

Calculating the Taxability of 2017 Massachusetts State Tax Refunds
Including Circuit Breaker Credits
Massachusetts Resource Guide Appendix E

WHEN DO YOU NEED TO RUN THIS SPECIAL CALCULATION? When all of the following are true:

- Taxpayer received a 2017 Massachusetts refund (form 1099-G)
- Taxpayer is a homeowner
- Taxpayer itemized deductions in 2017 using Schedule A
- Taxpayer used real estate taxes on his principal home as a deduction on 2017 Schedule A, line 6
- Taxpayer received a Circuit Breaker Credit on 2017 Massachusetts Form 1, line 43

NOTE: IF THE ABOVE SPECIAL CONDITIONS DON'T APPLY, USE THE TAXABLE STATE REFUND CALCULATOR BUILT INTO TAXSLAYER.

WHAT INFORMATION DO YOU NEED? The taxpayer's 2017 Federal return with its Schedule A and 2017 Massachusetts return. If those are not available, report the total Massachusetts refund as taxable.

HOW DO YOU DO THE CALCULATION?

1. Open the Bogart Refund Calculator at <http://cotaxaide.org/tools/Refund%20Calculator.html>.

Fill out all entries on the left hand side of the screen using information from the 2017 Form 1040 and Schedule A. Enter property taxes paid from Schedule CB, line 10 in the box labeled *Other amount used, if refunded*.

2. From the 2017 Massachusetts Form 1, calculate the taxable parts of the refund attributable to the Circuit Breaker and Income Tax separately as follows:

- a. Circuit Breaker

2017 Circuit Breaker Amount (Line 43)	_____
2017 Mass tax liability (Line 36)	-
Taxable Circuit Breaker part of refund (if negative, enter 0)	=
	=====

Enter the Taxable Circuit Breaker part of the refund on row 2 of the table below and in the Bogart tool, right side, Refund amounts, *Other recoverable amounts* box.

- b. Income Tax

Total 2017 Massachusetts Refund (1099-G)	_____
Taxable Circuit Breaker portion of refund	-
Taxable Income Tax part of refund	=
	=====

Enter the Taxable Income Tax part of the refund in the Bogart tool, right side, Refund amounts, *State income tax refund amount* box.

3. Calculate the total Taxable State Tax Refund Amount (Form 1040, Schedule 1, Line 10) from the Bogart tool, right-side, Taxable amounts.

Taxable amount of state tax refund	_____
Taxable amount of sales tax & other refunds	+
Total taxable refund to report	=
	=====

Enter Total taxable refund to report in the TaxSlayer "Bypass worksheet box" to carry to 1040 Schedule 1, Line 10.

TaxSlayer --> Federal Section --> Income --> State and Local Refunds Form 1099-G Box 2 --> Bypass State Refund Worksheet

Important: Do not follow the instructions on the calculator under *Taxable amounts* to put any amounts on the 1040, line 21 - it will come over to the Massachusetts return as taxable income, which is not correct. Massachusetts does not tax any part of the Circuit Breaker Credit.

Be sure to print out a client copy of the Bogart calculator and also have it available for the quality reviewer.

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BACKGROUND: Although the Massachusetts Senior Circuit Breaker Credit is exempt from Massachusetts income taxes, it may be subject to Federal tax in some situations. This position is outlined in Memo 201423020 from the Office of the Chief Counsel of the IRS, dated 6.6.2014.

The situation where part of the Massachusetts refund from the prior year may be taxable on the current year Federal return is when the taxpayer itemized deductions on Schedule A in the prior year and used real estate taxes on the principal residence as a deduction. If the Massachusetts refund includes part of the Circuit Breaker Credit, the IRS Memo position is that credit reduced the real estate taxes used in the prior year Schedule A and therefore, some of the refund is taxable on the current year Federal return. The IRS Memo states that any part of the Circuit Breaker Credit that was used to offset Massachusetts taxes owed in the prior year is NOT taxable.

Note that this calculation having to do with the Circuit Breaker Credit is in addition to the usual calculation for Form 1040, Schedule 1, line 10 when a Massachusetts refund is received in 2017 and the taxpayer also used Massachusetts income tax withheld on the 2017 Schedule A, line 5a as a deduction. The methodology detailed on the reverse side accommodates both situations.