



04.25.25 | FINANCIAL PLANNING

## Thinking of Moving to a Warmer Climate to Save Money? A Primer on Establishing Domicile or Legal Residency

Karen Kelly, CFP® – Financial Advisor

For retirees in the North and Midwest, it's easy to contemplate moving to a warmer climate in the throes of winter. And current migration trends show that two states, Florida and Texas, top the ranks of places they want to call home, with North Carolina, South Carolina and Georgia following closely behind.

The state where an individual retires can have a big impact on their net retirement income, and therefore their standard of living in retirement. Higher taxes can equate to larger withdrawals from retirement savings, presenting a higher risk that the individual will run out of savings before they retire (or, conversely, could require them to reduce spending in other ways to preserve a sustainable withdrawal rate). Many individuals seek to relocate to a state with lower taxes in retirement, allowing them to spend their savings in more enjoyable ways.

### DOMICILE VS. RESIDENCE

In the eyes of the law, your domicile is your home. While a person can have multiple residences, they can only have one domicile. Residence simply means living in a particular place, while domicile means living there with the intent to make it a fixed and permanent home.

To fully benefit from a move from a high-tax state to a low- or no-tax state, taxpayers must be able to demonstrate they've established domicile in the new state. There are specific requirements to establish domicile, and each state generally evaluates a reported change in domicile by looking at a variety of factors.

For retirees splitting time between two homes—one in a high-tax state and one in a no-tax state—a key goal should be to avoid triggering a state audit due to an unclear domicile status.

Maintaining residences in two states and dividing time between them is often where Departments of Revenue find cause to investigate.

### HOW DO STATES EVALUATE A DOMICILE CHANGE?

Many states evaluate a reported domicile change by focusing on five primary factors: time, homes, business connections,

family, and possessions. Auditors typically compare your connections to each state with a simple question in mind: Are your ties stronger in the new state or in the former one? The stronger your ties to the new state, the more likely your new domicile will be respected.

There's a lot of misinformation out there regarding what it takes to establish domicile. One of the biggest myths is the idea of "six months and a day"—the notion that simply spending 183 days in the new state automatically changes your domicile. This is not entirely accurate, especially since most states require that the person claiming a change of domicile must prove it by either a preponderance of the evidence or, in some cases, by the higher standard of clear and convincing evidence.

Let's dig a little deeper.

Merely spending 51% of the year in the new location is unlikely to satisfy state tax auditors. Similarly, just making "paper changes," such as obtaining a license and a library card in the new state, will not be an effective defense if audited. Instead, there's a fairly exhaustive list of steps you should consider to support your claim of establishing domicile:

- Spend at least 183 days in your new state each year.
- File for a homestead exemption, if applicable.
- Obtain a driver's license in your new state.
- Register to vote in your new state.
- Register your vehicles there as well.
- Make sure your banking, investment, and estate planning accounts originate in the new state, if they don't already.
  - Ex: Estate planning documents should originate in your state of domicile. If your domicile is FL, you do not want planning documents drafted in MA as state laws differ.
  - Ex: If you opened a regional bank account in MA but your domicile is in TX, you should close that account and open one in TX (Note: online banks would not necessitate a change).
  - Ex: Custodians like Schwab and Fidelity tend to be more evergreen because they are nationwide. But if you opened a brokerage account at a local bank or credit union, you would be best to close that and open an account in your domicile state.
- Join a library, religious organization, or local community group in the new state.
- Host holiday celebrations there and keep family heirlooms at that home.
- Establish relationships with medical, dental, veterinary, and tax prep providers locally.
- Relinquish residency-based benefits in your former state, such as property tax exemptions, resident hunting/fishing licenses, or in-state club memberships.

In short, your new state should become your personal headquarters, and as many aspects of your life as possible should revolve around that location.

Before officially making another state your permanent residence, it's wise to do deeper tax and estate planning. There could be opportunities to reduce taxes (not to mention avoid unforeseen pitfalls) depending on which state you're leaving and where you're heading.

Always consult with a tax professional, attorney, and your financial advisor when navigating a change of domicile. It's a process worth doing right, especially when it could meaningfully impact your financial future.

#### IMPORTANT DISCLOSURES:

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Grimes & Company Wealth Management, LLC (d/b/a Grimes & Company), or any non-investment related content, made reference to directly or indirectly in this blog will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this blog serves as the receipt of, or as a substitute for, personalized investment advice from Grimes. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. No amount of prior experience or success should be construed that a certain level of results or satisfaction will be achieved if Grimes is engaged, or continues to be engaged, to provide investment advisory services. Grimes is neither a law firm nor a certified public accounting firm and no portion of the blog content should be construed as legal or accounting advice. A copy of the Grimes' current written disclosure Brochure discussing our advisory services and fees is available for review upon request or at <https://www.grimesco.com/form-crs-adv/>. Please Note: Grimes does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party, whether linked to Grimes' web site or blog or incorporated herein, and takes no responsibility for any such content. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Please Remember: If you are a Grimes client, please contact Grimes, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.