



MULTISTATE INCOME/FRANCHISE TAX

Massachusetts adopts partial conformity to OBBBA and enacts other tax changes

Tax Alert

Overview

On June 12, 2026, Massachusetts enacted House Bill 5470 (“[H.B. 5470](#)”), which adopts a selective approach to conformity with certain federal tax changes enacted in P. L. No. 119-21 (“OBBBA”) and makes several additional state tax law changes. Among other changes, the legislation limits conformity to certain federal research and experimental (R&E) expensing changes, temporarily decouples from certain business interest, depreciation, and expensing provisions, narrows qualified opportunity zone (QOZ) treatment to Massachusetts zones, creates a new elective passthrough entity excise tax on income above the surtax threshold, and enacts targeted credits, exemptions, and penalty relief.

This Tax Alert provides a summary of some of the key provisions of H.B. 5470 and their effective dates.

Research and experimental expenditures

H.B. 5470 delays the adoption of Internal Revenue Code (“IRC”) section 174A expensing for one year for both individual and corporate taxpayers. It provides for the following treatment of R&E expenditures:

	Years Beginning Before January 1, 2026	Years Beginning After January 1, 2026
Current Year Domestic R&E Expenses	5 Year Amortization as required prior to OBBBA	Full expensing
Catch-up Deduction of Previously Unamortized R&E under section 70302(f) of OBBBA	Disallowed	Disallowed
Foreign R&E Expenses	15 Year Amortization (unchanged)	15 Year Amortization (unchanged)

Given the retroactivity of these provisions, amended returns may be required for already filed tax year 2025 returns. Additionally, to the extent that taxpayers did not make sufficient estimated payments for the 2025 tax year, see penalty relief provisions detailed below.

Business interest limitation and expensing provisions

H.B. 5470 also delays adoption of other OBBBA changes affecting business deductions for two years for individual and corporate taxpayers. Under the Tax Cuts and Jobs Act, for years on or after January 1, 2022, taxpayers were no longer permitted to add depreciation and amortization back to the computation of adjusted taxable income for purposes of the limitation under section 163(j). OBBBA allowed taxpayers to revert back to using an adjusted

taxable income that is not net of depreciation and amortization. H.B. 5470 postpones adoption of that change until years beginning on or after January 1, 2027.

The following deductions are *disallowed* for taxable years beginning in 2025 and 2026:

- Deduction for additional interest under IRC section 163(j) due to the addback of depreciation and amortization to adjusted taxable income;
- Deduction for qualified production property under section 168(n); and
- Deduction related to the expansion of the section 179 limits under OBBBA.

Reversal of taxpayer favorable provisions if ballot initiative is passed

There is currently a proposed ballot initiative set to be put before voters on November 3, 2026 entitled: [25-18 Initiative Petition for a Law Relative to Reducing the State Personal Income Tax Rate from 5% to 4%](#). This ballot would phase in a lower personal income tax rate. H.B. 5470 includes a provision disallowing all three of the deductions outlined in the section above when they become available in 2027 “until action by [Legislature] to authorize said deductions and the identification of an alternative revenue source to replace any revenue lost due to said ballot initiative.”

Passthrough entity tax

H.B. 5470 creates a new elective excise tax for eligible passthrough entities, including S corporations, partnerships, and certain LLCs, to account for the additional 4% personal income tax on Massachusetts source income over \$1 million. An electing entity may pay a 4% excise on its qualified income taxable in Massachusetts above the surtax threshold, and qualified members receive a refundable credit equal to 90% of their share of the tax paid by the entity. The election is made annually, binds all members, and cannot be revoked for that year. It is also unavailable for any taxable year in which the federal SALT cap has expired or is otherwise not in effect. The excise tax is due on the entity’s original, timely filed return. This provision is effective for tax years beginning on or after January 1, 2026. Accordingly, similar considerations may exist regarding underpayment. Please refer to the penalty relief provisions detailed below.

Qualified opportunity zones

H.B. 5470 limits qualified opportunity zones for both individual and corporate taxpayers to areas located entirely within Massachusetts. The bill also provides that, for taxable years beginning in 2025 or 2026, section 1400Z-2 of the IRC applies as in effect for taxable years beginning before January 1, 2026. In effect, Massachusetts is freezing its treatment of opportunity zones at the pre-2026 federal rules for those years. These modifications limit both the timing and scope of QOZ benefits relative to federal law and may require taxpayers to adjust the treatment of deferred gains and basis adjustments for Massachusetts reporting purposes.

Automatic future nonconformity to certain federal provisions

H.B. 5470 modifies Massachusetts’ approach to conformity by limiting the automatic adoption of federal tax changes. Under the new law, individual amendments to the IRC that would otherwise affect Massachusetts income or deductions will not apply for the taxable year in which the amendment is enacted or for prior taxable years, unless the commissioner determines within 90 days that the amendment’s estimated revenue impact is less than \$20 million (based on a rolling three year average), in which case the amendment may apply. The commissioner must also report on the estimated revenue impact of such amendments. Accordingly, the legislation appears to limit automatic retroactive or current year adoption of certain IRC amendments, while preserving administrative flexibility for changes with a smaller fiscal effect.

Penalty and interest relief

H.B. 5470 provides penalty and interest relief for taxable years beginning in 2025. No interest or penalties will be imposed on an underpayment or late payment where a taxpayer filed before enactment on a basis inconsistent with certain enacted provisions (including sections relating to R&E, business deductions, and QOZ treatment), provided the taxpayer files an adjusted return within 90 days of enactment. Taxpayers that filed before enactment should timely consider whether amended returns are needed to align with the new rules and preserve available relief from interest and penalties.

Get in touch

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