Could you be taxed in multiple states?
How domicile affects your estate plan

Where you make your home is primarily a lifestyle choice. But it can also have a financial impact, especially if you divide your time among two or more states. Without careful planning, you may find yourself in the unfortunate situation of having multiple states competing for your tax dollars.

Domicile is where the heart is

Your domicile is your permanent home to which you intend to return whenever absent. When it comes to estate taxes, domicile is a critical factor: Your state of domicile may apply its estate tax to all of your worldwide assets, both tangible and intangible (such as stocks, bonds and other investments).

Real estate and tangible personal property usually also are subject to estate tax in the state where the property is located. Fortunately, the domicile state typically will provide a credit for estate taxes paid to states in which such property is located.

Technically you can have only one domicile, even if you maintain residences in several states. Because the concept is based on intent, however, determining domicile is subjective. So it’s possible for more than one state to claim you as a domiciliary.

The tax consequences of double taxation can be harsh. In one case, *Hill v. Martin*, New Jersey and Pennsylvania each imposed approximately $17 million in taxes on the estate of the deceased, who had residences in both states. The U.S. Supreme Court allowed this double taxation, deferring to each state’s determination that the deceased was domiciled there.

Making your intentions clear

If you reside in more than one state, it’s important to clearly establish your domicile. Not only will this avoid double taxation of your estate, but, by establishing your domicile in a state with low or no estate taxes, you may be able to reduce or even eliminate state estate tax.

Suppose you divide your time between State A, which imposes a hefty estate tax, and State B, which has no estate tax. If you establish your domicile in State B to the satisfaction of both jurisdictions, you’ll avoid state estate taxes except on any real estate or other tangible property you own in State A.

Domicile is based on intent because state taxing authorities can't read your mind. So they determine domicile based on factors that demonstrate your intent, such as the amount of time you spend in a state, the value of your property there, family ties and business activities.

Consider taking these actions to help ensure that your intended domicile is recognized:

- File a declaration of domicile in the state.
- If possible, spend at least 183 days out of the year in the domicile state and keep records of the time you spend in each state or country.
- Use your address in the domicile state as your mailing address as well as on important documents, such as wills, powers of attorney, leases, insurance policies and passports.
- Obtain a driver's license in the domicile state and cancel one from a different state.
- Register your cars, boats or other vehicles in the domicile state.
- Register to vote (and actually vote) in the domicile state.
- Open bank and brokerage accounts and safe deposit boxes in the domicile state and, if possible, close accounts and boxes in other states.
- File resident income tax returns with the domicile state.

Discuss your plans

If you maintain residences in more than one state, be sure to talk with your estate tax advisor about the tax implications of domicile and potential estate tax planning opportunities.

For more information, please contact us via phone or e-mail, or visit us on the World-Wide Web:

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