



Tax Considerations When Moving to Another State

Originally published in September 2022, this issue of The Voice® was originally written by SNA member [Hyman Darling](#). The article was updated in 2026 with appreciation and gratitude for the original authors' work, with revisions by Scott Suzuki.

This article will discuss some of the tax issues related to a person with a disability moving from one state to another. While reading this article, keep in mind that a person could have more than one residence, but can only have one “domicile.” The domicile is where a person lives on a permanent basis, where they vote, where they live the majority of the time, where they see their primary medical providers, where they may have a driver’s license or other identification card, and also where they file their income tax returns.

A handful of states have no income tax on personal income, so, in those states, an individual will not need to file a state income tax return. However, that does not alleviate the need to file a federal personal income tax return to the extent the person does have taxable income, be it from employment, dividends, interest, distributions from a trust, pensions, retirement income, and the like.

In some cases, an individual with a disability may have lived with a parent, but later moves to a facility or a shared living arrangement in another jurisdiction, perhaps upon the parent’s incapacity or death. In these cases, the child would be changing their domicile, and, therefore, they will need to consider many tax-related issues.

The first would be their personal income taxes. The personal tax rate in any particular state could run from zero to 10%. Needless to say, 10% of a person’s income is a substantial amount to be paid on an annual basis to any state, but once the person lives in that jurisdiction, they are required to file a tax return on an annual basis and report all taxable income. Some states may provide for an exemption for a disability. In addition, some homecare, therapy charges, and other medical expenses may be deductible, to the extent that a person may itemize their deductions on the personal return. Some states allow for these excess deductions to be carried over from the federal return to the state return to minimize the state income tax, but some states do not. The income tax may be an especially important consideration if a trust receives funding from a tax-deferred retirement account, such as an IRA.

The second issue is related to estate and inheritance taxes. Twelve states and Washington DC have an estate tax (a tax that is paid from the estate of a decedent). Another six states have an inheritance tax (a tax paid by the recipient of inheritance). If a person has a significant inheritance or possibly has a substantial amount in a special needs trust (SNT),

depending upon the type of trust, the value of the assets in the trust may be includable in the taxable estate of the beneficiary. These taxes usually are assessed from 1% up to 20%, so the tax due upon someone's death could be quite significant. This may not be the best reason to consider which state to live in, but it could be a consideration. On the other hand, if the assets in the estate or trust are being paid to charities, the estate would probably receive a charitable deduction, and, therefore, there should not be any estate tax due so long as the charity or charities are qualified charities as tax exempt under the Internal Revenue Code.

If a beneficiary of a trust is considering a move, it is also important to review the terms of the trust and state statutes to determine the taxation of the trust. In some situations, the trust will be taxed where the trustee is located or perhaps may be taxed where the assets are being maintained and invested. If the beneficiary is moving from a state that has no state income taxes on trust income, it is important to review the tax laws of the states which may be options for a move. If the move is the priority decision without regard to the taxes, then perhaps the trust can be decanted or modified to change the situs or domicile of the trust so as to obtain the most favorable tax treatment. Certainly, the lawyer who represents the trust, the accountant for the trust, and the trustee themselves should be involved in this process since no one person alone should make the decision as to the tax issues regarding the trust situs. Many trusts, and perhaps state statutes, may allow for a modification to the trust for tax and administrative purposes which may include the right to change the situs or domicile of the trust for income tax purposes.

There may also be planning considerations if the beneficiary uses the services of a privately paid caregiver who resides in a different state. The caregiver may need to report taxable income from a different state. For instance, if the caregiver is living in New York, but the beneficiary is living in Connecticut, the caregiver may have to report the income in both states but receive a credit for the tax paid from one state to the other. To avoid this complexity, a beneficiary could pay a caregiver company, which would be the employer of record for the caregiver and be responsible for tax filings. One resource that may appeal to trustees who are faced with this situation is Team Risk Management (<https://www.teamemployer.com>)

Moving to a foreign country may have even more significant planning implications. It is important to seek advice to address all of the relevant jurisdictions.

When a person does move, it is good practice to file a final return in the state that person is leaving, and an initial return in the new state. The federal return merely needs to have an address change on the form filed to list the new address of the taxpayer or trustee.

Although it may be popular to dislike paying taxes and filing tax paperwork, sometimes paying a higher tax or filling out extra paperwork is well worth the effort if the trade-off results in obtaining a higher quality of programs, medical care, or mental health services.

It is a good idea to consult with well-qualified tax and legal professionals regarding the tax considerations in the context of a move for an individual with disabilities.

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