



EY Payroll NewsFlash Workforce Tax Services

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Massachusetts will likely not require withholding of the millionaire income tax surtax in 2023

At the Massachusetts Society of CPAs Annual State Tax Seminar on January 10, 2023, high-level representatives from the Massachusetts Department of Revenue (DOR) announced that the state does not plan on updating its current withholding instructions as contained in [Massachusetts Circular M, effective January 1, 2020](#) to reflect the new 4% surtax on taxable income over \$1 million that is effective January 1, 2023.

The DOR suggested that businesses attempt to estimate the appropriate withholding. However, given the computational complexities, the DOR confirmed that for tax year 2023, it will not impose penalties associated with underpayments of withholding or estimated tax in connection with the added 4% surtax.

The DOR indicated that it expects to have updated tables for 2024 that incorporate the 4% surtax and does not plan on waiving underwithholding/estimated tax payment penalties beginning in 2024.

Background

On November 8, 2022, 52% of voters approved Massachusetts ballot [Question 1](#), amending the state's Constitution to impose an additional 4% tax on individual taxable income over \$1 million. This additional tax applies for tax years beginning on or after January 1, 2023. The additional tax collected will be specifically allocated to education and transportation.

The \$1-million income level will be adjusted annually to reflect changes to the cost of living using the same method used to adjust the federal income tax brackets.

Prior to 2023, Massachusetts had a flat income tax rate of 5%.

Questions do remain regarding whether enabling measures will be necessary through legislation and the Massachusetts Constitution, as explained in *EY Tax Alert* [2022-1750](#).

EY Insights

It appears, based on the DOR's statements to participants of the Massachusetts Society of CPAs tax seminar, that official guidance is forthcoming as it pertains to income tax withholding of the additional 4% surtax on wages over \$1 million in 2023. Until such official guidance is available, employers should continue to apply the 5% withholding rate as specified in *Massachusetts Circular M*, effective January 1, 2020.

Contact us for more information

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