Changing state residency: tax considerations when moving to Florida

EY

Building a better working world

Up to 13%

Tax savings you may obtain by moving to a state in the South

Migration to Florida accelerates

With the influx of new and younger residents migrating to the state, and the inflow of hedge funds and private equity firms in recent years, South Florida is on its way to becoming a financial hub – as it also strengthens its position as the gateway to Latin America.

While Florida was traditionally seen as a place to move after retirement, many individuals and businesses are moving during their high earnings years to take advantage of the significant state income tax advantages. As shown below, these savings could be as much as 13.30% on taxable income – on top of lower property and estate taxes. The first influx of non-retirement-age individuals and business owners was spurred on by the significant limitation on deductions, for federal income tax purposes, of state and local income taxes (and property taxes), as introduced in the Tax Cuts and Jobs Act of 2017.

More recently, many individuals developed a new perspective on the flexibility of the future work environment. Specifically, the recent COVID-19 pandemic has caused people to leave high-risk urban areas where social distancing may be challenging and social unrest is a concern. With a new "work from home" mentality, many have decided to relocate to Florida.

Comparison of key tax rates

Specifically, the information below will focus on key personal, estate and property tax rates in certain states compared with Florida.

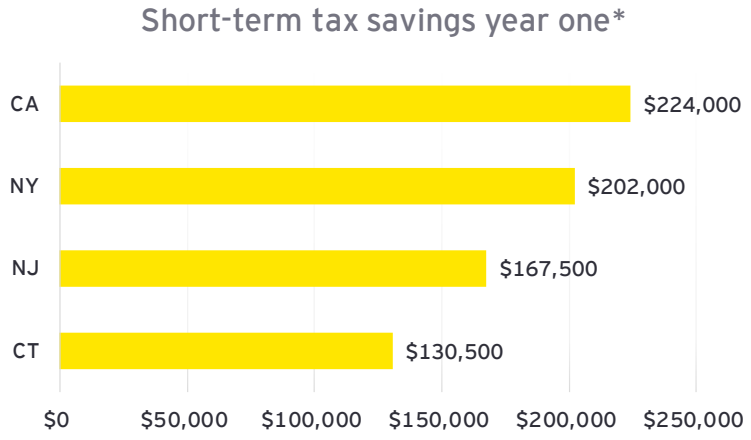
State	Highest income tax rate	Highest estate tax rate	Average property tax rate*
CA	13.30%	0%	1.11%
NY	12.68% ▸ NY State = 8.820% ▸ NY City = 3.876%	16% (applicable if over $5,740,000 of assets)	1.23%
NJ	10.75%	16% inheritance tax: may not apply to all assets	1.89%
CT	6.99%	12% (capped at $15,000,000) *CT has a separate gift tax for inter vivos transfers	1.63%
TX	0%	0%	1.81%
FL	0%	0%	0.97%

* Typically based on "assessed value," which can vary significantly.

Key tax considerations in Florida

- **No state or local income taxes.** The introduction of such taxes would require amendments to the Constitution of the State of Florida.
- **No state estate tax.** The state estate tax for family inheritance in the Northeast can be significant, compared with the lack of state estate tax in Florida.
- **Lower property tax.** Home and property values are generally lower in Florida, which could result in a $2,000,000 assessed value being a bargain from a property tax perspective.

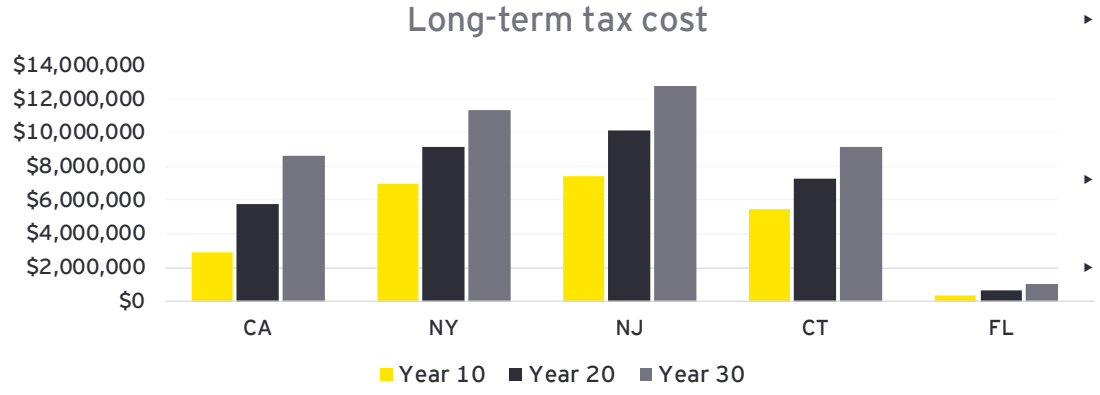
Potential tax savings moving to Florida



*Does not include investment of net savings.

Example. If you are a high-income earner who makes approximately $2,000,000/year, the figures at left may be approximate state income tax savings by moving to Florida.

Now assume that same individual above moves to Florida and earns income for 10, 20 or 30 years. The below graph estimates the total income tax, property tax and estate tax cost (assuming an estate of $50,000,000 in each scenario) over these time periods. For simplicity, we have ignored the growth of assets available from the overall tax savings, but saving anywhere from $130,500 to $224,000 per year and reinvesting that money would lead to substantially more assets for the taxpayer and his or her family.



- The difference of 10 years of income taxes and property tax as well as the potential state estate tax reaches almost $7,000,000.
- At 20 years, the difference can be in excess of $10,000,000.
- At 30 years, the difference can be almost $13,000,000 (again disregarding growth on the saved taxes).

How to ensure a smooth move

Ending tax residency in a state

In the current environment, we're seeing additional scrutiny in high-tax states that have lost population, especially in the case of high-income leavers. It is critical to ensure that you properly end tax residency in the state you're leaving.

There are several objective and subjective residency criteria that should be taken into account in light of your specific circumstances. In order to ensure a smooth move to another state, certain elements must be carefully considered:

- Keeping a residence in the state you're leaving
- Time spent in the state you're leaving
- Voting rights
- Driver's license
- Children's school
- Updating wills and trusts
- Changes in lifestyle
- Business environment: lower cost of operations, business taxes

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We can help you, your family and your business

Not only are there tax benefits for your personal financial situation, but there are also advantages to consider for your business:

- Lower business/corporate taxes
- Reduced cost of operations
- Diversity of talent
- Economic and consumer growth
- Real estate costs

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