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Subject: Massachusetts Legislation Update
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To Our Clients and Friends:

Massachusetts recently passed significant legislation that impacts corporate taxpayers. Highlights of the legislation are set forth below.

Effective January 1, 2009, corporations engaged in a unitary business are required to file on a combined basis with their affiliates. The term "unitary business" will be construed to the broadest extent possible under the United States Constitution. The ownership test is greater than 50% of voting control (direct and indirect). Combination is on a water's edge basis, however, a worldwide election is available. An election is also available to include all members of the taxpayer's affiliated group in the combined return.

The federal "check-the-box" rules have been adopted effective January 1, 2009. Therefore, companies that claim to be a corporation for federal purposes must also do so for Massachusetts purposes.

The business corporation tax rate of 9.5% is reduced to 8.75% in 2010, 8.25% in 2011, and 8.0% in 2012 and thereafter.

The financial institution tax rate of 10.5% is reduced to 10.0% in 2010, 9.5% in 2011, and 9.0% in 2012 and thereafter.

The tax rate for S corporations with more than \$9 million in annual receipts is modified so that the corporate tax rate (for a business corporation or financial institution as applicable) for the year minus the personal income tax rate for the year equals the tax rate for the large S corporation.

The tax rate for S corporations with between \$6 million and \$9 million in annual receipts is modified to 2/3 of the tax rate applicable to larger S corporations.

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If you have any questions regarding the within, or any other state and local tax matters, please do not hesitate to contact me.

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