

## Your State of Residency Affects Income, Estate and Inheritance Taxes

One aspect of exit planning and estate planning is determining if relocating to another state to take advantage of a warmer climate or to be closer to family members. In addition, there may be state tax advantages related to the move. If the new state does offer tax advantages, there are certain steps that should be taken to make sure the new state is considered your domicile. Otherwise, you may become subject to tax in both your new and old state, as well as both states attempting to claim jurisdiction over your estate.

If your move is to be permanent, it is important that your legal domicile be established in the new state. If you have any doubt about these steps, please discuss this with an attorney. The exact definition of domicile will vary from state to state. Our general understanding is that domicile is your true, fixed, and permanent home and the place to which you intend to return, even while residing elsewhere. You may have more than one residence but can have only one domicile.

With each state having its own rules relating to residence and domicile, both states may try to impose their income taxes on the relocating person even if he or she has established domicile in the new state but has not relinquished domicile in the previous state (at least to the state's satisfaction).

The more steps you take to establish domicile in your new state, the more likely you may have minimal issues in claiming that all ties to your old state are broken. Similarly, the more time that elapses after the move and the more steps you as the retiree take to establish domicile in your new state, the more difficult it will be for the old state to assert that you reside or have domicile there.

State auditors review all of the actions by a taxpayer to determine whether a change in domicile has occurred. The evidence to establish both a change of residence and the required intention to effect a change of domicile must be "clear and convincing". The following steps, although certainly not all-inclusive or dispositive, tend to establish domicile in a new state:

- Registering to vote in your new location.
- Filing a change of address form with the post office, as well as with all your financial contacts. Also, use your new address on any documents such as tax returns, wills, contracts, insurance policies, passports, and trust agreements. Notify banks, insurance companies, retirement plan managers, the Social Security Administration and companies that send you monies of your change in residence and instruct that money be sent to you at your new address. Notify religious, social, political, civic and professional organizations of your change in domicile and establish new affiliations in similar organizations in your new state.

- Maintain medical records and primary care physicians, dentists, therapists and the like in your new state.
- Obtain a driver's license and register automobiles in your new location.
- Move any items in a safe deposit box to your new location.
- Purchase or lease a residence in the new state; sell your old residence or rent it at fair market value to an unrelated party.
- If an income tax return is required, file a resident return in your new state and a nonresident return in your old state. In the year of move, file part-year returns in both states.
- Obtain any necessary professional registrations and licenses in the new state and deactivate resident registrations in your old state.
- Obtain subscriptions to local newspapers and magazines in your new state.
- Open an office in your new state or establish an office in your home and use business stationary with your new state's address.
- Discontinue to use bank or brokerage accounts in your old state unless absolutely necessary. If you do continue to use your present broker, change the account to your new state.
- If purchasing a home in your new location, file for homestead property tax relief if it is available.
- If retaining your home in the old state, remove any homestead exemption applicable to that property.
- Move all items that make a house a home such as mementos, heirlooms, sentimental items, trophies, collections, furniture, etc. to the new state. We even suggest photographing these items "as is" in your present state in order to document their transfer to your new home in the new state.
- Consider buying a cemetery plot in the new state...we suspect that step may make it more difficult to challenge one's intent.

No matter what decision you make regard protecting yourself from potentially being considered a resident of two states, it is important that the change in your legal domicile be carefully planned and executed.

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