



Home is Where the Domicile Is

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JANUARY 2025

NEWEDGEWEALTH.COM



Because state tax laws vary widely, individuals often seek to reduce their tax burden by changing their domicile to a more tax-friendly state. This requires a careful balancing act of physical presence, legal documentation and a clear intent to make a new state one's permanent home. For those who own multiple residences and divide their time unevenly across different states, the complexity increases. Here, we outline several important factors to consider when assessing which state to recognize as your domicile for income tax purposes. We highly recommend consulting with your tax advisor for more specific guidance related to your family's tax situation.

Understanding Domicile

While the words “residency” and “domicile” are often used interchangeably, they have different technical meanings.

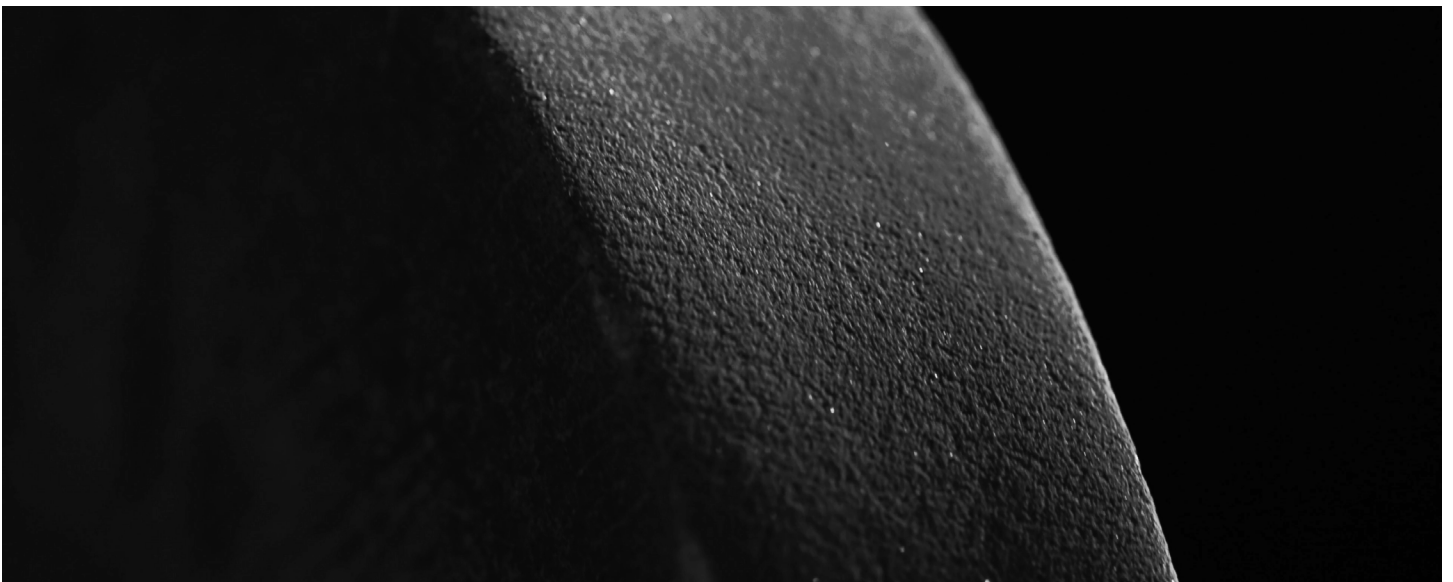
Residency simply refers to a place of abode. One may have several residencies, and therefore, be a resident of multiple states.

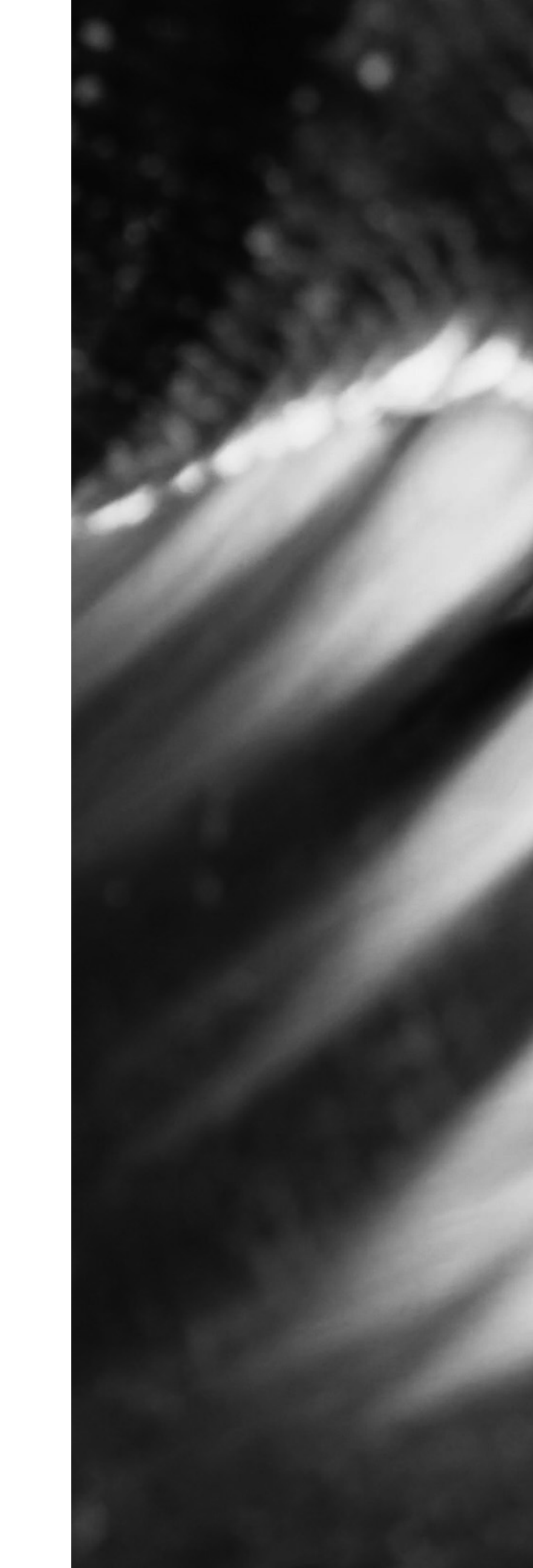
Domicile refers to your primary and permanent residence. It can be thought of as the address to which you return after being “away” at either other residences or on vacation. It is the state in which all of your income is subject to income taxes.

Establishing Domicile

Seven states in the United States do not levy an income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming. New Hampshire exclusively taxes dividend and interest income, while the state of Washington only taxes capital gains income. The other forty-three states impose income taxes through either a flat tax system or a progressive bracket system. The highest state income tax in 2024 was California, with the highest earners paying 13.30%. It's no secret that those states that do levy a state income tax are highly motivated to ensure they collect what's owed, making it crucial to take all necessary steps to properly establish your domicile if you plan to relocate to one of the seven income-tax-friendly states. If you are looking to permanently move states and have only one residency, establishing domicile in your new state is relatively straightforward. If you have more than one residency but would like to establish domicile in a certain state, special consideration must be paid to ensure it is properly documented. In either case, here are best practices that can help to prove your intent of establishing domicile.

- **Spend the majority of your time in the state of intended domicile.** If you have multiple residences, you could be considered a “statutory resident” in states where you spend significant time, subjecting you to income taxes in those states. This is described in greater detail below. Whenever possible, celebrate holidays, family gatherings and important events in the new state. If you are audited, states have access to cell phone and credit card data – but they can also review flight and highway toll data, records of calendar appointments and more.
- **Physically move furniture, personal effects, clothing, etc. to the new address.** Keep the invoices and receipts of any moving expenses. If you plan to maintain multiple residences, consider furnishing your new residence to a greater extent. Ensure that any services (landscaping, housekeeping, etc.) are initiated in the new state as well.
- **Maintain “near and dear” items in the new state.** These include pets, family heirlooms, antiques, etc. Auditors can review insurance policies on any items to discover where they are physically located.
- **Document how your employment will continue in the new state.** If you are self-employed, take steps to demonstrate that your primary place of business is now in the new state. For example, if establishing a home office, purchase the necessary supplies and maintain thorough documentation. If opening a new physical office, ensure that business cards, marketing materials and other business documents include the new address. Additionally, update any professional licenses to reflect the new state. It’s worth noting that audits often scrutinize individuals who claim to be “retired” but remain actively engaged with employees or clients in another state.
- **File a “Declaration of Domicile” if applicable in your new state.**
- **File your Federal Income Tax Return at the new address.**
- **Establish new schools for your children.** States can refer back to where minor children are enrolled in school to prove domicile.
- **Transfer your driver’s license, car registration and car insurance to the new state.**
- **Update all mail correspondence to the new address.** This includes but is not limited to credit card bills, magazines and newspaper subscriptions, food subscription services and online shopping websites.
- **Seek voter registration in the new state.**
- **Change your pet’s veterinarian to the new state.**



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- **Join local religious organizations, social clubs, country clubs, gyms and/or other community groups.** This reflects you are integrating into the community. Cancel memberships to any groups in your former state, or if you are maintaining a residence there, change the status to “non-resident” if possible.
 - **Establish local healthcare providers as your primary providers.**
 - **Sign new estate planning documents such as wills, Revocable Living Trusts and other ancillary documents.** Hire a local Trust and Estate attorney in the state of your new domicile who can assist with updating these documents in compliance with local and state law.
 - **Assess your new state’s homestead rules and ensure you apply for any applicable to your situation.** For example, Florida has a program called “Save Our Homes” which caps the increase in the valuation for property tax purposes to 3% per year for any permanent, primary residence. By documenting that you have applied for a program like this, you are not only saving money on property taxes but also proving your intent for this to be your permanent primary home.

Statutory Residency

Even if you have properly established your domicile, state laws may still classify you as a “statutory resident,” potentially subjecting all of your income to that state’s taxes. This classification often targets vacation homeowners. While the specific definition of a statutory resident varies by state, in many states it applies to individuals who:

1. Maintain a permanent place of abode within the state, and
2. Spend more than 183 days of the taxable year in the state.

New York, a state notorious for auditing non-domiciled statutory residents, uses this definition so we’ll use it as an example. Regarding the 183+ day requirement, note that any part of a day spent in the state is counted as a day, with limited exceptions such as overnight medical stays and travel through the state. As with proving domicile, credit card bills, highway tolls and cell phone records can be subjected for states to verify your travel history.

A permanent place of abode is a bit more complicated to assess because the definition is relatively broad. Generally, it refers to a residence that is suitable for year-round use (i.e., not a mere camp or cottage), even if it's just a "summer home". The definition also extends beyond homes that you or your family personally own and can include rented property. A critical factor is "unfettered access," meaning the property is not rented out to an unrelated tenant.

So, if you or your family rent or own a home in New York, for example, be mindful of the days you are spending there, as going over 183 days may subject you to state taxes. Modern tools like TaxBird can help you track your time spent in each state.

Other State Income

Outside of the domiciliary considerations above, don't forget to review the **state source of each of your income streams**. You could be subject to state taxes for income earned or derived from another state. For example, this could include rental income from a property owned in another state, or if you simply live in one state and work in another. California is particularly assertive in enforcing its tax laws, claiming that any income earned from providing services within the state is subject to California state income tax, regardless of domicile.

In conclusion, tax law is undoubtedly multifaceted and it's important to work with a certified tax planner to provide you with advice specific to your situation. As with most tax-related items, meticulous record keeping can be extremely helpful in the case of an audit. It's important to take heed of the nuanced rules and regulations as simply purchasing a home in a low-tax state is not enough to skirt the income taxes of another state.

Sources

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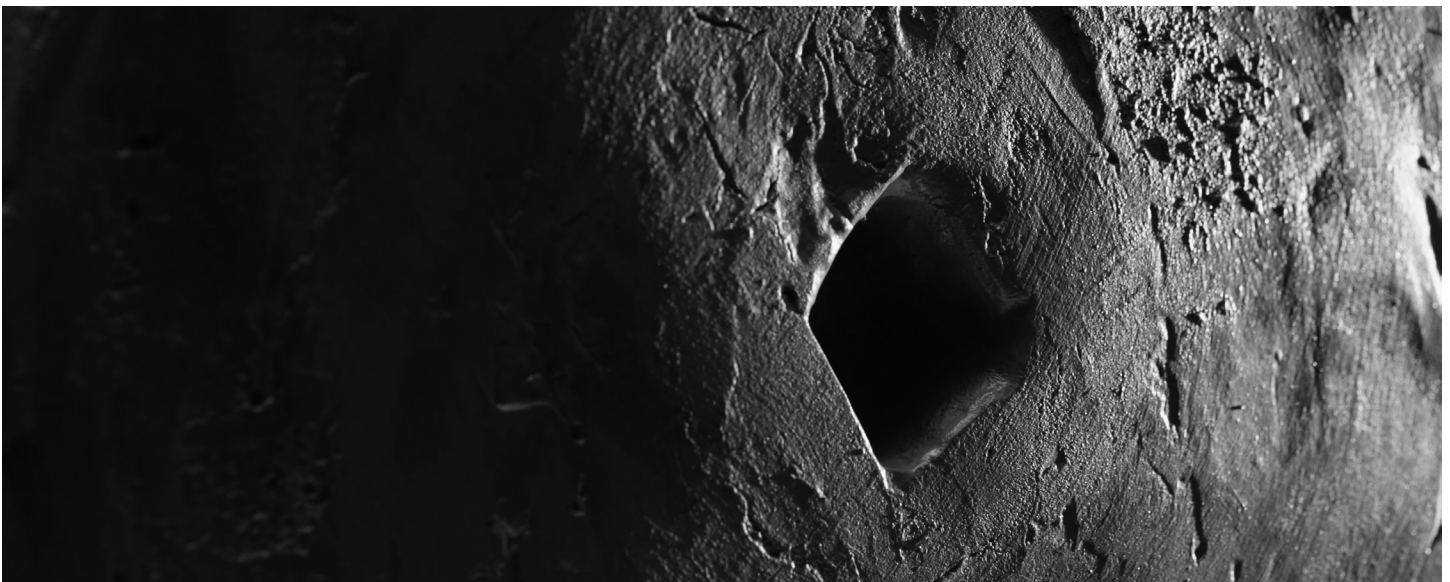
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