How to Change Your Domicile and Avoid State Tax Surprises

Living in more than one state can be exciting. Maybe you spend winters somewhere warm, summers closer to family, or part of the year working remotely from a second home. But before you start thinking of one state as home for tax purposes, there's an important question to answer: Where are you actually considered a resident, and where is your domicile? Those two words are often used together, but they don't always mean the same thing.

Your domicile is generally your true fixed permanent home, even if you own multiple properties in multiple states. You can only have one domicile. Residency can depend on different rules. Some states look at where you maintain a home, and others look at how many days you spend there, and some use a combination of factors. These rules become especially important when taxes are involved. Many states with income taxes tax residents on worldwide income. So, if one state considers you a resident, it may expect you to report income from all sources, not just income earned in that state.

Changing domicile is not just about moving your furniture or getting a new driver's license. In many cases, the harder part is proving that you left your old domicile behind. States have a financial incentive to keep taxing residents, so they may look closely at your facts and circumstances. They may ask where you spend your time, where your primary home is, where you vote, and where your vehicles are registered. In other words, your intent matters, but your actions need to support that intent.

There are also broader planning issues to consider. For example, property taxes can vary by state and locality. Homestead exemptions or credits may be available in one state, but claiming a homestead benefit in more than one state can create problems if you're trying to establish a clear domicile. Estate and inheritance taxes can also differ from state to state. Some states impose their own inheritance or estate tax, while others do not. That can make domicile planning especially important for individuals with significant assets or real estate in multiple states. Trusts, powers of attorney, probate rules, and marital property laws can also change depending on the state.

Moving from a community property state to a common law property state, or the other way around, may affect how property is treated during life, in divorce, or after death, and then there are the everyday considerations: cost of living, insurance costs, real estate prices, sales taxes, family proximity, healthcare access, business climate, and lifestyle.

The main takeaway is this: choosing or changing your domicile is not just a tax decision; it's a financial, legal, and personal decision. If you live in multiple states or you're thinking about making a move, don't assume the rules are simple. Keep good records, understand the residency tests in each state, and be intentional about the steps you take. It's also important to work with an advisor who can help you evaluate both the tax and the practical realities.