

# Relocating to a Tax-Friendly State

If you're retiring and thinking about relocating or have a job that allows you to live anywhere, it may be worth considering moving to a more tax-friendly state.

## Potential Tax Advantages to Relocation

For example, many residents of Northeast states have moved to Florida due to its tax-friendly laws. Florida doesn't have personal, estate or inheritance tax. In addition, the state limits property tax escalation by capping annual assessment increases to 3% of the previous year's assessment or the Consumer Price Index (CPI). The state also has a homestead exemption of up to \$50,000 that a property owner may be eligible to receive. The first \$25,000 applies to all property taxes, including school district taxes. The additional exemption up to \$25,000 applies to the assessed value between \$50,000 and \$75,000 and only to nonschool taxes.<sup>1</sup> Compare this to top marginal individual income tax rates—as high as 10.75% in Washington, D.C.<sup>2</sup>—along with ever-increasing property taxes, and it is not difficult to see the long-term economic benefits of moving to a tax-advantaged state.

## States With No State Income Tax

These states have no state income tax: Alaska, Florida, Nevada, South Dakota, Tennessee, Texas and Wyoming. Washington state has an income tax on investment income and capital gains for certain high earners.<sup>3</sup> If you are a retiree, it means that in those states, you won't pay state income tax on Social Security benefits, IRA and 401(k) withdrawals or pension payouts.

## Establishing a Domicile

To gain potential state-related tax advantages, you first have to establish a domicile in your state of choice. You can't simply declare your permanent home state—you must first establish your intent and document your domicile. What does that mean? Simply put, a domicile is your permanent place of dwelling. And for the purposes of jurisdiction, the term "domicile" is considered the place you intend to make your permanent home. It's defined by a combination of your residence and your intent to remain there permanently.<sup>4</sup>

If a taxpayer has only one domicile and merely spends short periods away from home, his/her legal residence is the state where the home is located. However, taxpayers with two or more homes must provide facts to document their residency to tax authorities.

It is important to note that it is not unlawful for two different states to successfully claim you as a resident for estate or inheritance tax purposes.





Therefore, it could be extremely expensive if your actions do not fully support your intent. In this instance, an incomplete attempt to change residency can be more costly than no attempt at all.

### **Actions Speak Louder Than Words**

To help establish your intent to have a new primary domicile, it's a good idea to spend at least 183 days—just over 50% per year—in

the state. This may seem easy to comply with, but sometimes fact patterns

jeopardize the results. For example, if your intent is to be a resident of Florida, but you have a second home in another state and spend a lot of time there, leaving for vacations from the other state may indicate an intent that the other state is your primary residence.

### **Other Important Actions**

There is no single set of facts to establish a domicile state. Instead, numerous actions taken together often support the taxpayer's intent. Below is a list of just some steps you can take.

- File a nonresident tax return in your former state if required or file a final return in your former state upon leaving.

- Bank accounts, insurance policies, credit cards and other bills should have the mailing address of your primary domicile.
- Wills should be updated to reflect your primary domicile.
- All mail, including magazine subscriptions, should be addressed to your resident state. When not in your resident state, have mail forwarded by the post office rather than temporarily changing your mailing address.
- If you intend to spend substantial time in more than your resident state, maintain a diary noting the state you are in every day.
- If your new state has in-state benefits, file for them. For example, in Florida, you should file for homesteading with your local county to secure property tax benefits.

Please note, this list is not exhaustive. The general rule? To change your state of domicile, you should conduct all aspects of your life accordingly and keep documentation to show your intent.

### **Partner With Your Advisor**

At Mariner Wealth Advisors, our goal is to assist you in every step of making this type of transition, from simple steps like changing account addresses to the more involved steps like homesteading a residence properly. We believe that an overall wealth management plan should integrate finances and taxes to help give you the most tax-advantaged strategy possible.

**For more information visit: [marinerwealthadvisors.com](http://marinerwealthadvisors.com)**

#### **Sources:**

- <sup>1</sup>["Florida Property Tax Exemption for Homestead Property"](#)
- <sup>2</sup>["State and Individual Income Tax Rates and Brackets for 2023"](#)
- <sup>3</sup>["States With No Income Tax"](#)
- <sup>4</sup>["Distinctions Between Domicile and Residence,"](#) uslegal.com

This article is intended for informational and educational purposes only. The views expressed do not take into account any individual personal, financial, or tax considerations. As such, the information contained herein is not intended to be personal investment or tax advice or a solicitation to engage in a particular investment or tax strategy. Any opinions contained herein are based on sources of information deemed reliable, but we do not warrant the accuracy of the information. Please consult your tax and financial professional before making any tax, investment, or financial-related decisions.

Mariner Wealth Advisors ("MWA") is an SEC registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training. MWA is in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which MWA maintains clients. MWA may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by MWA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For additional information about MWA, including fees and services, please contact MWA or refer to the Investment Adviser Public Disclosure website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)). Please read the disclosure statement carefully before you invest or send money.