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# CLIENTS ARE ALL TALK, LITTLE ACTION WHEN IT COMES TO MOVING FOR TAX REASONS

By: Kate Gibson - May 13, 2021

The idea of moving states to lower one's taxes is not a new topic for financial advisors and clients, but it is coming up more often as the country emerges from the pandemic.

There are two main reasons. Several high-tax states, like California and New York, are contemplating even higher taxes on their most wealthy residents. Plus, the pandemic has permanently changed workplace dynamics so that more people feel they can work from anywhere.

Clients often bring the topic after hearing about others doing it, including colleagues, family or friends. "It's a cocktail party conversation— because my neighbor did it, or my cousin did it," says Neel Shah, a financial advisor and owner of Beacon Wealth Solutions in Monroe, N.J.

But few will actually do it. Resettling elsewhere is a dramatic life change, and clients usually decide against it.

"All of our clients are curious about it; not all are sincere about making a move," says Los Angeles-based Harry Drozdowski, senior wealth planning strategist for Wells Fargo Wealth and Investment Management.

California has the country's highest state income tax, at 13.3%, and state legislators are considering hiking that rate to 16.8% for top earners. But few leave solely due to taxes, and those that do often come back, he notes.

Those with deep ties to their community are less likely to follow through with a purely financially motivated move.

"A lot of people ask the question, a very small fraction end up moving," offers Shah. "Most people want to have the out-of-state residency without doing the move," he says of the dicey proposition that could lead to an audit.

"I'm advising clients, you really have to be sincere about moving from California, not 'I'm going to move to, air quote, Nevada, have an apartment there for half of the year plus one day, and then I won't have to pay California taxes'," says Drozdowski.

When a Move Makes Sense

A move could be a good move for an entrepreneur with few family ties to California who is getting ready to sell their business. If they plan to sell their start-up for for $100 million, they'd save as much as $13 million departing the state before the sale, says Drozdowski.

Folks who have a large payout coming are most likely to move, followed by people who don't like the winters, says Shah of his New Jersey clients. "Moving into a state like Florida or Tennessee, for the snowbirds, gives you a 10% to 12% return on your money—not just income but on capital gains," added Shah, also an attorney.

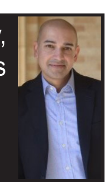
Property taxes also come into play, with Shah's clients now moving from New Jersey to states like Pennsylvania, giving them lower tax rates but keeping them within striking distance of family. "Don't underestimate the gravitational pull of grandchildren," he offers.

"This is a very common conversation down here in Florida. There are a lot of people with dual homes either in New York or other states and a secondary home in Florida," says Jessie Little, senior director of wealth planning for Wells Fargo Private Bank.

But even those with a strong presence in the sunshine state aren't always able to benefit from its zero state income tax. One of Little's clients primarily lives in Florida, where he runs a business with two adult children, but he still pays New York income tax, as his wife and younger kids live in New York and don't want to leave.

That decision could soon become even more costly, with New York readying to increase the personal income tax rate to 9.65% for those earning more than a million a year, and millionaires in New York City looking at paying up to 14.8% in city and state taxes.

Neel Shah, managing attorney of the law firm of Shah & Associates is an attorney, financial advisor and author who provides insightful analysis and actionable strategies for Business Owners, Entrepreneurs, and Investors.



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