

Income/Franchise:

Massachusetts Appeals Court Affirms that Individual's Stock Sale in Company is Taxable Despite Subsequent Nonresidence

Case No. 2024-P-0109, Mass. App. Ct. (4/3/25). In a case involving whether a former employee/shareholder of a Massachusetts-headquartered company who was a former Massachusetts resident owed Massachusetts individual income tax as a nonresident on gains from the sale of his stock in the company, the Massachusetts Appeals Court (Court) affirmed a Massachusetts Appellate Tax Board (Board) ruling, which determined that his gain was still “derived from” and “effectively connected with” in-state trade or business or employment and thus taxable as Massachusetts source income under state law for the 2015 tax period at issue. Specifically, the Court considered whether the gain from such sale was Massachusetts source income subject to tax under Mass. Gen. Laws c. 62, § 5A, and 830 Code Mass. Regs. § 62.5A.1(3)(c)(8) (2006), and agreed that under the provided facts, the gain was derived from or effectively connected with the individual's trade or business or employment at the Massachusetts company even though at the time of the sale, he no longer was actively engaged in a trade or business or employment in Massachusetts. In doing so, the Court cited a 2022 Massachusetts Supreme Judicial Court case [see previously issued Multistate Tax Alert for details on this 2022 decision] and explained that the Court defers to the Board's expertise with respect to interpreting Massachusetts' tax laws, and that the statute at issue permits a tax on a nonresident who did business in Massachusetts regardless of whether the business was conducted in that particular year. Under the facts, the individual acquired the company stock at issue in 2005 (soon after founding the company) and continued to work for the company in Massachusetts where he also resided for the next decade. He was no longer a Massachusetts resident when he sold the company stock in 2015. Please contact us with any questions.

URL: <https://www.mass.gov/files/documents/2025/04/03/l24P0109.pdf>

URL: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-massachusetts-supreme-court-denies-motion-for-reconsideration-in-apportionment-case.pdf>

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