MASSACHUSETTS STATE

RESIDENCY

AND YOUR TAXES

STATE RESDIENCY AND YOUR TAXES

crr CPA

If you're considering moving to a lower-tax state, you're not alone.

Moving from a high-tax state to a lower-tax state can have significant benefits, especially for high-net-worth individuals.

However, a high-net-worth individual moving to a lower tax state can be a red flag for the government, often triggering an audit.

IN THIS GUIDE

- The relevancy of residency audits
- Residency vs. domicile
- Full-year vs. part-year residency
- Working across state lines
- Preparing for an audit
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THE LATEST ON RESIDENCY AUDITS

While residency audits are nothing new, the topic has become more pressing in recent years as an increased number of residents are moving away from high-tax states.

The Tax Cuts and Jobs Act (TCJA) of 2017 fueled the exodus, by limiting the federal deduction of state and local taxes to $10,000.

With the previous 30-40% tax savings no longer available, individuals with substantial state or local income taxes or those owning multiple homes with high property taxes started relocating to lessen their tax burden.

Then the pandemic struck—complicating the issue of residency audits while resident relocations were at an all-time high.

The pandemic rapidly brought on the new normal of remote work. People retreated to their vacation homes or worked remotely from another state. Most people that found themselves working remotely across state lines were unaware of the tax implications.

RESIDENCY VS. DOMICILE

First, it's important to understand what the government means by residency and domicile, and how Massachusetts determines these for tax purposes.

Your domicile is your legal residence—your main home. You may have multiple residences, but only one domicile.

Although you may reside in multiple states, the goverment uses your domicile to determine your home state for tax purposes.

In order to change your domicile, you must intend to leave the state and not return. If you are audited the burden of proof is on you to establish that your domicile has changed.

BEST PRACTICES TO ESTABLISH YOUR NEW DOMICLE:

- Purchase or rent a home in your new state & divest of all MA residences if possible
- Move your personal belongings to your new state
- Spend more than half of the year (183 days) in your new state; spend holidays and other important days in your new state if possible
- Transition your banking, medical, dental, legal, and other similar services to your new state
- Change your driver's license, vehicle registrations, and voter registration to your new state
- Update your estate planning documents
- Join community groups in your new state

Each state has its own rules to determine domicile.

In Massachusetts, the Department of Revenue (DOR) will examine certain factors that compare your ties to Massachusetts with your ties to your new state.

IN MASSACHUSETTS, DOMICLE DETERMINING FACTORS ARE:

- Physical presence (number of days spent in each state)
- Value, size & amenities of each residence
- Family, social, and business activities and connections in each state
- Recent major life changes (marraige, divorce, illness, retirement)

FULL-YEAR VS. PART-YEAR RESIDENCY

Massachusetts classifies its taxpayers as either full-year or part-year residents. To be considered a full-year resident, you must either reside in your home in Massachusetts for the entire year, or maintain a permanent home in Massachusetts and spend more than 183 days in the state.

You are considered a part-year resident if you move to the state during the year and become a Massachusetts resident, or move out of the state during the year and end your status as a resident.

While you are allowed to change your domicile for tax purposes, it will be closely monitored by the government. If you are considering moving out of Massachusetts, you should be prepared for an audit.

WORKING ACROSS STATE LINES

With a large number of employees now working remotely from their homes across state lines, states have had to implement solutions to determine in which state those workers will pay taxes.

Some states have reciprocity agreements with neighboring states, meaning if a taxpayer lives in one state and works in another, they only have to pay taxes in the state in which they live.

Certain states have specific rules. Rules can change frequently in this area as well. A case-by-case analysis is needed when it comes to remote working.

PREPARING FOR AN AUDIT

The best way to prepare for an audit is to establish ties to your new state, cut ties to your old state, and—most importantly—**document everything!**

KEY ITEMS TO DOCUMENT INCLUDE:

- Number of days spent in prior state and new state
- Location of your employer and/or your spouse's employer
- School records for your children (if any)
- Change of mailing address paperwork
- New driver's license and voter registration in new state
- Invoices from any moving services used
- New location of your bank, doctor, CPA, attorney, church, etc.
- Value and size of each residence (if maintaining multiple residences)
- Where does the family spend holidays and special occasions?
- Where do you keep items of value (monetary and sentimental)?
- Where are charitable donations made?
- Any major life changes coinciding with your move (marraige, divorce, illness, retirement, etc.)?
- Updated estate planning documents such as wills and trusts
- Updated insurance policies
- You should also have well-documented non-tax related reasons for the move!

RED FLAGS TO AVOID

The following actions are audit triggering and should be avoided, if possible:

- Continuing business activity in a former state
- Moving near the time of a big increase in taxable income
- Moving near the time of a significant investment, or the sale of a business

BE PREPARED

Involving a CPA and legal professional early in the process can help you prepare for an audit and obtain the best outcome.

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