

Changing State Domicile

Rockefeller Insights

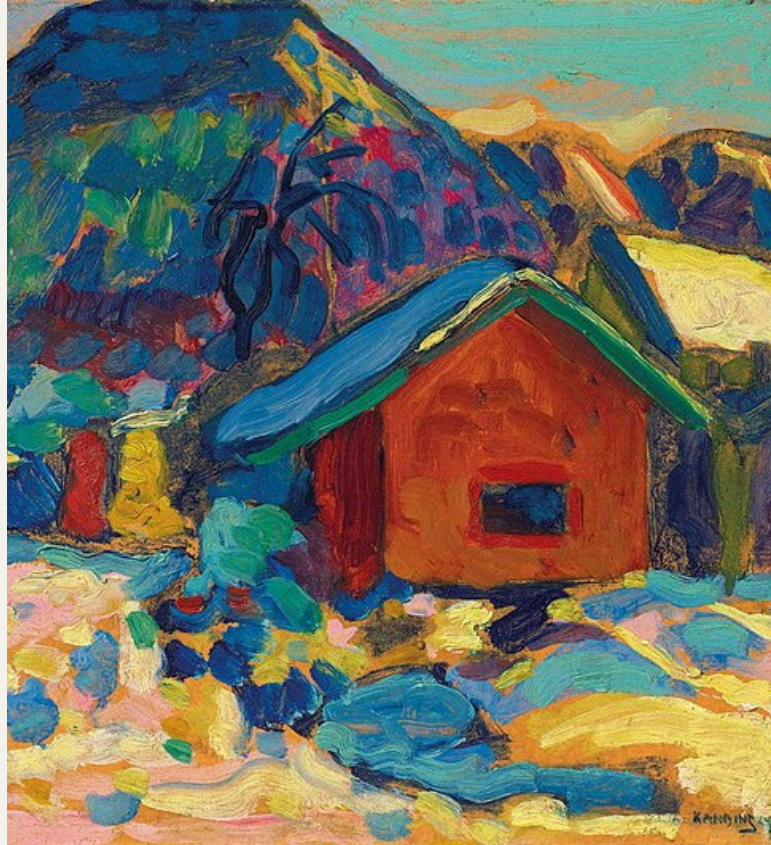
What to Consider When Changing State Tax Residency

CHANGING STATE DOMICILE

Many Americans change state domicile several times in their lives. Sometimes, these changes may even offer income and estate tax benefits. Individuals are deemed domiciled, and thus subject to tax, in the state they consider their permanent place of residence and to which they intend to return ultimately. In light of this, to effectuate a change in residency, you must manifest your intent to be a tax resident of the new state and affirm you have broken domicile in your previous state of residency.

People often believe that so long as you spend less than 183 days per year in your previous home state, you are not subject to the state's income or estate taxes. While this is a crucial step in the process of breaking domicile, it is important to take additional action to demonstrate the change since states will often look to your "long-term intent."

Unfortunately, states do not provide a simple checklist to follow when breaking domicile, and the determination is made through evaluating specific facts and circumstances. Further, since taxpayers



leaving a state will result in lower state tax revenues, it is common for domicile changes to be challenged. The better the documentation you have of the change, the more likely you are to be successful under audit.

SERIES OF ACTION ITEMS TO CONSIDER IN SUBSTANTIATING A CHANGE OF STATE DOMICILE:

- **Spend less than 183 days in your prior state of domicile.** States have been known to request credit card activity and travel records during audit. Consider downloading an application for your cell phone to assist in tracking days.
- **Spend more days in your home state than in any other state.** While not required that you spend more than 183 days in your new home state, the more, the better, and you should strive for at least half of the year.
- **Update estate documents to reflect your new state of domicile.**
- **File your federal income tax return using your new address.** Additionally, file a nonresident income tax return in your prior state of domicile to the extent you have income sourced to the state.

SERIES OF ACTION ITEMS TO CONSIDER IN SUBSTANTIATING A CHANGE OF STATE DOMICILE (CONTINUED):

- **Enroll children in schools in your new state of domicile (grades K-12).**
- **Move valuable items to your new residence.** Including family heirlooms and personal effects traditionally associated with a primary residence.
- **Obtain a resident drivers license in your new state of domicile.** If possible, formally return your old license.
- **Register to vote in your new state of domicile.** If applicable, cancel your voter registration in the old state of domicile.
- **Register your vehicle in your new state of domicile.**
- **Focus charitable giving to local organizations in your new state of domicile.** If possible, avoid making gifts to local charities in your previous state of domicile.
- **File for a homestead exemption, if applicable.** Relinquish the homestead exemption in your previous state of domicile.
- **Join clubs in your new state of domicile (Country clubs, Churches, Synagogues, etc.).** Relinquish similar memberships in your prior state of residence.
- **Update mailing address on all bills and credit cards.**
- **Notify family, friends, colleagues, and other acquaintances of the change.** Consider sending an email to have documentation of the correspondence.
- **Find new doctors and dentists in your new state of domicile.** Exceptions can be made for specialists in your previous state of domicile. Have your old doctors and dentists forward your medical records to your new provider.
- **Create a relationship with a local bank in your new state of domicile.** Close accounts at local banks in your prior state of domicile and transfer the contents of safety deposit boxes.
- **Consider selling your home in your prior state of domicile.**
- **Be conscience of the domicile change when making new investments.** For instance, if making a new real estate investment focus on investing in property located in your new state of domicile and avoid property in your prior state of domicile.

This list is not comprehensive and should simply be used as a guideline of best practices. State audits come down to “substance over form,” so while there is no set formula for substantiating a domicile change, the more items on the list you can reasonably implement, the better.

We encourage you to reach out to your advisor to continue the discussion should you want additional information or have questions on changing domicile and the related income and estate tax impact given your unique facts and circumstances.



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