Understanding Residency & Domicile for State Tax Purposes

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Understanding Residency vs. Domicile

While often used interchangeably, "residency" and "domicile" have distinct legal definitions:

Residency refers to any place where you live. You can have multiple residences across different states.

Domicile is your primary, permanent home, the place you consider "home base" when away. This is where all your income becomes subject to state income tax.

Tax-Friendly States

Nine states don't levy income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. However, New Hampshire does tax dividend and interest income and Washington taxes capital gains on high earners. The remaining states impose income taxes through flat or progressive systems, with California currently having the highest rate at 13.3% for top earners.

Establishing Your Domicile

Properly establishing domicile is crucial, especially if you maintain multiple homes. We will be reviewing the best practices to demonstrate your intent.

Time and Presence

Spend most of your time in your intended domicile state. During audits, states can access various records to verify your whereabouts:

- Credit card and cell phone records
- Flight information and highway toll data
- Calendar appointments
- Holiday and family gathering locations

Physical Relocation

Moving your belongings provides strong evidence of your intent to establish a new domicile:

- Relocate furniture, clothing, and personal effects to the new address (keep receipts)
- Maintain "near and dear" items in your new state (pets, family heirlooms, art collections)
- If maintaining multiple homes, furnish your domicile residence more extensively

Documentation and Formalities

Complete these formal steps to document your change of domicile:

- File a "Declaration of Domicile" if available in your new state
- Submit your Federal Income Tax Return from your new address
- Transfer your driver's license, vehicle registration, and auto insurance
- Register to vote in your new state
- Update all correspondence addresses (credit cards, subscriptions, online accounts)

Legal and Financial Steps

Work with local professionals to update your legal documents:

- Create new estate planning documents with a local attorney

- Apply for applicable homestead exemptions

- Change business documentation if self-employed

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Statutory Residence Concerns

Even with established domicile elsewhere, you may be classified as a "statutory resident" in another state if you:

1. Maintain a permanent place of abode there, and

2. Spend more than 183 days of the tax year in that state

A "permanent place of abode" generally means any residence suitable for year-round use that you have unfettered access to, whether owned or rented. In many states, any part of a day counts toward the 183-day limit, with limited exceptions for travel and medical stays.

Income Source Considerations

Remember that income earned or derived from a state may be taxable there regardless of your domicile:

- Rental income from property in another state
- Income from work performed in another state
- Services performed within certain states (particularly California)

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Tax laws are complex and vary significantly by state. Consult with a certified tax planner for guidance specific to your situation. Maintain meticulous records of your time spent in each state and all steps taken to establish domicile. Simply purchasing a home in a tax-friendly state is insufficient to avoid income taxes in your former state.

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About PUREfi Wealth

Headquartered in Boston, PUREfi Wealth is an independent wealth advisory boutique. The firm is deeply committed to providing comprehensive, multi-generational advice, wealth planning, and investment management to individuals, families, and their associated entities, and operating under a fiercely independent and objective fiduciary standard through a state-of-the-art open architecture investment and technology platform.