FINANCIAL ADVISOR IQ
A Financial Times Service

# Multi-State Taxpayers Brace for Greater Scrutiny

By Murray Coleman February 15, 2017

Tax experts are warning of a greater push by local authorities to ratchet up collections of residency taxes owed by traveling executives and affluent families with homes in multiple states.

The expectations come as state budget gaps face another tough year with tax revenues declining while the costs of doing the public's business keep rising.

"Experienced tax practitioners are telling us that some states up to this point have been very lax – in some cases negligent – in enforcing their residency laws," says **Jonathan Mariner**, a tax policy analyst and president of software developer **TaxDay**.

At the same time, he sees signs that times are changing.

"The stage is set for state tax authorities across the country to get more aggressive about enforcing a maze of differing residency rules," Mariner says.

Tax planner **Rachel Keller** in Southfield, Mich., is preparing her firm's advisory staff to start relaying much the same message to families. "For our clients who are frequently traveling across state lines or own income-producing properties in different states, we're letting them know that they're likely to face increased scrutiny by local tax authorities," says the partner at **Plante Moran**, whose financial advice group manages about $11.5 billion.

Indeed, a study by **MultiState Associates** estimates that 31 **states face budget deficits** this fiscal year. That represents an uptick from 2016 when the greatest number of states (25) since the "great recession" years reported revenue shortfalls, according to a recent survey by the **National Association of State Budget Officers**.

Separately, the **Urban Institute** is **cautioning that a combination** of more retail business moving online, income tax cuts and spiraling costs of government programs figures to eat away at local economies' tax bases for years to come.

"People who travel a lot and own multiple homes want simple explanations and clear examples of what to expect in terms of their taxes," planner Keller says. "But that's very difficult to do in one meeting – there just aren't very many simple answers."

Rachel Keller

A natural inclination by clients might be to brush off such warnings. Keller, though, is working with an executive whose travel and residency status sparked a “desk” audit by New York tax officials. That’s different from a case where field work leads to an investigation, she notes. Her assumption is that authorities did an automated cross-checking of public records.

It’s the type of relatively straightforward paper checking that Keller hasn’t seen a lot in the past. “That’s my first experience with a New York state residency desk audit and an indication to us that it’s going to be more commonplace in the future,” she says.

Most advisors realize there are different thresholds in terms of lengths of stay for triggering residency requirements, observes technology developer Mariner, whose mobile app helps FAs and their clients accurately track travel records for tax purposes.

“But even for the most highly trained financial professional it’s very easy to get lost in sorting through all of the details – each state has different criteria determining residency,” he says.

Figuring out tax strategies for travelers and multistate home owners can be “a highly convoluted process,” according to Mariner.

By his count, some 21 states currently set 183-day thresholds for determining residency status. “If you cross the line and stay in that state 184 days, your entire income could be subject to that state’s taxation as a statutory resident,” Mariner says.

But it’s hardly a uniform standard, he points out. His research shows 11 major variations on how states determine statutory residency based on different sets of criteria relating to months, days and even hours.

For business travelers, some states will “tax you if you just stop to fill up with gas inside their boundaries,” warns **Donna Cuiffo**, a managing director at **Clarfeld Financial Advisors** in Tarrytown, N.Y., which manages about $5 billion.

Even retirees need to plan ahead to avoid big tax headaches in coming years, she suggests. For example, Cuiffo is working with a couple who is planning to retire soon to

Florida. The family wants to keep their current house in the northeast, which creates differing tax consequences since their new state of residency doesn't assess an income tax.

Her recommendation isn't to let taxes dictate the terms of their golden years. But Cuiffo is offering some common-sense planning solutions focused on maintaining proper travel records and maintaining an organized household. That includes encouraging them to mark on a calendar which house they're at on a daily basis. Then she's offering to collect and store such information each quarter for the couple.

It's a little exercise Cuiffo is using with all of her clients who live in different locations and travel a lot between states.

"Just asking people to fill out a calendar is a great way to simplify a very complex issue," she says, "and set up more in-depth discussions about residency taxes in the future."