August 14, 2019

Hon. Adam Hinds  
Chair, Joint Committee on Revenue  
Massachusetts State House  
24 Beacon Street, Room 109-E  
Boston, MA 02133

Hon. Mark J. Cusack  
Chair, Joint Committee on Revenue  
Massachusetts State House  
24 Beacon Street, Room 34  
Boston, MA 02133

Re: Support for H.2606 – An Act Allowing for the Deduction of Business Interest

Dear Chairmen Hinds and Cusack:

On behalf of the numerous businesses represented by the Massachusetts Taxpayers Foundation, I write to respectfully request that you report H.2606 – An Act Allowing for the Deduction of Business Interest – favorably from Committee at your earliest convenience. This bill would decouple Massachusetts from the new limitations on interest expense deductibility under IRC §163(j) – a change made necessary by the recently enacted federal tax reforms. Passing this bill would prevent a corporate tax increase, stop a hike in the cost of capital and ensure Massachusetts remains competitive for investment.

The Tax Cuts and Jobs Act of 2017 (“TCJA”) implemented a new, more competitive territorial taxing regime in the United States that dropped the federal corporate income tax rate to 21 percent while broadening the base. Among the many changes included in the TCJA were provisions that limited the interest income deductibility in conjunction with a 100 percent bonus depreciation provision. These provisions were intended by Congress to work in tandem to encourage companies to invest their profits in the US economy.

The federal tax changes have played out differently in the Commonwealth because we do not adhere to both provisions in the federal code. Massachusetts has a longstanding tax policy that allows the deduction of interest as an ordinary and necessary business expense in order to reduce the cost of capital and encourage investment and expansion in the state. With respect to bonus depreciation, however, Massachusetts decoupled from this provisions prior to enactment of the TCJA. Adhering to IRC 163(j) without also adhering to 168(k) has the unintended effect of raising the cost of capital in the Commonwealth, thereby increasing taxes on Massachusetts
employers and leaving them with fewer resources for hiring, expansion or improvement of business processes.

Other states have taken action to address this issue. Connecticut, Georgia, Indiana, Missouri, South Carolina, Tennessee, Virginia and Wisconsin have decoupled in some way from IRC §163(j). Notably, California and New Hampshire do not adopt IRC §163(j). If Massachusetts wants to be able to compete with these states for capital allocation, policy makers here must join the other states that have decoupled from IRC §163(j) by enacting H.2606.

Other provisions of Massachusetts tax law pertaining to combined reporting and the add-back of intercompany interest further complicate this issue and make it virtually impossible to comply with the law. Without clear guidance from the Department of Revenue, companies are unsure how to complete their 2018 tax returns that are due no later than November 15, 2019. Therefore, we urge the Committee on Revenue to report this bill out at its earliest possible opportunity so that taxpayers will have some certainty about how best to proceed.

Although there is a cost associated with this change, it is likely to be more than offset by the increased corporate tax collections Massachusetts is experiencing as a result of federal tax reform. It has been estimated that the new federal tax regime could increase the Massachusetts corporate tax base by 12 percent.¹

For the reasons outlined I urge you to pass H.2606 and offer my assistance in providing additional information or answering any questions you may have with respect to this bill.

Sincerely,

Eileen McAnneny
President