Avoid Letting Two Homes Become One Big Problem at Tax Time

Having a second home can be a source of joy and relaxation, yet it can also increase stress, especially to future tax bills if households are not careful.

Families that split their time between residences in different states must keep track of the time they spend in each state throughout the year to properly account for income during tax time.

For starters, households have to understand the difference between the state where they are domiciled versus the state where they are a resident. A person may have only one domicile but could be a resident -- full time and/or part time -- of many states.

Domicile is a somewhat abstract term that refers to the location of a permanent home, or the place a household plans to return to. It is the place where people may maintain personal and professional licenses and may also maintain most of their medical and legal relationships.

A residence meanwhile, refers to a permanent place where members of a household may stay for long periods of time, even if they are not domiciled there.

A cleaner way to think of this is a person may be domiciled in one state (or country) but could live as a resident in another for a period of time due to a work project.

To be considered a New York resident for income tax purposes, for example, a person must maintain or have access to a permanent dwelling in New York for substantially all of the year and must have been physically present in New York for at least 184 days of the year.

State by state rules vary regarding how many days out of the year a person must be in a state to be considered a resident, but the general rule figure is around 183 days, or, one day more than half a year.

For tax purposes, households can be liable for income taxes both for the state in which they are domiciled and the state where they reside. Guessing the number of days is not sufficient. To increase the likelihood of a successful residency audit outcome, one should keep receipts of travel and other expenses incurred in each state.

With much of January already behind us, households should project their residency plans for 2017 so that there are no surprises come next tax season.

Keeping up with individual states' tax laws can be a challenging and ever-evolving process. For more information or assistance with compliance, contact your Anchin relationship partner or a member of Anchin's Tax Controversy Services Group at info@anchin.com.

Ehud "Udi" Sadan, CPA, CGMA
Leader
ehud.sadan@anchin.com

Jared Feldman, CPA
Leader
jared.feldman@anchin.com

ANCHIN Private Client

1375 Broadway, New York, NY 10018
212.840.3456 • www.anchinprivateclient.com