribution is limited to $1,000 for taxpayers filing as Single/HoH or $2,000 for MFJ. Only persons listed as the owners of the plan can take the deduction (See the Form 1, Sch Y, Ln 18 Instructions and Mass TIR 16-15 on the DoR website.). This provision is valid for tax years 2017-2021.**

**TaxSlayer**

- **Excess medical expenses from Fed Sch A: If a taxpayer itemizes deductions (1040 Sch A), any excess medical expenses will be carried forward to Mass Form 1, Ln 2e.**

- **Mandatory pension contributions from W-2, Box 14 (in place of Social Security taxes withheld): State Section; Edit; Enter myself; Deductions; 2nd item down, enter amount from Box 14, not to exceed $2,000.**

There is no need to calculate the difference between amounts carried forward by TaxSlayer (for example, Medicare taxes paid) and $2,000. If a number much greater than $2000 is entered by mistake, TaxSlayer will indicate an error.

- **Form 1, Ln 12 entry for child under 13 and disabled care expenses:** Because this deduction and the one following for Ln 13 are closely related, what one must do with TaxSlayer for these two items is discussed primarily under the next item, but it is important to understand which dependents each deduction applies to and how large the deductions can be for each. Please read the entire discussion for both Lns 12 and 13 to understand the tax laws and how to use TaxSlayer to implement them.
Only one of the two deductions under line 12 or line 13 are allowed by Massachusetts law although the taxpayer may take the most advantageous one. It is important therefore, to make sure to choose the larger deduction when both are applicable. Details about how to fill out TaxSlayer screens are below.

The **Ln 12 deduction** is for dependent care costs. A dependent may be a child under age 13, a disabled dependent or a disabled spouse. The maximum deduction is $4,800 for one dependent or $9,600 for two or more dependents. To claim dependent care costs on the Federal return, fill out Form 2441 in the **Federal Section, Deductions** (top menu), **Enter myself**, **Credits Menu**, **Child Care Credits (Form 2441)**. The Federal rules that govern when Form 2441 applies are found in Pub 4012 – the most important one being the taxpayer(s) must work or be looking for work. TaxSlayer recognizes that Form 2441 has been filled out and uses the data on that form to determine the Mass deductions, as long as one follows the directions below.

The **Ln 13 deduction** is for dependents that include children under age 12, dependents 65 or over or a disabled dependent (a spouse is not considered a dependent). This deduction has no equivalent on the Federal return.

Neither the Ln 12 or Ln 13 deduction can be taken if the taxpayer is filing MFS on both Federal and Mass returns. If a taxpayer files MFJ on the Federal return, but chooses to file MFS on the Mass return, the taxpayer who pays the **dependent care costs** can claim the Ln 12 deduction but the total expenses cannot exceed the $4,800/$9,600 limit. [At this time, however, the software will not enable MFS on the Mass return using TaxSlayer if the Federal return is being filed as MFJ; a fix has been requested].

**Instructions for using TaxSlayer to enable either the Ln 12 or Ln 13 deduction.**

1. If there are no dependent care costs (no Federal Form 2441), TaxSlayer will properly determine if the taxpayer(s)' dependents qualify and properly enter either $3600 or $7200 on Form 1, Ln 13. Nothing else needs to be done unless a dependent or spouse is disabled; if so, click the disabled button when filling out the dependent's information on the **Basic Information, Dependent/Qualifying Persons** screen AND refer to 2-4 below.

2. If there are dependent care costs and the total of all payments made during the tax year are LESS than the dependent deduction the taxpayer is eligible for ($3,600/$7,200), NO entry is needed in the **State Section** of TaxSlayer. Like the previous case, the software will fill in Form 1, Ln 13 (the counselor still needs to designate a disabled dependent as described).

3. If the Dependent Care payments made during the tax year EXCEED the dependent deduction of $3,600/$7,200, go to **State Section, Edit, Enter myself, Other Deductions, Child under 13 or disabled dependent/spouse care expenses**. Enter the qualified expenses paid but do not exceed $4,800 for one dependent or $9,600 for two or more dependents. TaxSlayer will determine whether to populate Ln 12 or Ln 13 and determine the correct deduction amount.

4. If the spouse is disabled, add the spouse as a qualifying person when filling out Form 2441. To do that, go the **Federal Section, Deductions (top menu), Enter myself, Credits Menu, Child Care Credits (Form 2441)**. After filling out the Step 1, Child Care Provider information, click on Step 3, **Qualifying Persons** and fill out the spouse’s information, making sure the disabled button is clicked.

- **Rental deduction**: The rental deduction is entered in the **State Section, Edit, Enter myself, Other Deductions, Rental Deduction**. When the annual rent is entered, TaxSlayer will enter 50% of the rent, with a limit of $3,000 for all filing statuses except MFS, onto Mass Form 1, Ln 14. If the taxpayer is MFS, TaxSlayer will limit the deduction to $1,500.
• **Other deductions on Sch Y:** If any of the following is germane to a taxpayer, the deduction is entered in the *State Section, Edit, Enter myself, Deductions* screen or *Other Deductions* screen, as noted for each item.

  Ln 1 - Allowable employee business expenses: AARP Scope allows preparation of returns with unreimbursed employee business expenses if the expenses are in accordance with Federal Form 2106EZ (not 2106, which is out-of-scope). To take advantage of these unreimbursed expenses, the taxpayer must itemize deductions on Sch A and the expenses must exceed a 2% AGI threshold. If there is a deduction on Sch A, *TaxSlayer* will transfer the deduction to Line 1 of Sch Y. As a side note, *TaxSlayer* does not include a Form 2106EZ, so one must use a 2106 – but 2106-EZ ground rules must be followed.

  If there is a Sch A deduction, Mass reduces the allowable deduction if certain expenses are too high. To determine if a reduction is required, a *TaxSlayer* screen must be filled out. This screen is found by going to the *State Section, Edit, Enter myself, Other Deductions, Allowable employee business expenses*. Certain expenses from the Form 2106 must be used to fill out this screen. The answers to the two questions about being a performing artist or fee based government employee must be “no” (these categories are Out-of-Scope).

  Ln 2-Penalty on early savings withdrawal: As noted under Adjustments, item 1, *TaxSlayer* will bring the penalty over to Sch Y when the penalty is entered in the *Federal Section* on a 1099-INT.

  Ln 3-Alimony Paid: As noted under Adjustments, item 2, *TaxSlayer* will enter amount paid, once it is entered in the *Federal Section*.

  Ln 4-Amounts excludable under MGL Ch. 41, etc.: If these deductions are used, follow the instructions in the Form 1 instructions for Sch Y, Ln 4. Enter the deduction on the *Deductions* screen.

  Ln 5-Moving expenses: **Out-of-scope** except for those with military certification.

  Ln 6-Medical savings account deduction: Out-of-scope for Tax-Aide program.

  Ln 7-Self-employed health insurance deduction: Out-of-scope for Tax-Aide program.

  Ln 8-Health Savings accounts deduction: See discussion under Adjustments, HSA adjustment.

  Ln 9-Other qualified deductions: There are two different deduction types for Ln 9 on Sch Y (see Sch Y).

    For the first type of deduction, there is a drop-down menu in the *Federal Section, Deductions (top menu), Enter myself, Adjustments, Other Adjustments* that identifies the type of deduction. With the exception of Jury Duty Pay, all other items appear to be **Out-of-Scope** for AARP TaxAide. If an adjustment is made on the Federal return for Jury Duty Pay, enter this amount in the *State Section, Edit, Deductions* screen, under *Certain Qualified Deductions from 1040*.

    For the second type of deduction, Business Expenses of National Guard, etc., a Federal Form 2106 or 2106-EZ is required for the Federal return. This type of deduction is **Out-of-Scope** except for those with military certification.

  Ln 10-Student loan interest: If a taxpayer paid student loan interest on a qualified education loan, an adjustment can be taken on the Federal return done in the *Federal Section, Deductions (top menu), Enter myself, Adjustments, Student Loan Interest Deduction*. *TaxSlayer* will cap the Federal deduction at $2500, and enter the amount on 1040, Ln 33. Enter that same amount on Mass Sch Y, Ln 10. If the loan interest paid is in excess of $2500, the excess can be entered on Ln 12, provided that interest amount must be for a qualified undergraduate loan. Also see Ln 12 below.
Ln 11- College Tuition Deduction: If a taxpayer is eligible for an education credit or tuition deduction for an undergraduate degree on the Federal return, TaxSlayer does not forward the tuition amount to Mass Sch Y. Only the tuition costs or mandatory fees can be used for this deduction (unlike some of the Federal education credits). Further, only the eligible costs in excess of 25% of the Mass AGI can be deducted, which typically is not met by our taxpayers. If the taxpayer can take advantage of this deduction, calculate the amount using the worksheet for Sch Y, Line 11 in the Form 1 instructions; enter the result by going to the State Section, Edit, Enter myself, Other Deductions, College Tuition Deduction.

Ln 12- Undergraduate student loan interest: The interest amount entered on this line must meet the loan criteria described in the Form 1 instructions for Sch Y. As noted above for Line 10, interest for an undergraduate loan that exceeds the $2500 cap can be deducted here. Enter the interest in TaxSlayer in the State Section, Edit, Enter myself, Deductions, and use the line labeled Enter the amount of student loan interest that is for undergraduate studies. ONLY enter an amount here if you were disallowed part of your student loan interest on your federal return.

Ln 13- Deductible amount of qualified contributory pension income from another state or political subdivision: See discussion under Income - Pensions and Annuities.

Ln 14- Claim of right deduction: Out of Scope.

Ln 15- Commuter Deduction: If this deduction applies, read the instructions in the Form 1 instructions and fill out the worksheet. Enter the manually calculated deduction on the Deductions screen.

Ln 16- Deduction for Expenses of Human Organ Transplant: If this deduction applies, read the instructions in the Form 1 instructions and enter the deduction on the Deductions screen.

Ln 17 Certain gambling losses. At this time, the only known establishment where losses can be deducted are from the slots parlor at the Plainridge Park Casino in Plainville MA. If there are such losses, they are entered on the Deductions screen at the very bottom, up to the amount of winnings. Losses from the Massachusetts Lottery cannot be used as a deduction under any circumstances. (See also previous discussion under Deductions.)

Ln 18 Prepaid Tuition or College Savings. Enter the amount contributed in the State Section, Deductions, Prepaid Tuition but not more than the limits listed above. If the preparer enters an amount that exceeds the limits, TaxSlayer will grant the taxpayer a greater deduction than the Mass law allows.

Credits (Form 1, Sched CB and Sched CMS)

- Low income taxpayers may receive a Limited Income Credit or qualify for No Tax Status.
- Massachusetts allows 23% of the Federal Earned Income Credit (EIC) (Form 1, Ln 42).
- Some persons may be able to take a credit for lead paint abatement—or a Title 5 upgrade of their failed septic system or a mandatory hookup to a municipal sewer system. See instructions/worksheets and below.

**TaxSlayer**

- **Limited Income Credit**: TaxSlayer calculates the Limited Income Credit or No Tax Status based on the taxpayer’s income, filing status, etc.
- **Earned Income Credit**: TaxSlayer will calculate the Federal Earned Income Credit (EIC) based on wages, eligible dependents, etc. TaxSlayer will also calculate 23% of the Federal EIC and place the result on Mass Form 1, Ln 42 along with the number of qualifying dependents.
Septic System Upgrade Credit (Sched SC)

Further information is available in TIR 97-12 (the original act), TIR 98-8 (extended carryover period from 3 to 5 years), TIR 99-5 (additional eligibility), TIR 99-20 (subsidy deductions) and Directive 01-06. (All are available on the Massachusetts DoR website.) Before completing Sched SC, the counselor read these TIR’s to ensure understanding of the Massachusetts regulations.

- A septic credit is available for the design and construction expenses for a failed septic Title 5 upgrade on the taxpayer’s principal residence or to connect to a municipal sewer system that is mandated by the taxpayer’s city/town.
- The credit is 40% of the first $15,000 expended (or actual costs, if less), not to exceed $1,500 per year. The credit is non-refundable. Any unused expense may be carried over for 5 years.
- Betterment assessments do not qualify as expenses for this credit. You should get a copy of the instructions for Sch SC from the Massachusetts DoR website and ensure the taxpayer is eligible to get this credit. If so, Massachusetts Sched SC must be completed.
- Documentation necessary is:
  1) A statement of non-compliance.
  2) Bills, invoices or statements of costs paid.
  3) A Certificate of Compliance or verification letter from the appropriate municipal or governmental agency.

Such documentation need not be filed with the return but the Taxpayer should be made aware that the DoR may request copies. Any unused credit carryover should be noted on the Taxpayer’s records for future years.

**TaxSlayer**

- To apply for the Septic System Upgrade Credit, go to State Section, Edit, Enter myself, Credits and choose Septic-Schedule SC. Fill out all the information required on the screen that comes up. Schedules SC and CMS will be included with the Mass return.

Lead Paint Credit (Sched LP)

- A lead paint cover or removal credit is available for a residential property owner to bring it to full compliance with Massachusetts general laws or interim control pending full compliance. A licensed inspector or risk assessor establishes that a dangerous level of lead exist on the property.
- For purposes of full compliance, the credit amount is limited to actual cost, up to $1,500.
- For interim control, the credit amount is limit to actual cost, up to $500.
- After the work is completed, a letter of compliance is required from the inspector or assessor. For interim control, the letter should show the costs and certifies that the costs are necessary to achieve full compliance in the future.
- If the credit allowed exceeds the tax due, the excess credit may be carried forward for up to seven succeeding years.

**TaxSlayer**

- To apply for the Lead Paint Credit, go to State Section, Edit, Enter myself, Credits. Choose Lead Paint – Schedule LP. Fill out the information required, depending on which type of credit is being applied for. Schedules LP and CMS will be included in the Mass return.
Senior Circuit Breaker (See Appendix C for Details and Special Cases)

Many seniors come for tax preparation and filing help just to obtain this credit. Both homeowners and renters over 65 may be eligible for this credit. Follow instructions for Sch CB. This credit is **Non-Taxable** by Massachusetts. However, part or all of the refund may be subject to federal tax if the taxpayer itemized deductions in the prior year AND used Real Estate taxes as a deduction.

Additional work is being done to determine how to handle this situation for TY2017. Guidance for the upcoming tax season will be posted on the Mass TaxAide Blog.

For the most part, income will flow from prior entries. However, be sure to ask about additional income not ordinarily taxed (which then should be entered on Ln 6). This includes fuel assistance, food stamps (SNAP) and veteran’s benefits UNLESS given for disability.

**Homeowners**

- Real estate taxes are those **actually paid** in the calendar year. These will be the 3rd-4th quarters (Feb-May) for one FY and 1st-2nd quarters (Aug-Oct) for next FY. (Many seniors are confused as to dates and bills. The Town Clerk/Treasurer is a source of information – most are helpful and will respond to a telephone inquiry.) If the senior has obtained a tax abatement or offset that is not included in the bills, it should be subtracted from the total paid. **If a taxpayer pre-paid some or all of 2018 RE taxes before 1 Jan 2018 (as a result of the new Federal law passed in December 2017), these should be counted as paid in 2017, but excluded from their 2018 payments. Make a note to this effect on the Tax Payer Envelope.**
- Fifty percent of the water and sewer payments, including sewer betterments, are also allowed.
- All municipalities now issue water and sewer payments separate from the city/town real estate tax bills. These may be issued monthly, quarterly (most common), or semiannually and often come from a separate department whose billing and payment records are not available from the city/town clerk.

**Renters**

- Renters report 25% of rent paid in the calendar year which the DOR considers to be the pro-rated amount of RE taxes and water/sewer expenses paid by the landlord. Separate inclusion of renter-paid water/sewer charges is not allowed.
- Renters living in subsidized or senior housing are not eligible for the credit.
- For a taxpayer who both owns and rents for part of a year, see Appendix C, Special Cases.

**TaxSlayer**

- To enter the Senior Circuit Breaker (CB) Credit information, choose the **Credits** option in the **State Return** menu. On the next screen, choose **Senior Circuit Breaker Credit – Schedule CB** and fill out the form, depending on whether the taxpayer is a homeowner or a renter. Be sure to answer the first question at the top that affirms the 65 or older criteria is met or the printed return will not include Schedule CB. If a PO Box number has been entered as the address on the initial intake sheet, be sure to enter the street address of the residence on the line so labeled.
- **The 2016 software erroneously included rollover amounts (1099-R, Box 7, Codes 6 or G) in the Mass Adjusted Income amounts (Sched CB, Ln 3). This has been corrected for 2017 but the bug remains for prior tax years. See the 2016 Mass Manual for workaround instructions.**
- If additional income needs to be included such as food stamps (SNAP), fuel assistance, gifts, etc., insert the amount (as a **positive** number) on the **TaxSlayer Circuit Breaker** screen on the
line at the bottom labelled *Miscellaneous Income, including cash public assistance.* (A negative number on this line will result in a Mass DoR rejection). This additional income will appear on Sch CB, Ln 6.

- If non-taxable traditional IRA or Roth IRA income was received, these amounts should be entered as a **POSITIVE** number on the *TaxSlayer Circuit Breaker* screen on the line at the bottom labeled at the end, *Enter any additional additions/subtractions to Pensions and Annuities not Taxed in Massachusetts.* This income will appear on Sch CB Ln 5.

- **For pensions,** the difference between the Gross Distribution of all pensions (Box 1) and the Taxable Amount (Box 2a) should be entered on the *TaxSlayer Circuit Breaker* screen on the line at the bottom labeled *Enter any additional additions/subtractions to Pensions and Annuities Not Taxed in Massachusetts.* [A fix for this problem may be forthcoming – consult the Mass TaxAide Blog for updates.]

After filling out this form, continue to click “Save” at the bottom. Back out of the Mass return until the *Summary/Print* option on the left hand menu appears. Create a PDF of the return, scroll down to Schedule CB and examine the Income Calculation to ensure all income sources have been included. *TaxSlayer* will add all taxable income and put that amount on Ln 3 of Schedule CB. Ensure Ln 4 (social security/RR retirement tier 1) and line 5 (non-taxable income in Mass) include any such income that the taxpayer received. Refer to the taxpayer’s income tax paperwork as needed.

- RE taxes paid on the principal residence which were entered on the Federal 1040, Sch A, Ln 6, **do not** carry over to the appropriate place on the Massachusetts Sch CB. Enter RE taxes on Ln 10 of Sch CB. For a renter, enter **total** year’s rent on Ln18; *TaxSlayer* will calculate 25%. Be sure the rental amount entered is the same as that entered for the rental deduction for Form 1 and appears on Form 1, Ln 14.

- See Appendix D for appropriate handling of **Senior Work Credit** income reported on a W-2 or 1099-MISC.

**Schedule HC (Health Care Certification)**

- The Massachusetts requirements for health insurance differ in some respect from the Federal ACA rules. Only the TP and Spouse (if either are over 18) and no dependents are required to have health insurance. In addition some of the exemptions differ.

- Massachusetts requires all residents 18 or older to have health insurance coverage subject to a penalty for non-coverage. The penalty is assessed by the DoR using information supplied on the person’s tax return. Exceptions are granted for low-income persons and appeals are possible.

  If, however, any Federal penalty for lack of health insurance is assessed, only the excess amount of the Massachusetts penalty will be charged. In practice, the Federal penalty is usually greater.

- If an appeal is made, any penalty is delayed until the appeal is settled. Failure by the preparer to initiate the appeal process by checking the appropriate box on Sch HC or failure by the taxpayer to respond to the Appeal Board’s inquiry for information within the 30-day limit imposed will negate any appeal. (The taxpayer should be informed of the need for a prompt response to all correspondence.)

- Massachusetts recognizes enrollment in Medicare or VA/Military insurance **for any period** as meeting both the MCC and the health care requirement for the full year. This differs from ACA rules.

- See Notes below for special circumstances.
Having started the Massachusetts return, information to fill out Schedule HC must be provided.

The screen labeled, *Massachusetts State Return, Health Care Information, Schedule HC* lists five items that follow the 3-page Schedule HC: Basic Information, Health Insurance Plan Information, Months Covered, Exemption Questions, and Affordability Questions. Click the first item, *Basic Information*, answer the questions, followed by any subsequent item that fits the taxpayer’s health care coverage situation. Do NOT provide more information than is called for; if you do, the return will be rejected by Massachusetts.

Most of our senior taxpayers will have Medicare coverage and many of our employed taxpayers will have full year coverage provided by their employers. Therefore, you will only have to click on Basic Information and Health Insurance Plan Information and answer the questions.

If a taxpayer is under the age of 18 for the entire year, answers to the questions under *Basic Information* are still required. Indicate that the taxpayer is under 18 on the first question and pick the appropriate answer for the second question from the drop-down menu (ask the taxpayer which is correct). *TaxSlayer* will not impose a penalty no matter which answer is chosen and will not require which months have health insurance coverage even if Part-year MCC is chosen.

If a taxpayer lacks adequate health insurance coverage for Massachusetts, a penalty may have to be calculated. The current version of *TaxSlayer* does not include a worksheet to calculate the affordability of insurance. You will have to use the affordability worksheets in the Massachusetts Form 1 instructions for Schedule HC, Lns 10, 11, and 12 to do the calculations, which are then used to answer the questions on the Affordability Questions screen.

In almost all cases, if a taxpayer lacks adequate health insurance for Massachusetts, the same will be true for Federal purposes also. If the Federal penalties are higher than the Massachusetts penalty, there will be no impact on a taxpayer’s Massachusetts return.

One might question whether a Massachusetts penalty needs to be calculated at all. If the return indicates a penalty, but none is calculated, it is unknown whether the return will be electronically accepted. At this time, the guidance is to calculate the Massachusetts penalty (the manual calculation will take time to calculate). There are isolated situations when the Massachusetts penalty will be greater than the Federal penalty, so doing the calculation is the safest course of action.

**Special Circumstances for Health Care**

- **Enrolled in Medicare or VA/Military insurance during tax year**
  
  Medicare or VA/Military insurance enrollment for even one month qualifies as full year coverage. Indicate “Full Year MCC” at *State Return, Health Care Information-Schedule HC, Basic Questions*. Indicate the time period that you were enrolled in a Minimum Creditable Coverage (MCC) health insurance plan(s). If “NO MCC/NONE” is chosen, skip to *Exemption Questions*.

  Note this is a Massachusetts provision; the Federal ACA requires monthly coverage.

- **Turned 18 during tax year**
  
  Required to have health care coverage beginning on the first day of the third month after the birthday month.
• Partial-year Massachusetts resident
  Required to have health care coverage beginning on the first day of the third month after establishing residence.

• Deceased Taxpayer
  Required to have health care coverage through the last day of the last full month of life.

Other Massachusetts Issues

Massachusetts Use Tax (Form 1, Pg 3, Ln 34)

For Taxpayers with a Massachusetts AGI over $25,000, Massachusetts charges a graduated “use tax” on items purchased out of state that would otherwise be subject to the 6.25% Massachusetts sales tax. A “safe harbor” value based on income is allowed. To this, tax on individual items costing over $1,000 should be added. While most taxpayers will not want to take this tax, those living along a border with a state with lower or no state sales tax might be well advised to do so.

TaxSlayer

• To enter the use tax, go to State Section, Edit, Enter myself, Tax. At the bottom, you can enter the amount of use tax due as provided by the taxpayer or you can choose Edit on the line labelled Use Tax to calculate the “safe harbor” value. Fill out the screen that comes up and click “Save”. TaxSlayer will calculate the tax and enter it on Form 1, Ln 34.

Massachusetts Form 2210

Massachusetts assesses a penalty for underpayment if taxes due are $400 or more. If a Massachusetts 2210 is generated and attached to the return, the penalty will be charged. However, if no Massachusetts 2210 is present, the Massachusetts DoR may waive a small penalty.

TaxSlayer

• TaxSlayer does not calculate a penalty unless Mass Form 2210 is filled out to explain the taxpayer’s tax liability last year. We do not fill out this form, since AARP’s policy is to leave penalties to the taxing agency (IRS or Mass DoR). However, if the taxpayer owes more than $400, alert the taxpayer to the possibility of a penalty (which the DoR will bill them for) especially if the taxpayer has a history of owing more than $400 each year.

Massachusetts Estimated Tax Payments (Form 1, Ln 39)

Ask Taxpayer about any estimated tax payments made AND if any prior year refund was applied to the current year taxes. Massachusetts will no longer mail estimated tax payment vouchers to those who have made estimated payments in the past. Be sure to print out a set of payment vouchers for the following (2018) tax year.

TaxSlayer

• If a taxpayer paid estimated Mass taxes for the current tax year, enter the payments in the Federal Section, Payments & Estimates (top menu), State Estimated Payments. Fill out the screen that comes up; make sure you designate the state as Mass. This screen also allows the preparer to enter any prior year refund that was carried over to the current year (at the top of the screen). Any entry on this line is carried to Mass Form 1, Ln 39.
- If the taxpayer has a current year refund and wants to use part or all of the refund for next year or makes a payment when filing for an extension, go to State Section, Edit, Enter myself, Payments and make entries on that screen. Note on this screen, second entry, labelled, Prior year overpayment applied to current year is a duplication of the same item on the State Estimated Payments screen in the Federal Section that was just described. If this item applies, put the amount on one OR the other screen, NOT both. Otherwise, TaxSlayer will double the amount on Mass Form 1, Ln 39.

**Other Mass Taxes Withheld**

*TaxSlayer*

- If a taxpayer has Mass taxes withheld on interest income (shown on 1099-INT), dividend income (1099-DIV) or for sale of stocks, bonds or mutual funds (1099-B), there is no place in the Federal Section forms to enter these taxes. They must be entered in the State Section, Edit, Enter myself, Payments, Additional Withholding screen.

**Submitting only Mass returns for e-filing**

*TaxSlayer*

- Urge all clients to submit a Federal return for Identity Theft / SSN protection, TaxSlayer will hold the State return until the Federal is accepted, at which point the State will be submitted. (If the Federal is NOT accepted, the State e-file will have to be made after correcting the Federal return. However:
  - If only a Mass return is to be e-filed, check the box “Send State Only” on the first e-file screen. The preparer also has to specify ta return type for the Federal return even though the Federal return is not being sent. Select “E-file-Paper Check”.
  - Tag the return as “State only” and add an explanatory note

**Direct Deposit of Massachusetts Refund**

*TaxSlayer*

- Bank information for direct deposit of refunds are entered after choosing the e-File option on the left hand menu. Separate entries are required for the Federal and Mass returns. The routing number of the bank and account number must be entered twice, in addition to the name of the bank. Note that if the State e-file is not made at the time of finishing the return, bank information for the State e-file may not be available at the later time.

**Amended Mass Return**

The Massachusetts DOR no longer uses the CA-6 form for amended returns. Instead, page 1 of Form 1, under the taxpayer’s information, identifies whether a return is an original Mass return, an amended Mass return or an amended Mass return as the result of a federal change.”

*TaxSlayer:*

If an amended return is required, open the return and, in the main menu, choose 20XX Amended Return. On the next screen, click on the top item, How to Amend Your Return and follow the steps described in the instructions.
Appendix A - Pensions

Table 1 - Other State’s Tax Treatment of Out-of-State Employee Contributory Gov’t Pensions
From DoR website: 2014 Regulations (Confirmed Sept 2017)

If a state has no income tax, then their state pension is **not taxed** in Massachusetts

<table>
<thead>
<tr>
<th>State</th>
<th>Treatment of Out-of-State Government Pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>All out-of-state government pensions are tax-exempt if they are defined benefit plans</td>
</tr>
<tr>
<td>Alaska</td>
<td>No personal income tax (therefore Mass <strong>tax exempt</strong>)</td>
</tr>
<tr>
<td>Arizona</td>
<td>All out-of-state government pensions are <strong>fully taxed</strong></td>
</tr>
<tr>
<td>Arkansas</td>
<td>All out-of-state government pensions qualify for the $6,000 pension exemption; taxpayers age 65 or older who do not qualify for the $6,000 retirement exemption may qualify for the 65 or older Special Tax Credit.</td>
</tr>
<tr>
<td>California</td>
<td>All out-of-state government pensions are <strong>fully taxed</strong></td>
</tr>
<tr>
<td>Colorado</td>
<td>All out-of-state government pensions qualify for the pension exemption: age 55 to 64 qualify for a $20,000 exemption; age 65 or older qualify for a $24,000 exemption</td>
</tr>
<tr>
<td>Connecticut</td>
<td>All out-of-state government pensions are <strong>fully taxed</strong></td>
</tr>
<tr>
<td>Delaware</td>
<td>All out-of-state government pensions qualify for the pension exemption: under age 60 receive a $2,000 exemption; age 60 or older receive a $12,500 exemption</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>All state government pensions are <strong>fully taxed</strong></td>
</tr>
<tr>
<td>Florida</td>
<td>No personal income tax (therefore Mass <strong>tax exempt</strong>)</td>
</tr>
</tbody>
</table>
| Georgia         | All out-of-state government pensions qualify for the pension exclusion: for tax year beginning on or after January 1, 2012, the maximum retirement exclusion for taxpayers age 65 or older is $65,000. 

The retirement exclusion for taxpayers who are age 62 to 64, or less than 62 and permanently disabled, remains at $35,000.

**Note:** The Georgia DOR had planned to increase the retirement income exclusion each year until 2016 (for those 65 and older), at which time all retirement income was supposed to be excludable from taxable income. However the legislative bill has since been revised to cap the amount at the 2012 amount of $65,000 for the foreseeable future.

<p>| Hawaii          | All out-of-state government pensions are <strong>tax-exempt</strong> |
| Idaho           | All out-of-state government pensions are <strong>fully taxed</strong> |
| Illinois        | All out-of-state government pensions are <strong>tax-exempt</strong> |
| Indiana         | All out-of-state government pensions are <strong>fully taxed</strong> |
| Iowa            | All out-of-state government pensions qualify for the pension exemption: age 55 or older or disabled receives an exemption. The exemption for single and head of household filers is $6,000 and for married filing joint filers is $12,000 but not to exceed the amount included |</p>
<table>
<thead>
<tr>
<th>State</th>
<th>Pension Exemption Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas</td>
<td>All out-of-state government pensions are fully taxed.</td>
</tr>
<tr>
<td>Kentucky</td>
<td>All out-of-state government pensions qualify for the pension exemption: the maximum exemption is $41,110. Employees who retired before January 1, 1998 receive a full exemption of their public pensions. Those retiring after January 1, 1998 receive an exemption based on the amount of the individual's service time prior to January 1, 1998, compared to their total service time.</td>
</tr>
<tr>
<td>Louisiana</td>
<td>All out-of-state government pensions qualify for the pension exemption: age 65 or older qualifies for an exemption of $6,000. Taxpayers that are married filing jointly and are both age 65 or older may each exclude up to $6,000. If only one spouse has retirement income, the exclusion is limited to $6,000.</td>
</tr>
<tr>
<td>Maine</td>
<td>For tax years beginning in 2014, all out-of-state government pensions qualify for the $10,000 pension exemption (increased from $6,000.) Except for military pension benefits, the $10,000 deduction must be reduced by any Social Security and Railroad Retirement benefits received, whether taxable or not. The subtraction modification is expanded to include all federally taxable pension income, annuity income and IRA distributions, except pickup contributions for which a deduction has been allowed.</td>
</tr>
<tr>
<td>Maryland</td>
<td>All out-of-state government pensions qualify for the pension exemption, which is first reduced by taxable and nontaxable Social Security and Railroad Retirement benefits: age 65 or older and/or totally disabled to qualify for the exemption. For tax year 2014, the maximum exemption is $29,000.</td>
</tr>
</tbody>
</table>
| Michigan    | Effective for tax years beginning in 2013, taxpayers who reach the age of 67 during the taxable year may deduct $20,000 for single or married, filing separately, or $40,000 for joint filers against all income. If taxpayers qualify for the Michigan Standard Deduction, they are not eligible to deduct pension and retirement benefits. The retirement/pension deduction or Michigan Standard Deduction are computed as follows:  
  • Taxpayers born before 1946 subtract all qualifying pension and retirement benefits received from public sources.  
  • Taxpayers born between 1946 and 1952 may deduct up to $20,000 in qualifying pension and retirement benefits if single or married filing separate or $40,000 for joint filers if married filing a joint return. Note: once these taxpayers turn 67 years old, the deduction for pension/retirement benefits is replaced by a standard deduction against all income of $20,000 for single filers or $40,000 for joint filers.  
  • Taxpayers born after 1952 are not entitled to a pension subtractions; all pension and retirement benefits are taxable. Note: once these taxpayers turn 67 years old, the deduction for pension/retirement benefits is replaced by a standard deduction against all income of $20,000 for single filers or $40,000 for joint filers.  
  Note: Qualifying pension and retirement benefits include most payments that are reported on a 1099-R for federal tax purposes. This includes defined benefit pensions, IRA distributions, and most payments from defined contribution plans. Qualifying public benefits include distributions from the following sources:  
  • The State of Michigan  
  • Michigan local governmental units (e.g., Michigan counties, cities, and school districts)  
  • Federal civil service |
<p>| Minnesota   | Pensions, including federal pensions, are taxable by Minnesota. Taxpayers 65 and older may subtract some income if their federal adjusted gross income is under certain limits. |
| Mississippi | All out-of-state government pensions are tax-exempt. |</p>
<table>
<thead>
<tr>
<th>State</th>
<th>Pension Exemption/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missouri</td>
<td>All out-of-state government pensions qualify for the public employee pension exemption: For tax years beginning in 2012, married couples with Missouri adjusted gross income (excluding taxable social security benefits) less than $100,000 and single individuals with Missouri adjusted gross income less than $85,000 may deduct 100 percent of their public retirement benefits, to the extent the amounts are included in their federal adjusted gross income. For tax year 2014, married couples with Missouri adjusted gross income greater than $100,000 and single individuals with Missouri adjusted gross income greater than $85,000 may qualify for a partial exemption which is limited to $6,000 or 100% of their taxable public pension, not to exceed their maximum social security benefits of $36,442.</td>
</tr>
<tr>
<td>Montana</td>
<td>All out-of-state government pensions qualify for the partial pension exemption adjusted for inflation every year: For tax year 2014, the retirement exemption is limited to the lesser of taxable retirement income received or $3,980, as long as federal adjusted gross income is $33,200 or less and filing status is either single, married filing jointly if only one spouse has taxable retirement income, or head of household. If filing jointly with spouse, both with retirement income and federal adjusted gross income is $33,200 or less, both spouses may exclude the lesser of taxable retirement income which was received personally, or $3,980 each for a maximum of $7,960. When federal adjusted gross income exceeds $33,200, the retirement exemption is reduced $2 for every $1 that federal adjusted gross income is over $33,200. Taxpayer is not entitled to this retirement income exemption if federal adjusted gross income is greater than $35,190 if filing single, married filing separately, or head of household. If married and filing jointly and both spouses have retirement income, then retirement exemption is completely phased out when federal adjusted gross income is greater than $37,180.</td>
</tr>
<tr>
<td>Nebraska</td>
<td>All out-of-state government pensions are fully taxed</td>
</tr>
<tr>
<td>Nevada</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
<tr>
<td>New Jersey</td>
<td>All out-of-state government pensions qualify for the pension exclusion: Residents 62 or older may exclude all or part of their taxable pensions, annuities and IRA withdrawals if their gross income for the entire year before subtracting any pension exclusion does not exceed $100,000. The maximum amount excluded depends on filing status. If married and filing a joint return, the maximum exclusion is $20,000. For single, head of household or qualifying widow or widower, the maximum exclusion is up to $15,000; and for married filing a separate return, the maximum exclusion is $10,000. Taxpayers whose gross income does exceed $100,000 may still be eligible for a special exclusion up to $6,000.</td>
</tr>
<tr>
<td>New Mexico</td>
<td>All out-of-state government pensions qualify for the $8,000 income exemption: taxpayers age 65 or older whose income is $28,500 or less for single filers, $25,500 for married filing separate filers or $51,000 or less for married, filing joint filers, may exempt up to $8,000 from any income source.</td>
</tr>
<tr>
<td>New York</td>
<td>All out-of-state government pensions qualify for the pension exemption: age 59 1/2 or older qualify for a $20,000 exemption</td>
</tr>
<tr>
<td>North Carolina</td>
<td>For tax years beginning in 2014, because of legislation enacted in 2013, previous tax breaks for pensions for both government and private employees have been eliminated.</td>
</tr>
<tr>
<td>North Dakota</td>
<td>All out-of-state government pensions are fully taxed</td>
</tr>
<tr>
<td>Ohio</td>
<td>All out-of-state government pensions: there is no exclusion, exemption or deduction for out-of-state government pensions; however, out-of-state government pensions may be applied toward a Retirement Income Tax Credit depending on the amount of qualifying retirement income.</td>
</tr>
</tbody>
</table>
Income. In addition, seniors 65 and older may qualify for the Senior Citizen Credit.

<table>
<thead>
<tr>
<th>State</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>For tax years beginning in 2010, out-of-state government pensions qualify for the pension exemption of $10,000, and are no longer subject to the modified Oklahoma Adjusted Gross Income limit.</td>
</tr>
<tr>
<td>Oregon</td>
<td>All out-of-state government pensions: there is no exclusion, exemption or deduction for out-of-state government pensions; however, out-of-state government pensions may be applied toward the Retirement Income Tax Credit depending on household income for taxpayers age 62 or older at the end of the taxable year. The credit is the lesser of computed tax liability or 9% of taxable pension income.</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>All out-of-state government pensions are tax-exempt provided taxpayer is age 59 1/2 or older</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>All out-of-state government pensions are fully taxed</td>
</tr>
<tr>
<td>South Carolina</td>
<td>All out-of-state government pensions qualify for the public employee pension exemption: under age 65 may deduct up to $3,000; age 65 or older may deduct up to $10,000</td>
</tr>
<tr>
<td>South Dakota</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
<tr>
<td>Tennessee</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
<tr>
<td>Texas</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
<tr>
<td>Utah</td>
<td>All out-of-state government pensions qualify for The Retirement Tax Credit subject to income-eligibility limits. Taxpayers younger than 65 may claim the Retirement Tax Credit which is the lesser of an annual ceiling amount or a percentage of eligible retirement income.</td>
</tr>
<tr>
<td>Vermont</td>
<td>All out-of-state government pensions are fully taxed</td>
</tr>
<tr>
<td>Virginia</td>
<td>All out-of-state government pensions qualify for the Virginia Age Deduction. For seniors born on January 1, 1939, or before, the age deduction is $12,000 per filer. For those born on January 2, 1939, or later, the $12,000 deduction for individual taxpayers 65 and older is reduced by $1 for every $1 that adjusted federal AGI exceeds $50,000, or $75,000 for married filers.</td>
</tr>
<tr>
<td>Washington</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
<tr>
<td>West Virginia</td>
<td>All out-of-state government pensions qualify for the income exemption. Taxpayers 65 and older may exclude the first $8,000 of any type of retirement income ($16,000 for married couples) from West Virginia taxes. Out-of-state pensions qualify for the $8,000/$16,000 exemption, too. Residents may exempt $2,000 of civil or state pensions.</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>All out-of-state government pensions are fully taxed</td>
</tr>
<tr>
<td>Wyoming</td>
<td>No personal income tax (therefore Mass tax exempt)</td>
</tr>
</tbody>
</table>
Pension Distributions to a Non-resident

Public Law 104-95 prevents any state from taxing income from certain pensions and deferred compensation plans paid to non-residents of that state.

Non-residents who were Former Massachusetts Residents

Pursuant to Public Law 104-95, Massachusetts now exempts from taxation distributions from certain previously taxable pension and deferred compensation income for non-residents. Those pensions that were exempt under the non-resident regulation remain exempt.

Massachusetts will not tax pension income received after December 31, 1995 by non-residents if their income is received from any of the following sources:

- A qualified trust under I.R.C. § 401(a) exempt from taxation under I.R.C. § 501(a)
- Simplified I.R.C. § 408(k) plans
- I.R.C. § 403(a) annuity plans
- I.R.C. § 403(b) annuity contracts
- I.R.C. § 7701(a)(37) individual retirement plans
- Eligible deferred compensation plans of state a local governments and tax exempt organizations as defined by I.R.C. § 457
- I.R.C. § 414(d) government plans; a trust or trusts described in I.R.C. § 501(c)(18)
- Any plan, program or arrangement described in I.R.C. § 3121(v)(2)(C) if payments are made at least annually and spread over the actuarial life expectancy of the beneficiaries, or if payments are spread over at least a ten year period. Such income is also protected from state taxation if the plans are trusts under I.R.C. §401(a), but exceed limits laid down in I.R.C. §§ 401(k), 401(m), 402(g), 403(b),408(k) or 415 or any other limitation on contributions or benefits which may apply in the Code
- Non-contributory government plans
- Military pensions of nonresidents
## Retirement Plan Contributions and Distributions

### Table 2 - Retirement Plan Contributions and Distributions

From DoR website: 2014 Regulations (Confirmed Sept 2017)

<table>
<thead>
<tr>
<th>Retirement Plan</th>
<th>Current Contributions</th>
<th>MA vs Federal Wages Time of Contribution</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Plans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>Taxable (Deduction up to $2,000)</td>
<td>No difference</td>
<td>Not taxable regardless of amounts that may be taxable Federally</td>
</tr>
<tr>
<td>RR Pension (Tier I and II)</td>
<td>Taxable (Deduction up to $2,000)</td>
<td>No difference</td>
<td>Not taxable regardless of amounts that may be taxable Federally</td>
</tr>
<tr>
<td>Federal Employee Contributory Pension</td>
<td>Taxable (retirement deduction up to $2,000)</td>
<td>No difference</td>
<td>Not taxable</td>
</tr>
<tr>
<td>Federal Employee Thrift Savings Plan</td>
<td>Deferred / Not taxable</td>
<td></td>
<td>Fully taxable</td>
</tr>
<tr>
<td>Military Non-Contributory Pension</td>
<td>N/A</td>
<td>No difference</td>
<td>Not taxable</td>
</tr>
</tbody>
</table>

**State/Municipal Plans**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Current Contributions</th>
<th>MA vs Federal Wages Time of Contribution</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA State and Local Employee Contributory Pension</td>
<td>Taxable (Retirement deduction up to $2,000)</td>
<td>MA Wages are higher</td>
<td>Not taxable</td>
</tr>
<tr>
<td>MBTA Pension</td>
<td>Taxable (Retirement deduction up to $2,000)</td>
<td>MA Wages are higher</td>
<td>Not taxable</td>
</tr>
<tr>
<td>MA Gov’t 457 Plan</td>
<td>Deferred / Not taxable</td>
<td>No difference</td>
<td>Fully taxable</td>
</tr>
<tr>
<td>Out-of-State Employee Contributory Pension</td>
<td>Taxable (No deduction)</td>
<td>N/A</td>
<td>See Appendix A, Table 1 above for specific State</td>
</tr>
</tbody>
</table>

**Non-Governmental Plans**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Current Contributions</th>
<th>MA vs Federal Wages Time of Contribution</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA – Traditional</td>
<td>Taxable (No deduction)</td>
<td>No difference</td>
<td>Taxable <strong>above previously taxed</strong> contributions</td>
</tr>
<tr>
<td>IRA – Roth</td>
<td>Taxable (No deduction)</td>
<td>No difference</td>
<td>Generally not taxable</td>
</tr>
<tr>
<td>401(a) or 401(k)</td>
<td>Deferred / Not taxable</td>
<td>No difference</td>
<td>Fully taxable</td>
</tr>
<tr>
<td>403(b) – TIAA-CREF and TSA</td>
<td>Deferred / Not taxable</td>
<td>No difference</td>
<td>Taxable above previously taxed contributions <strong>prior to 1998</strong></td>
</tr>
<tr>
<td>SEP or SEP-IRA</td>
<td>Deferred / Not taxable</td>
<td>No difference</td>
<td>Taxable above previously taxed contributions <strong>prior to 1988</strong></td>
</tr>
<tr>
<td>SIMPLE</td>
<td>Deferred / Not taxable</td>
<td>No difference</td>
<td>Taxable above previously taxed contributions <strong>prior to 1998</strong></td>
</tr>
</tbody>
</table>
Rollovers

An individual who transfers all or part of the assets from one qualified pension plan to another similar qualified pension plan within 60 days will not recognize any income from the transfer to the extent that no income is recognized for Federal income tax purposes.

If a taxpayer inadvertently misses the 60-day rollover deadline for one of several reasons, he/she can submit a certification to the plan trustee or IRA trustee and the amount can be considered a rollover on his/her tax return and not taxable. More information about the allowable reasons can be found in Revenue Procedure 2016-7 and IRS Pub 590-A under self-certification. This is similar to the Federal regulations.

For tax years beginning on or after January 1, 2002, Massachusetts follows the current Federal code for the following allowable tax-free direct rollovers:

- Traditional IRA rolled over to another traditional IRA.
- Traditional IRA rolled over to a qualified employer retirement plan.
- Qualified employer retirement plan rolled over to a traditional IRA.
- Qualified employer retirement plan rolled over to another qualified employer retirement plan.

Qualified employer retirement plans include:

- Qualified employer retirement plan under 401(a).
- Annuity contract under 403(a).
- TSA and TIAA-CREF retirement plan under 403(b).
- Governmental deferred compensation plan under 457, but not private sector 457 plan.

Note: For Keoghs under 401, CODA plans under 401(k), SEP plans under 408(k), and SIMPLE plans under 408(p), Massachusetts follows current IRS Code: if a rollover is tax-free for Federal purposes, it is likewise tax-free for Massachusetts purposes.

Rollovers that do NOT qualify as tax free rollovers:

- Traditional IRA rolled over to Roth IRA. Recent IRS ruling limits tax-free rollovers from one IRA to another to one per 12 month period regardless of the number of IRAs owned.
- Qualified employer retirement plan rolled over to a Roth IRA.
- Indirect rollover, unless specifically excluded from gross income under the 998 Code.
### Appendix B – Interest

**Table 3 - Massachusetts Interest**
From Mass DoR website (confirmed August 2017)

<table>
<thead>
<tr>
<th>Interest earned from</th>
<th>Status as Mass Bank Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of Deposit (CD) held in a Massachusetts bank</td>
<td>Qualifies as MA bank interest; amount is reported on Form 1, Line 10 or 1-NR/PY, Line 12, and qualifies for either $200 or $100 exemption. Amount less exemption is taxed at 5.1% (or current Mass tax rate)</td>
</tr>
<tr>
<td>Certificates of Deposit (CD) held in a non-Massachusetts bank</td>
<td>Does not qualify as MA bank interest; amount is reported on Schedule B and taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Insurance policies</td>
<td>Does not qualify as MA bank interest; amount is reported on Schedule B and taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Massachusetts banks on deposit accounts including term and time deposits, savings accounts, savings shares and NOW accounts. The interest is from savings banks, credit unions, Federal savings and loan associations, etc. located in the Commonwealth</td>
<td>Qualifies as MA bank interest; amount is reported on Form 1, Line 10 or 1-NR/PY, Line 12, and qualifies for either $200 or $100 exemption. Amount less exemption is taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Money Market Deposit Accounts in Massachusetts banks</td>
<td>Qualifies as MA bank interest; amount is reported on Form 1, Line 10 or 1-NR/PY, Line 12, and qualifies for either $200 or $100 exemption. Amount less exemption is taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Money Market Deposit Accounts in financial institutions, other than Massachusetts banks, credit unions etc. (e.g. Fidelity Investments)</td>
<td>Does not qualify as MA bank interest; amount is reported on Schedule B and taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Non-Massachusetts banks on deposit accounts including term and time deposits, savings accounts, savings shares and NOW accounts. The interest is from savings banks, credit unions, Federal savings and loan associations, etc. located outside the Commonwealth</td>
<td>Does not qualify as MA bank interest; amount is reported on Schedule B and taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Real estate tax escrow accounts. Interest earned on real estate taxes collected with mortgage payments and held in escrow by the bank until taxes are due if the bank is in Massachusetts</td>
<td>Qualifies as MA bank interest; amount is reported on Form 1, Line 10 or 1-NR/PY, 5.1% income, and qualifies for either $200 or $100 exemption. Amount less exemption is taxed at 5.1% (or current Mass tax rate).</td>
</tr>
<tr>
<td>Real estate tax escrow accounts. Interest earned on real estate taxes collected with mortgage payments and held in escrow by the bank until taxes are due if the bank is outside Massachusetts</td>
<td>Does not qualify as MA bank interest; amount is reported on Schedule B and taxed at 5.1% (or current Mass tax rate).</td>
</tr>
</tbody>
</table>

Massachusetts General Laws exempt from income taxation interest on obligations of the Commonwealth of Massachusetts, its political subdivisions, and agencies or instrumentalities of the Commonwealth and its subdivisions. Gain or loss on the sale of these securities is recognized for purposes of taxation under Chapter 62, unless specifically excluded by statute.
Appendix C - Senior Circuit Breaker
(adapted from the DoR website Fall 2017)

The Tax Credit Is Not Considered Income

Tax credits received by eligible taxpayers are not considered income for the purpose of obtaining eligibility or benefits under other means-tested assistance programs including food, medical, housing, energy and educational assistance programs.

Combined Owner-Renter during Tax Year

The DOR is silent on how to treat taxpayers who both rented and owned a principal residence during the tax year. An “unofficial” opinion, however, would treat this situation as follows:

1) Assume the taxpayer was a home owner for the entire year.
2) Add 1/4 of the rent paid to the total real estate taxes paid while an owner and enter accordingly.
3) Include 50% of the water-sewer charges paid while an owner.
4) The Taxpayer can take a Federal deduction (on Sched A) for the RE taxes paid and a rental deduction on Massachusetts Form 1, Ln 14 for 50% of the rent paid.

General Rules and Qualifications

Certain taxpayers age 65 or older may be eligible to claim a refundable credit on their state income taxes for the real estate taxes paid during the tax year on the residential property they own or rent in Massachusetts that is used as their principal residence. Eligible taxpayers who own their properties may claim a credit equal to the amount by which their property tax payments in the current tax year, (excluding any exemptions and/or abatements) including water and sewer use charges assessed, exceed 10% of their "total income" (threshold income) for that tax year. For renters, 25% of rent paid is used to instead of property tax payments in calculating any possible credit. Taxpayers with no filing requirement but who qualify for the refundable credit must still file a return in order to claim the credit.

Taxpayers who live in a house owned by another person, even if related, may not take the credit as a home owner even if they pay the real estate taxes (although such taxes may be deductible on the Federal return). They are also not considered renters as no lease exists and no money changes hands.

Government Housing

Taxpayers who receive rent subsidies under Section 8 or any other government housing subsidies, or who live in subsidized governmental housing authorities do not qualify for the credit. These situations can usually be identified as the taxpayer is clearly not paying the “market rate”; if in doubt, ask the taxpayer whether they live in subsidized housing.

Maximum Credit Allowed

For tax year 2017, the maximum credit allowed for both renters and homeowners is $1,080. This amount may be increased every year; the current maximum allowed is given in the Massachusetts Form 1 Instructions for the appropriate year and can also be found on the Mass DoR website. TaxSlayer will enter the amount allowed, capped at the maximum amount.
Eligibility

- Taxpayer must file a resident or part-year resident return. (Non-residents do not qualify for this credit since the property must be an owner-occupied principal residence located in Massachusetts.)
- Taxpayer or spouse, if married filing jointly, must be 65 years of age or older at the close of the current tax year.
- Taxpayer must own or rent residential property in Massachusetts and occupy the property as his or her principal residence.
- There is a ceiling on income which depends on filing status. (Note: the ceiling increases yearly and the current year's values should be consulted; for 2017, refer to TIR 8-17 on the Mass DoR website.)
- For homeowners, a ceiling on the assessed valuation of the homeowner's personal residence as of January 1 of the reference year, before residential exemptions but after abatements. (Again this ceiling changes periodically (Consult the Mass DoR Form 1 Instructions for the ceiling value for the current tax year; the 2017 value is $747,000, well in excess of most taxpayers eligible for Tax-Aide services.)

No credit is allowed if ANY one of the following applies.

- Taxpayer claims married filing separate status; or
- receives a Federal or state rent subsidy; or
- rents from a landlord who is not required to pay real estate taxes; or
- is the dependent of another taxpayer

Calculation of "Total Income"

For purposes of the tax credit, a taxpayer's "total income" is the taxpayer's Massachusetts adjusted gross income (Massachusetts AGI) increased by various amounts that may have been excluded or subtracted when originally calculating Massachusetts AGI. These amounts include income from social security, retirement, pension or annuities, cash public assistance, tax-exempt interest and dividends, short-term and long-term capital losses, certain capital gains, income from a partnership or trust not otherwise included in the taxpayer's Massachusetts AGI. These amounts consist of gross receipts (for example, the return of capital or gifts) from any other source except the tax credit itself.

An example of return of capital that may be seen for a small number of clients are amounts on a 1099-DIV, box 3 for Non-Dividend Distributions. This return of capital is income to the taxpayer, but is not taxable in the current tax year.

Total Income Determination (Overview)

Massachusetts gross income is included in the total income calculation. Generally, Federal gross income excluded from Massachusetts gross income by specific law, is added back in the total income calculation.

Generally, any amount that is excluded from Federal gross income is not added-back in the total income calculation if such amount is not defined as income and is not included in Massachusetts gross income by specific law. Subsidies, insurance programs and similar reimbursement programs, etc. are generally not added-back in the total income calculation.
**TaxSlayer**

- *TaxSlayer* will calculate Massachusetts adjusted gross income based on data entered for the Federal and Mass returns with the exception of pensions where gross and taxable amounts are different. *TaxSlayer* uses the taxable amount as of late January 2018. Calculate the difference between the gross and taxable amounts, write it down on the Income Worksheet, and insert the difference in the CB screen at the bottom, on the line labeled at the end, **Enter any additional additions/subtractions to Pensions and Annuities Not Taxed in Massachusetts.**

- The adjusted gross income will appear on Ln 3 of the printed Schedule CB. If the taxpayer has multiple sources of Miscellaneous income (see below), it is recommended that the sources be written down on a scratchpad and added up. The total should be entered on the line at the bottom of the *TaxSlayer* Circuit Breaker screen labeled: “Miscellaneous income, including cash public assistance. The scratchpad should be retained for use by the 2<sup>nd</sup> person reviewer.

- **The 2016 software** erroneously included rollover amounts (1099-R, Box 7, Codes 6 or G) on line 5 of Schedule CB, which is used for nontaxable pensions/annuities that are actual income. This problem was fixed for 2017, but the problem exists for 2016 and prior tax years. For prior tax years, refer to the workaround in the 2016 Mass Manual.

**Ln 6 (Miscellaneous Income) – (List on Scratch Pad; then total for Taxslayer entry)**

- Cash Public Assistance includes food stamps and welfare, as well as any other payments received from a government or quasi-governmental agency such as emergency rental assistance due to a fire. Cash public assistance also includes fuel assistance, if paid directly to the taxpayer (e.g., a one-time emergency check to fill a tank). However, if the assistance is paid through a discounted rate program (3rd party beneficiary and individual's income qualifies for below market rates) the payment is generally considered in-kind assistance and is excluded from the income calculation.

- Disability income – if paid in lieu of wages
- Food stamps (see cash public assistance above)
- Gains from sale of personal residence under the $250,000/$500,000 ceiling
- Gifts
- Sick Pay if paid in lieu of wages;
- Welfare (see cash public assistance above)
- Workers Compensation (NOT Unemployment Compensation)

**Specific Items EXCLUDED from Calculation of Total Income**

- Estates – one time distributions that have been probated are not included since they are not part of Federal gross income;
- Life Insurance Policies – Proceeds payments are not included since they are not part of Federal gross income (U.S. Form 712);
- Losses included in U.S. Schedule D;
- Net worth of assets, accumulated earnings in an account i.e., deferred compensation, IRA, etc.;
- Payments, in-kind payments, or monies received that are otherwise not defined as wages, payments in lieu of wages, income, other income, return of capital, or gross receipts;
- U.S. Series E and Series EE bonds – these bonds are considered investment bonds and do not earn interest each year. Instead, the income is recognized Federally only at the time the bond matures and the holder cashes it in. Years prior to maturity, there would be no income.
HOMEOWNERS

Property Tax Payments

For a homeowner, property tax payments are **actual amounts paid** during the calendar year after making certain adjustments. All property tax payments made during the calendar year are included regardless of the year to which payments are applied.

**Adjustments that must be made to REDUCE property tax payment amount are:**

- Abatements granted by local assessors (if included in taxes paid)
- Interest and penalty charges assessed due to delinquent payments
- Exemptions granted by cities or towns to qualifying veterans, surviving spouses, blind persons, and senior citizens earned through the **Senior Work Program** (see below and Appendix D)

**Senior Work Program under G.L. c. 59, s. 5K**

Taxpayers who participate in this program receive a reduction in their property taxes owed and such reduction may not be included in the calculation of property tax payments. No adjustment is required, however, for taxes assessed, either under the Community Preservation Act, the Cape Cod Open Space Land Acquisition Program or by a tax-levying district. For Massachusetts purposes, Chapter 59, Section 5k excludes from income the amount received as a reduction in real estate taxes. Federally, the amount received is taxable.

**Water and Sewer Payments**

Taxpayers may include, in addition to their property tax payments, 50% of the actual water and sewer use charges paid during the tax year when calculating their credit. Generally, cities and towns with municipal water and sewer systems issue a periodic (monthly or quarterly) bill from the municipal or district water/sewer department. This bill is sent separately from fiscal year real estate bills. Only when a water/sewer bill is delinquent that it might be added to a tax bill. If **delinquent charges** are added to the tax bill, the charges become part of the tax and constitute a lien and are therefore **not** part of the exclusion. Provisions of the circuit breaker relate to **current** use charges only.

**Betterments** may be added if directly connected to either the construction, repair and/or maintenance of a water and sewer system, including sewage treatment plants.

Cost to pump septic tank does **not qualify** as water and sewer use charge since a private cleaning company performs the cleaning and it is not a charge levied by a city or town.

However, charges from a town sewage treatment facility (town health department) for the processing of septic tank waste and the discharging of it as a liquid is allowed since amount is levied by a city or town.

**RENTERS**

**Rent Constituting Real Estate Tax Payment**

For renters, the law assumes that 25% of rent goes toward property tax. Accordingly, renters may claim a credit in the amount by which 25% of their annual rental payment is more than 10% of their total income. Rent that is used for calculating the credit is that used to calculate the allowable rental deduction on Form 1, Ln 14 (**TaxSlayer** will not carry over to Sched CB). **Note that a senior can claim BOTH a rental deduction on Ln 14 AND the 25% value for the CB.**

When calculating the Circuit Breaker Tax Credit, a tenant should base the calculation on **actual rent paid** during the calendar year regardless of the year for which the payment is applied. For example: The taxpayer may have paid a rent in arrears from the prior year or an advanced payment for the subsequent year.
If a first month / last month payment was made at the start of the tenant’s lease, both would be included for the year in which paid. If a security deposit was also made, it would NOT be included in rent paid. (Return of security deposits would not be counted as income; the interest received from the security deposit escrow account would be – enter under Interest as appropriate.)

The law makes no provision for those who own their residence for part of the year and also rent for part of the year. Common sense would combine \( \frac{3}{4} \) of the rent paid and all of the RE taxes paid. See **Combined Owner/Renter during Tax Year** at the beginning of the Senior Circuit Breaker section for further discussion.

**SPECIAL CASES**

**Part-Year Residents / Non-Residents**

Part-year residents may claim the credit for rent paid while they were Massachusetts residents; non-residents are not eligible as the taxpayer must live in the property as their principal residence.

**Property on More than One Acre of Land**

Only the assessed value of the principal residence, together with the land, not to exceed one acre, that immediately surrounds and is associated with that residence should be used in determining eligibility for the credit. If the taxpayer's real estate tax bill does not separately list the assessed value of the principal residence and the surrounding land, the taxpayer should contact the local city or town assessor for a breakdown of the real estate tax bill; e.g., 20 acre parcel with a house. Otherwise there is a worksheet elsewhere on the Mass Tax-Aide website [mataxaide.org](http://mataxaide.org) in the “Tools” section that will assist in this calculation.

**Apportioning Real Estate Tax Payments**

Since the taxpayer may only claim that proportional share of the real estate tax payments, including water and sewer use charges, which corresponds to the portion of the residence used and occupied as principal residence, he or she will need to prorate the taxes paid.

**Change / Adjustment in Assessed Valuation During the Tax Year**

For the tax year, a homeowner otherwise eligible for the circuit breaker credit will not be eligible unless the assessed valuation, before the residential exemptions but after abatements, of the homeowner's principal residence does not exceed the threshold amount as of January 1 of the taxable year. Thus, if the assessed value of the principal residence rises above the threshold amount during the year, the homeowner would still be eligible for the credit since the value of January 1 is the measurement date.

If a homeowner disputes assessed valuation and successfully receives a reduced valuation during the year, the lower assessed valuation may be used. This is consistent with the reduction in tax bill that will be reflected through a real estate tax abatement.

**Multi-unit Dwellings**

Taxpayers who own a multi-unit dwelling (a multi-family residence that includes their personal residence) may only claim their proportional share of the real estate tax payments, including water and sewer use charges, which corresponds to the portion of the residence used and occupied as their principal residence.

*Example 1)* If a condominium association pays the sewer and water bill for multiple owners, each owner may only claim his or her proportional share attributable to his or her condominium of the charges paid.

*Example 2)* An individual owns a three-family house with an assessed valuation of $1,200,000, and has made property tax payments during the year of $8,000; all units are the same in size and condition. One unit is taxpayer's personal residence, the other two are rented. The owner
allocates $400,000 to each of the three units. To qualify for the credit, the owner would use the assessed valuation of $400,000 for his personal residence. For purposes of the calculation, the owner may only claim property taxes of $2,667, one third of the total RE taxes paid, for his personal residence. Since the owner has paid property tax on the three-family, the tenants may qualify as renters based on the total rent paid for their rental units.

**Single Unit Dwellings - Multiple Ownership**

**Assessed Valuation**
Since there is only one dwelling, the assessed valuation may not be allocated even though two separate taxpayers are occupying the residence.

**Real Estate Tax Payments**
Real estate tax payments are based on the actual amount an individual pays in the calendar year regardless of ownership of the dwelling. (See TIR 01-19(B)(1))

*Example:* Two brothers, one over the age of 65, each has a 50% ownership in a single family home. The assessed value is $800,000. The brother over age 65 pays all of the taxes in the amount of $4,500. His total income qualifies. The assessed value of $800,000, however, may not be prorated since the property is not considered a multi-unit residence. However, in this example, the assessed valuation disqualifies either brother.

In the case where the assessed valuation is below the threshold, then the brother over age 65 may claim all $4,500 of taxes paid; the other brother may not make any claim for the credit since he made no real estate tax payments.

**Single Unit Dwellings – Multiple Tenants (Renters)**
Rental payments are based on actual amount an individual (the taxpayer) pays in the calendar year regardless of the terms of the lease of the rental unit.

*Example:* If two individuals sign a lease for a rental unit but one pays all of the rent, then only that individual can use the rent paid during the calendar year for purposes of the credit calculation

**SPECIAL RULES**

**Assisted Living Facilities**
May be public or private facilities that provide a variety of housing and healthcare services such as 24-hour nursing care, emergency care, etc. Either a tenant or an ownership arrangement may exist.

**Tenant Relationship**
Fees paid to an assisted living facility are considered rent for purposes of taking the credit only if both criteria below are met:

- The facility pays real estate taxes; AND
- An actual landlord-tenant relationship exists between the taxpayer and the assisted living center.

To determine the amount of rent available for the credit calculation, DOR will look to the contractual agreement between the facility and tenant to determine if any of the monthly payment is attributable to rent, **EITHER:**

- Where an amount for rent is separately stated on the taxpayer’s bill from the center; **OR**
- Where a portion of an individual’s monthly payment may be considered rent. Taxpayers living in assisted living facilities that are exempt from paying real estate, such as public housing or church managed homes, may not claim the credit.
Ownership Relationship

In cases where the individual owns a unit, pays the real estate taxes, and is assessed for his or her living unit directly to the city or town, the amount paid may be used in the calculation for the credit.

If the facility has a structure similar to a co-operative where the individual is paying a monthly fee that covers both real estate taxes and other types of services, i.e. medical and nursing care, only that portion of the payment documented as related to the real estate tax paid can be considered. DoR will look to the contract or ownership agreement to determine the nature of these payments.

Nursing homes, Homes for the Elderly, Retirement Homes

Payments made to these types of facilities may not be considered rent unless a land-lord – tenant relationship exists. DoR will look to the contractual relationship between the taxpayer and the facility to determine the situation.

OWNERSHIP BY TRUST

a) Grantor (Revocable) Trust, where taxpayer is a trustee:
   The taxpayer should file as homeowner.

b) Grantor (Revocable) Trust, where taxpayer is NOT a trustee - e.g. former owner who creates a Life Estate and puts property into a trust for the benefit of children.
   If under the terms of the trust, a taxpayer makes payments to the trust in lieu of rent, the taxpayer may treat these payments the same as if they were rent and must follow the renter rules when filing for the credit.

c) Irrevocable trust
   Taxpayer must follow the renter rules.

OTHER CONSIDERATIONS

Annual Increases to Reflect Increase in Cost of Living

- The maximum figures for income limits, property valuation, and the credit itself, are adjusted annually to reflect increases in the cost of living. The current year's maximum is “built-into” the state software package from TaxSlayer. [For TY 2017 (2018 Filing Year) the credit is $1,080.]

Documentation to Submit with Abatement/Amended Tax Return

- Schedule CB - Circuit Breaker Credit

- Real estate tax bills and/or the actual tax paid, or proof of rent paid; sewer and water bills or proof of the actual amount paid.

Additional request from Mass DoR

- In recent years, Mass DoR has been requesting proof of real estate taxes paid from a randomly selected sample of taxpayers. While all that needs to be done is to submit copies of cancelled checks or tax bill payment receipts, the notice comes as an “Intent to Assess” form and may cause consternation with the Taxpayer. In addition any Massachusetts tax refund will be delayed until the documentation requested is received.
Appendix D- Guidelines for Senior Citizen Property Tax Work-Off Abatement

(State Management Team Memo; Effective March 2009)

We have received a number of questions from the districts relating to the proper handling of the credits citizens receive relative to the work-off property tax abatements from some communities under Massachusetts Chapter 184 §52. This has led to a series of discussions with the DOR, IRS, Tax-Aide and others. It is now clear that there has not been a common understanding of the rules and the law within any of the above organizations, and a variety of conflicting sets of direction were, and likely still are, being given. The guidance given below is interim in the sense that each of these organizations has its own processes to issue final guidance and it will be some time before that occurs. Nevertheless, you need to do tax returns today, you need guidance on what to do today, and thus this memo presents how we are going to handle these issues with in Tax-Aide in Massachusetts.

What is the senior citizen property tax work off abatement?

This is a program that allows cities and towns at their option to allow citizens over the age of 60 years old to perform work for their community in return for a reduction of up to $750 in their property tax. There are then a bunch of rules relating to how the town must structure the program, how injuries -workman’s comp - is handled, liability and the like.

What is the IRS view of the tax consequences of these programs?

The IRS believes that this constitutes compensation, much like bartering, and therefore results in imputed income, on which income tax and social security and Medicare taxes may be owed.

How are towns treating the tax consequences of the program?

Townsvary substantially in how they are handling this program. Some towns believe they have structure the program in a way that allows there to be no tax consequence. Other towns are issuing W-2’s, in some cases the town is paying both halves of the Social Security and Medicare Taxes owed, in others it is withholding Social Security and paying Medicare only, presumably on the grounds town employees don’t pay into Social Security. Other towns apparently are issuing W-2’s that show no employee withholding. (Presumably they are paying the employer half, or maybe both halves but not declaring it? Who knows?) Other towns are issuing 1099’s implying the client is self-employed.

What is the “correct” way to treat the payments?

It appears that the W-2 approach is the one most likely to be determined to be the “correct” approach but like most things in the legal system that is not certain until someone tests the other approaches in court.

What is the Massachusetts Tax-Aide position?

Massachusetts Tax-Aide will not substitute its judgment for that of the town accountants, lawyers and CPA’s administering the program. We will use the documentation issued and figure the taxes appropriately given that documentation.
How do I handle a W-2?

If the W-2 is properly issued it will show the imputed income in Box 1 (which would include both the abated amount and any Social Security or Medicare paid for the client.) It will also show the amount of imputed wages subject to Social Security and Medicare in boxes 3 and 5 respectively. It will show the amount of Social Security and Medicare paid by the client or on the client’s behalf in Boxes 4, 6. Enter all that information normally. If the form appears to show the town did not collect required payments, it is not our problem to collect it; it is the employer’s job to collect it and transmit it to the IRS. Fill out the W-2 just as received and let any correction be between the town and the IRS.

Box 16 should be zero.

If box 16 is not zero you have two choices. Enter the amount shown and pay the tax, or send the client back to the town to get a revised W-2. We should not substitute our judgment for that of the town and unilaterally deduct that amount. We can provide the town with a reference to the law showing that such income should not be taxable in the state allowing them to revise the W-2.

What if the town issued no documents?

If the town issued no documents it implies the town has determined that their program is structured in such a way that no imputed income occurred. They may or may not be correct. Tax-Aide will not, however, substitute our judgment for theirs. In this case we will treat it as no tax consequences.

What if the Taxpayer gets a 1099-MISC?

If the income is reported on Ln 3, then IRS will treat this as “other income” and it must be reported on 1040 Ln 21 and Massachusetts Sched X (will be auto-entered by TaxSlayer). If, however, the income is reported on Ln 7, then the income is considered by the IRS as non-employee compensation and must be reported on a Sched C or C-EZ. If the person had expenses to do the volunteer work you could deduct them. However, on the Federal return, if the imputed income is over $400 they will owe self-employment tax.

The state situation is not much better. There is no standard way to exclude this income. Inclusion on a 1099-MISC is not a possibility the State DOR had considered although they agree the income should not be included. Our process will be to go to line 9 of schedule Y “Certain Qualified Deductions from US Return” and link to a “statement”. On the statement enter the abatement amount and in the statement indicate “Chapter 184 §5 Senior Citizen Property Tax Work Off Abatement”. The client should also be advised that the process is new enough that it is possible this could be questioned as there is no standard way to show a credit on a tax return when it is recorded on a 1099. Should that occur they would need to send the explanation to the DOR this it is a “Chapter 184 §5 Senior Citizen Property Tax Work Off Abatement.” Include the statement in their copy so they will have it to mail if necessary.

Could we just include any Ln 7 income on line 21 Other Income instead to avoid SE Tax?

We do not think so. However we have forcefully put that position to IRS and that possibility was sympathetically received and is under review. Our guess is they would like to do it but are afraid of the precedent, as, in the past, there have been a number of clearly illegal barter schemes which have been widely promoted as a legal way to avoid taxes, and they are afraid or re-energizing that approach.
What if a taxpayer wants to know more about this issue or why it was treated differently on his return verses his friend in another town?

To the extent that the taxpayer has raised the issue, you should advise them that we are aware that different towns are handling the abatements differently and that as a program we have decided we are going to go with the documents issued. It is possible that that one or another position could be determined to be the correct position in the future, but for now that is between the IRS and the towns involved. If asked could this result in a change to their tax return if it were audited, the answer is: “Yes, however we do not believe this is likely”. It is highly likely, however, that one or another approach will be standard in the future.

Could getting this abatement keep someone from qualifying for the circuit breaker?

Unfortunately, Yes

Could getting this abatement result in someone receiving the earned income credit?

Yes, but not often because of age limitations.
Appendix E - Policy and Procedures relative to possible Federal taxation of the Mass
Senior Circuit Breaker

   Topic under review. Up to date information will be posted on the Mass TaxAide website
   <mataxaide.org>
Section 2: Non-Resident and Part-Year Resident Returns

This section will be added at a later date.
Section 3: Scope

The scope of the Tax-Aide program is defined in the Tax-Aide Scope Manual, What’s In – What’s Out, Tax Year 2017. This document can be found on our Massachusetts Tax-Aide website (https://mataxaide.org) on the Reference Material tab (on the password protected Tax-Aide page) or One Support Help Center. Massachusetts Tax-Aide follows the national Tax-Aide program scope with no further restrictions.

Scope changes for Tax Year 2017 (from Tax Year 2016) include the following:

- Allow Form 8606 Part II for IRA to Roth conversions
- Contract labor on Schedule C line 11 is now out of scope per IRS directed scope change
- Clarified that donation of a motor vehicle, airplane, or boat with a value of $500 or less is in scope even if taxpayer receives a Form 1098-C as confirmation of the donation.

The following tax law provisions expired as of December 2016 and no longer apply:

- Mortgage insurance premiums as deductible home mortgage interest
- Credit for certain energy improvements on principal residence. All remaining energy credits are out of scope (Form 5695)
- Tuition and fees as an adjustment to income
- Exclusion of cancelled indebtedness on principal residence as income (always out of scope for Massachusetts Tax-Aide volunteers)

The Tax-Aide National Office released the following supplemental guidance pertaining to current/former residents of Puerto Rico. Except for former residents of Puerto Rico who moved to the mainland prior to 2017 and who have only US sourced income, returns for current Puerto Rican taxpayers or those who moved to the mainland in 2017 are out-of-scope. Specific details are as follows:

Many residents of Puerto Rico have moved and/or temporarily relocated to the U.S. mainland after the damaging hurricanes of 2017 and volunteers have asked if/how Tax-Aide can serve them. We have explored different options with the IRS with respect to ways we could provide assistance to displaced Puerto Rican taxpayers. Unfortunately, there are no direct services we can provide as we do not have the tools to properly serve these individuals:

- TaxSlayer Online/Practice Lab 2017 does not support the U.S. Federal Income Tax Return that must be filed by bona fide residents of Puerto Rico who claim an exclusion for income earned in Puerto Rico.
- Individuals who have permanently moved to the United States in 2017 are generally still considered residents of Puerto Rico for 2017 and must file a Puerto Rico tax return, even if there is only U.S. sourced income. TaxSlayer Online does not include this capability.
- A resident of Puerto Rico who moved to the U.S. mainland this year must file a U.S. tax return if there is U.S. sourced income. However, if there is Puerto Rico income that is exempt from U.S. tax, the standard deduction must be adjusted based on the ratio of U.S. income to gross income and TaxSlayer Online does not handle this calculation. Also, this computation must be made before the taxpayer can determine if they must
file a U.S. tax return, because the minimum income level at which they must file a return is based, in part, on the standard deduction for each particular filing status.

- A Puerto Rico tax return may result in foreign tax credits on the U.S. return that exceed the $300/$600 limits for volunteers with Advanced Certification.

A former resident of Puerto Rico who moved prior to 2017 who has only U.S. sourced income is served in the same manner as any other U.S. resident. However, a former resident with Puerto Rico sourced income is out of scope as TaxSlayer does not handle the income exclusions or the necessary tax return. Note that a Puerto Rico pension to which the taxpayer contributed includes Puerto Rico sourced income and the taxability must be determined based on the taxpayer’s contributions, where the services were performed that earned the pension, investment earnings and where the pension trust is located. The standard U.S. simplified method is not applicable.

The optional Puerto Rico lessons and certification test can help when talking with taxpayers who have Puerto Rico source income and/or are bona fide residents of Puerto Rico required to file a federal tax return or who possibly qualify for the additional child tax credit, but we do not have the tools to properly serve them.

We continue to have a dialogue with the IRS around suggestions on where/how former residents of Puerto Rico can obtain the needed assistance.

Massachusetts has unique tax-laws that do not directly flow from the federal provisions. The following Massachusetts unique deductions are out-of-scope for Massachusetts Tax-Aide volunteers:

- Schedule Y, line 5, Moving expenses (unless Military certified and taxpayer is active duty military)
- Schedule Y, line 6, Medical Savings Account deduction
- Schedule Y, line 7, Self-employed health insurance deduction
- Schedule Y, line 8, Health savings accounts (unless HSA certified)
- Schedule Y, line 14, Claim of right deduction
- Schedule Y, line 16, Human organ donation deduction

All credits are out-of-scope except the following:

- Earned Income Tax Credit
- Limited Income
- Income tax due to another state or jurisdiction
- Senior Circuit Breaker
- Lead Paint
- Septic