



# Successfully Changing Your Tax Residency Requires More Than a Change of Address



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Where you reside has a substantial effect on how much you pay in taxes. Some states such as New York, New Jersey, Connecticut, and California have earned reputations for high taxes, while others, like Florida, Nevada, and Texas, have become popular for having no state income tax. Families with the means and flexibility to choose where they live, particularly those anticipating a liquidity event or a life change such as retirement may be looking for a more tax advantageous place to call home.

Changing your tax residency has many potential positives, but it's not as simple as filing a change of address with the U.S. Postal Service. Before making such a significant life choice, you'll want to carefully consider the following:

## The Impact

What will a change of residency mean for both your family and your wealth plan? How well does your new state suit your lifestyle? Do the benefits of the move outweigh any drawbacks? On balance, will this move bring you closer to your long-term goals?

## The Location

Evaluating a location's tax advantages means understanding the impact on your entire wealth plan and being conversant with tools that can reduce taxes regardless of state residency. This assessment can be quite complex and should take into account the full spectrum of taxes — income, property, sales, and other taxes. There is also

the matter of estate taxes and planning, which may require revisions to existing strategies and updated documents to conform with laws in your new state of residence.

## Pitfalls to Avoid

- Don't initiate a move without fully considering all financial and lifestyle implications.
- Don't go it alone. Changing tax residency is a complex process that affects multiple aspects of your wealth plan. Experienced professional guidance can help you avoid pitfalls.
- Don't assume that no state income tax always means a lower total tax bill. Every state has to pay its bills. Get help to assess the entire tax picture.
- Don't spend 183 days or more in a state other than your declared domicile.
- Don't mistime your move. A liquidity event, maturing stock options, or other sources of taxable income may require careful timing for your change of residency.
- Don't apply for any tax rebates or property tax relief in your prior state if they are contingent on residency.
- Don't retain membership in any organization in your previous state for which residency is a requirement.

An aerial photograph of a coastal area. On the left, there are several houses with brown roofs and some trees. A sandy beach runs along the middle, and on the right, there are waves breaking onto the shore. The image is used as a background for the text.

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## Understanding “Domicile” and “Statutory Residency”

The general rule is that states may tax the total income of state residents. For non-residents, states tax only the portion of the income generated or “sourced” in that state. A person can be considered a resident by being “domiciled” in the state or by statutory residency.

For tax purposes, your domicile is the legal residence you choose to call home, the place where you intend to return whenever you leave it. Once you establish a domicile, it remains your domicile until you move with the intention of making a new permanent home.

Regardless of where your domicile is, you can unintentionally establish statutory residency in another state by spending too much time there. If you spend 183 days or more in a state where you maintain a home, you may be classified as a statutory resident even if it is not your chosen domicile. You could then be subject to state tax on all of your income, whether or not it was sourced in that state.

## Changing Your Domicile

To establish a new domicile, you must take steps to demonstrate the required intent and show convincing evidence that you have terminated the previous domicile. Specific requirements vary depending on your previous and new state, but generally include some variation of the following primary and secondary factors:

- **Physical Proof:** These are typically the primary factors officials consider in recognizing a domicile that provide evidence of your general life habits. They include purchasing/renting and occupying a home in your new state (preferably but not necessarily larger and/or more valuable compared to property maintained in your prior state), having your spouse and minor children move to the new state, establishing social, civic and religious connections in the new state, and reducing business and other activity in your former state.
- **Paperwork proof:** These are generally more administrative and may not carry as much weight as primary factors such as buying a home in your new state but can be useful in supporting a residency claim. Update your address on credit card and bank account statements, tax filings, registering to vote, obtaining a driver’s license, and registering cars and boats in your new state.



To increase the likelihood that your former state will release you without a fight, “terminate” your domicile in that state. For this purpose, auditors typically look for a notable change in patterns, not just a count of days spent in one place or another. You should be able to show that you are spending considerably more time in your new state than in your former state and any other locations. Show that you have reduced ties to your former state, which may include business activity, civic, and religious interest. If you cannot show a measurable difference between your activity in your old and new states, auditors may determine that you never actually terminated your former domicile.

## Proactive Planning for Your Domicile Change

- Plan well in advance. If you anticipate an upcoming liquidity event, formulate an action plan as soon as possible. In many cases, it’s better to make a residency change in the tax year before the taxable event.
- Consult with your Pitcairn Relationship Manager, who can evaluate how the move affects all aspects of your multi-generational wealth plan, including yearly tax liabilities, overall expenses, and estate matters.
- Track time in all states and keep detailed records to verify your physical presence throughout the year.
- Be sure subjective factors also support your declared residency. Where do your minor children go to school, where do your pets live, and what social, civic, and religious ties have you established in your new state?



## Avoiding Statutory Residency

Statutory residency is triggered by spending too many days in a state. This can be tricky because any part of a calendar day may count as a full day for residency purposes. (States may make exceptions, such as when traveling by plane, ship, train, or bus for a destination outside the state, receiving medical care, or participating in active military service.)

Today's technology has made it increasingly easy to track people's locations. That makes it even more critical to monitor time in various jurisdictions. Miscalculating the days you have spent in a given state could prove costly if your cell phone, E-ZPass statements, or other electronic records contradict your tally. Of course, this data can also be used to your advantage to validate residency in your new state.

## Taxation of Source Income May Complicate Planning

Often, the decision to move to a more tax-friendly state is tied to an upcoming liquidity event such as the sale of a business, an IPO, or a vesting of stock options. Because states tax non-residents on income sourced in the state, changing domiciles in these situations requires careful tax modeling and precise timing to achieve the desired tax savings.

In the case of employee stock options and deferred compensation, the prior state may argue that options and compensation were earned while the recipients were residents even if proceeds are disbursed after changing domiciles. Similarly, a state may challenge the timing of a domicile change relative to the sale of a business or other one-time taxable event. Consequently, it is generally prudent to complete a domicile change in the tax year before a liquidity event to reduce the risk of the state asserting a claim.

If you are considering a domicile change with complex tax ramifications, please talk to your Pitcairn Relationship Manager early in the process as proactive planning is critical.

### Why Florida is a Tax Haven

- No state income or estate tax
- Attractive tax exemptions on primary residences, including homestead exemption
- Increases to the assessed value of homestead limited to 3% annually
- Protection from creditors for primary residence, life insurance proceeds and cash value, annuities, retirement accounts, and wages

### Florida-Specific Considerations

- Must spend at least six months and one day in Florida to qualify as a resident
- Florida laws regarding estate planning documents differ from other states
- Specific requirements as to who can be the executor ("personal representative" in Florida) of your estate
- Regulations on how a primary residence passes to beneficiaries after the owner's death

## Your Current State

Not surprisingly, the state you leave may be reluctant to let you go, particularly if officials anticipate a large tax payment. Some states employ aggressive investigative methods to dispute residency status. An audit can be arduous but manageable if you have crossed all the t's and dotted all the i's.

We also recommend that you retain the services of local professionals in your new state. Just like you would find a physician in your new location to go to for an annual checkup, it's prudent to have professionals like attorneys at your service who know the local laws. Also, be sure to coordinate a review of any existing family trusts previously established as some states may have adverse consequences based on trustee residency.

## Making Your Next Move the Right One

Where we choose to live is one of the most consequential intersections of family and finance, significantly influencing satisfaction in life, while also affecting how we protect and sustain wealth. Given the wide range of taxation levels among the 50 states, taxes certainly play a part in deciding where to live.

As you consider whether and where to relocate, we cannot overstate the value of professional guidance in this process. Pitcairn can help you make a well-informed, well-planned, and well-timed decision so that whatever state you call home, you are maintaining Wealth Momentum® and making progress toward your family's goals.

To learn more about Pitcairn's innovative, integrative Wealth Momentum® approach to risk management, visit [www.pitcairn.com](http://www.pitcairn.com).

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