Taxation:
More than just a NY “State” of Mind

Being subject to income tax in multiple states is something that affects many high net worth families, yet tax exposure may not always be readily apparent. Families that live in one state may find that they have earned income in many states due to the various sources of their income.

In order to determine which states will generate taxable income, it is important to monitor activities from all income sources throughout the year. It is always a good idea to consult with a tax specialist to properly plan so that any state income tax exposure can be managed.

Here are a few common multi-state tax situations that can arise:

Trust Income - Beneficiaries may receive income distributions from a trust and, through its various investment activities, have sourced taxable income to many states. Depending upon the rules of the various states, a beneficiary could find themselves liable for taxes in multiple jurisdictions.

Rental Income - If a family owns rental properties that generate rental income, they will be liable for any state income taxes generated by that rental income (based upon where the rental properties are located, which may differ from their resident state). This income tax would be in addition to any applicable property taxes being assessed on the rental property.

Partnership Income - All of the income and expenses of a partnership are passed through to its partners and reported on their individual income tax returns. Income tax is not paid at the partnership level. Investors may find that the multi-state activities of the partnership (or of the partnership’s underlying investments) that generate taxable income will create state income tax liabilities for them. Investors should inquire about the states in which their partnerships are conducting their business so the liabilities can be anticipated and managed.

In addition to income taxation, possessing certain types of assets outside of your state of residence could expose you to a state estate or inheritance tax in other jurisdictions. In the NY metropolitan area it is very common for people to conduct business in one state and to reside in another, such as New Jersey and Connecticut, for example. The income received is taxable to the taxpayer’s resident state as well as in the nonresident state in which the business is conducted. Fortunately, most states permit a credit for the amount of tax paid to the nonresident state against the tax liability generated by that income in the resident state to avoid double taxation on the same income.

As always, it is best to seek the advice of a tax professional in order to better understand the intricacies of any tax situation, particularly those that involve complicated multi-state issues.

For more information, contact your Anchin Relationship Partner or Tara Burek, a director in Anchin Private Client, at 212.840.3456 or info@anchin.com.

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