



ESTABLISHING RESIDENCY

Strategies for Success and Mistakes To Avoid When Moving to a Lower-Tax State

Shonda and Darrell spent 18 months planning their move from New York to Florida to be closer to their children and grandchildren. While motivated mostly by family, they also expected a lower cost of living and the ability to pass on more assets. They hired a tax attorney, documented every step, sold their Long Island home and followed state residency rules to the letter.

Three years later, they're living the retirement they envisioned. Their tax savings have been substantial, and they spend weekends with their grandkids. "The tax savings made it financially smart," Shonda says, "but we'd have been miserable if we didn't want to be in Florida. The grandkids were the real reason."

Melissa and Scott made a similar move—also for family and savings—but did it in two months. They kept their Connecticut beach house for summers, maintained their country club membership and sold their business six months after relocating.

Two years later, they're facing a Connecticut audit assessment, including back taxes, penalties and interest, that has eroded most of their anticipated savings. They've spent months in appeals and tens of thousands of dollars on legal fees. "If I'm honest," Scott reflects, "I wanted to keep my Connecticut life while getting Florida's tax rate. That's not how it works."

While neither of these couples is real, these hypothetical scenarios demonstrate possible outcomes—positive and negative—that wealthy individuals may face when relocating to a lower-tax state. Here's what you need to know if you're contemplating this kind of move.

The Lure of Tax Savings and Hidden Drawbacks

State income tax rates range from zero (Alaska, Florida, Nevada, New Hampshire, Tennessee, Texas, Wyoming) to over 13% in California. For high earners, this can translate to a substantial difference in savings—often tens to hundreds of thousands of dollars over time depending on income level.

For couples like Shonda and Darrell, with significant income from pensions, investments and rental property, the long-term wealth preservation opportunity was significant. Combined with being closer to family, moving to Florida made financial and personal sense.

But successful relocation requires understanding the complete picture. States with no income tax compensate through other revenue sources. For example, property tax rates in Texas and New Hampshire are among the highest in the nation. Other states have combined state and local sales tax rates approaching 10%. Florida homeowners also may face higher insurance costs due to hurricane risk. Some states, like Washington, have no income tax but have costly estate taxes and tax high earners on capital gains.

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That's why before you move, it's important to consider your total tax burden (income, property, sales, estate/inheritance, business) and total cost of living (insurance, utilities, goods and services, health care, housing). Then subtract one-time and ongoing move-related expenses (legal/CPA fees, moving and home sale costs, dual state filing and documentation fees).

Melissa and Scott calculated income tax savings but didn't adequately factor in higher property taxes, insurance costs and increased sales taxes. Their true net benefit was roughly half what they'd projected.

Know the Legal Residency Requirements

Changing state residency isn't as simple as filing a form or buying a condo. It's proving you've made a permanent move to a new home.

State tax auditors typically use two tests. The **domicile test** examines your permanent home—where you intend to return indefinitely. You can only have one domicile, and proving you've changed it falls entirely on you. The **183-day statutory test** is more mechanical: spending 183 or more days in a state plus maintaining a permanent abode there equals automatic resident status, even if you're domiciled elsewhere. Any part of the day counts, including airport layovers if you leave the terminal.

"We treated it like legal proceedings from day one," Darrell explains. "We knew New York would scrutinize everything, so we made sure to document everything our team recommended."

That meant establishing genuine new state presence: purchasing a primary residence, updating driver's license and vehicle registration immediately, registering to vote, applying for homestead exemptions, potentially establishing primary banking relationships, updating wills and trusts, finding new doctors and dentists, joining local organizations, even registering pets.

Equally important—and where Melissa and Scott stumbled—is failing to show intent to permanently relocate. You may want to sell your primary residence or rent it to an unrelated party at market rates and cancel your old state homestead exemption. Consider terminating club memberships and season tickets and relocating valuable personal property.

Melissa thought keeping their beach house wouldn't matter since they'd bought a place in Florida. "We didn't realize Connecticut would see that as evidence we never really left," she says. "The house was larger, worth more, and where we spent summers with the grandkids. In retrospect, I wish we'd taken more time to plan and consulted our legal and financial advisors before setting things in motion."

What's at Stake If You Are Audited (Count on It)

States such as New York, California, Connecticut, New Jersey and Massachusetts aggressively audit residency changes, using dedicated teams and detailed data—they don't want to give up tax revenue. High-net-worth individuals moving from these states to no-tax states face a high probability of an audit. This means you need to be aware of your state's rules. For example, New York and Massachusetts use "days and home" tests to determine if personal use of property for out-of-state residents is at odds with their domicile. If you spend more than nine months in California, it counts you as a resident. Illinois doesn't count days, but it considers someone a resident if they are in the state for non-temporary purposes.

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Depending on the state, auditors conduct complete day counts using credit cards, E-ZPass records, phone location data, airline tickets, utility bills and even social media posts. They scrutinize property ownership, family location, professional ties, business activities and where you receive medical care.

If an audit goes against you, both states may claim you as a resident, taxing your worldwide income. You may owe back taxes—with no statute of limitations if you never filed in the claiming state. The cost to you could be substantial; some states impose penalties equal to a large percentage of the unpaid taxes, and interest compounds daily at rates ranging from 7% to 15% annually. In egregious cases, criminal charges are possible.

Melissa and Scott's total assessment, including back taxes, penalties and interest, was hefty—several multiples of a single year's tax savings. Legal fees cost tens of thousands of dollars more. Many states offer credit for taxes paid to other states, but these credits are intended to make sure the taxpayer pays the higher of the two states' rates.

Planning a Successful Move

Moving to lower your taxes makes sense when you're genuinely ready to relocate permanently—*when the new location serves your life, not just your tax return.*

It may be prudent to spend time in the state and the neighborhood you plan to move to. You can try renting to see if the life and lifestyle work for you. Success may also require professional guidance from the start. Consider engaging a legal or financial professional with multi-state residency experience six to 12 months before your planned move and creating a detailed action plan you can follow.

The first two to three years typically bring the highest risk. Stay well under 183 days in your old state—many tax advisors recommend under 100 days for a safety margin. A big red flag is reporting that you moved on Jan. 1. You may think this makes filing state taxes more convenient, but almost nobody moves on New Year's Day. Instead, report the actual move date and file partial-year returns in both states. Continue building ties in your new state through community involvement, local relationships and by spending consistent time there. And as noted above, maintain meticulous documentation.

Finding Your Happy Place

Today, Shonda and Darrell are happy with their decision to move—they see their children and grandkids frequently and have built ties to their community. The financial benefits are a plus, but what they value most is the life they've made in Florida.

Scott and Melissa also enjoy being closer to their family, but the emotional and financial toll of the audit made them wonder more than once if they made the right decision. "If I could do it over again, we would have been better prepared or delayed our move until we were actually ready to give up our life in Connecticut," Melissa says.

If you're considering relocating to a lower-tax state, your RWA team can help you evaluate whether it makes financial sense and guide you through the planning process. Contact us if you'd like to discuss your options.

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MANAGING CONCENTRATION RISK IN A PORTFOLIO

When One Stock Becomes ‘the Plan’

If a single stock has come to define your wealth, you’re not alone. After years of strong gains led by a small group of mega-cap companies, some investors now find that a significant portion of their net worth is tied to just one stock. That can feel exciting when the stock is rising, but it also means your financial future may be closely linked to one company’s performance. Put simply, when a material slice of your investable assets is held in a single security (or a few), you have concentration risk, meaning your outcomes may hinge on what that company does next, whether positive or negative.

This isn’t a theoretical concern. Long-horizon studies indicate that while a few stocks become long-term outperformers, most individual stocks underperform diversified indexes, and many experience deep and sometimes prolonged drawdowns.

For example, research found that, over the four decades from 1980 through 2020, roughly 66% of single stocks underperformed their broad benchmark and about 42% delivered negative returns. So-called catastrophic drawdowns (a 70% decline from peak value without a full recovery) were not uncommon. Another study highlighted that leadership from the Magnificent Seven, while influential, doesn’t typically continue in a straight line. Single-stock portfolios have historically shown steeper drawdowns and longer recovery periods than diversified indexes.

Why Is This Risk More Common Now?

Two forces have converged to make concentrated stock risk a more common issue:

- 1. Market leadership has been unusually narrow.** A small number of mega caps have driven a significant share of index returns in recent years, concentrating gains for individuals heavily invested in them (e.g., NVDA, GOOG, MSFT).
- 2. Equity compensation has expanded and can compound concentration.** Restricted stock units (RSUs), stock options, employee stock purchase plans (ESPPs) and performance shares can be effective in building wealth, but they also tether both income and assets to the same company. Some companies encourage (or even require) ownership levels that can further concentrate exposure.

Add in behavioral factors, which include familiarity with your employer, pride in a winning stock and reluctance to recognize gains, and it’s easy to see how someone might end up with 30%, 50% or even 70% of their investable assets in one position.

But here’s a reality check. Even strong companies can stumble, and single stock drawdowns can be severe. Diversification doesn’t eliminate risk, but it can help shift exposure away from dependence on one company toward the broader engine of global markets.

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The Problem and the Feelings Behind It

Here are some concerns we've heard from investors with concentrated positions:

- "I don't want to sell and pay a big tax bill all at once."
- "What if I diversify and miss more upside?"
- "My compensation and my portfolio are in the same stock. What if something happens at work and to the shares?"

The point about taxes shouldn't be underestimated. Highly appreciated stock can carry large, embedded gains. But staying concentrated is a choice, and it can be a risky one. Long-run evidence suggests the odds of one stock continuing to beat the market are often lower than many assume, and the worst-case outcomes can derail your wealth.

A more helpful way to frame the decision might be:

"How can I gradually exchange single company risk for market risk in a thoughtful, tax-aware way and on my terms?"

The High-Level Tool Kit We Use and How It Feels in Practice

As we discuss some of the solutions we employ at RWA, please remember that every situation is unique, tax rules are complex, and some strategies involve risks and eligibility requirements. This is intended to illustrate what's possible and is not one-size-fits-all advice.

1. Direct indexing: Diversify while managing taxes along the way. Instead of selling everything at once, we can build a personalized portfolio that tracks a broad index while systematically harvesting losses in other positions. Those harvested losses can help offset gains as we trim the concentrated stock over time, aiming to keep your after tax results aligned with your goals.

What this can look like:

We set a glide path for how much concentration is reduced each quarter or year, aligned with your tax budget and comfort with tracking error. You stay invested in equities, but your future doesn't hinge on a single ticker.

2. Long/short extension strategies: Accelerate diversification in taxable accounts. For clients with significant tax exposure, long/short strategies can create more opportunities to harvest losses without immediately selling the low-basis shares. The goal is to accelerate risk reduction while neutralizing some tax impact along the way.

What this can look like:

Think of it as adding a tailored "engine" around your current holdings, designed to generate offsetting losses during normal market moves. This lets you pare down the big position faster without an outsized tax bill in year one.

3. Option overlays: Protect the downside, sometimes fund the plan. Protective puts can define a floor under the stock for a period. Collars can cap some upside in exchange for downside protection at little or no net premium. Covered calls can generate income that may help fund diversification. Options-related strategies won't remove risk, and they add complexity, but they can stabilize the journey as you transition.

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What this can look like:

If your biggest fear is a sharp, sudden drop before you diversify, a collar can act like a seat belt: You're still in the car, but you have more protection against a sudden, downward change in momentum.

4. Exchange funds: Diversify immediately, defer the tax bill. Qualified investors can contribute a single stock into a pooled fund and receive a diversified basket in return, but without an immediate sale. You defer recognition of gains until the diversified shares are sold later. It's not for everyone (minimums and holding periods apply), but it can be a one-step path to broad exposure for very large positions.

What this can look like:

If your position is sizeable and you want to diversify quickly, this can be a powerful lever. It's often combined with charitable strategies or direct indexing for the rest of the plan.

5. Charitable strategies: Align values, improve after tax outcomes. Donating appreciated shares to a donor-advised fund or charitable trust can eliminate capital gains on the gifted shares and generate a potential deduction, freeing up room to diversify the remainder. This lever pairs naturally with a family's giving goals and the values-based approach we know resonates in many households.

What this can look like:

If you already give annually, front loading several years of gifting using appreciated stock can reduce concentration and support the causes you care about. And it can potentially lower your overall tax drag.

Identifying the Solution for You

Managing concentration is about protecting your success. You worked hard to build what you have. A plan that gradually trades single-company risk for broad market risk, on a timeline and tax budget that fit your life, can be a meaningful step for your portfolio.

Keep in mind the strategies we discussed can be powerful tools for helping to reduce your tax burden and preserve more of your wealth, but they are also quite complex and require careful oversight to be properly implemented.

If you're wondering whether your stock has become too big a piece of the puzzle or you want to learn more about any of these strategies, talk to your RWA team. They can help you map a route that respects taxes, preserves flexibility and keeps your long-term goals front and center.

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TAX PLANNING

Why Tax Refunds May Be Bigger This Year

Many taxpayers are seeing larger-than-usual-refunds as they file 2025 returns due to the One Big Beautiful Bill Act (OBBBA). In addition to the bill's changes, withholding tables weren't updated midyear, so many high earners had more tax taken out of their paychecks than necessary—and that difference is coming back at filing.

Let's run down how much bigger "bigger" could be and some of your options if you received or expect some extra cash back from the IRS.

What Changed?

For tax year 2025, the OBBBA broadened benefits in a few ways that especially help higher-income filers but could also benefit taxpayers with lower income:

- **SALT deduction cap increased to \$40,000.** This is well above the prior \$10,000 limit, which affects taxpayers in high tax states who itemize.
- **Increased standard deduction and inflation adjustments.** These changes may modestly reduce total tax liability for many households.
- **Expanded deductions for tips and overtime income.** These matter less than the high SALT cap for most high-salary professionals but could make a difference for a loved one.

How Big Is "Bigger" and Who Benefits the Most?

Headlines vary because they measure different things. Some forecasts peg the average boost at roughly \$700–\$750 for a "typical" filer, lifting average refunds to around \$3,800. But broader estimates that include the overwithholding effect suggest increases of about \$1,000 per filer on average, which aligns with what many upper-income households may experience. Nationally, that translates to over \$90 billion in additional refunds this season.

Affluent households, especially those in the top 10% or 5% of income (making more than \$210,000 and \$316,100, respectively), are projected to see increases measured in the thousands of dollars. It's estimated refunds could increase by \$3,100 to \$3,700 for many upper-income filers, driven in part by the higher cap on the SALT deduction and other provisions.

What Should You Do With a Larger Refund?

Think of the refund as freed-up cash flow for your goals and lifestyle. Here are five actions to consider:

1. **Fortify your cash buffer.** Many high-earning families prefer a larger liquidity cushion to handle irregular expenses or opportunities. We can rightsize the amount for you.
2. **Prefund near-term goals.** Earmark dollars for big 2026 expenses, tuition payments, charitable gifts or planned travel.

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- 3. Rebalance and top up tax-advantaged saving.** If appropriate, use part of the refund to rebalance taxable accounts, fund education savings for a loved one or boost retirement or health savings accounts contributions if you haven't already maxed them out.
- 4. Adjust your 2026 withholding.** A larger refund is often a sign you paid in more than you needed to during the year. Fine tuning your W-4 can improve take-home pay and smooth next year's outcome.
- 5. Do something fun.** A surprise windfall could go toward something creative—you could poll your family on how to put that cash to use for a shared experience or an out-of-the-ordinary purchase.

If you're receiving a larger-than-expected refund and would like us to help you put it toward long-term goals, near-term expenses or setting up an account for a loved one, please let us know.

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