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FINANCIAL CONCEPTS INC
A MEMBER FIRM OF M FINANCIAL GROUP
Executive Compensation ■ Succession ■ Wealth Transfer Planning

Patrick J. McNamara, MSFS
President & CEO
pmcnamara@finconcepts.com

Kathy H. Barnett, CLU®, ChFC®
Vice President, Client Services
kbarnett@finconcepts.com

Kathleen M. Garber, CLU®
Vice President, Case Design
kgarber@finconcepts.com

24 Frank Lloyd Wright Drive
Suite 3050 H - PO Box 554
Ann Arbor, MI 48106-0554
Tel: (734) 214-9770 • Fax: (734) 214-9771
info@finconcepts.com

finconcepts.com

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The Importance of Domicile for Your Estate Plan

Increased mobility in today's society has changed the way we live, work, and play. Compared to previous generations, it is now quite common for work and recreational activities to cross state lines, resulting in ownership of property and formal relationships in more than one state.

When you consider the terms **domicile**, **statutory residence**, and **residence**, they may seem similar at first, but it is important to understand how they are different. Your ***domicile*** is the state where you maintain your permanent residence and intend to return to for prolonged periods. An individual can have only one legal domicile at a time. A ***statutory residence*** is the place where you live and work; you are subject to the income tax for that state. If you are a statutory resident of one state, while claiming a domicile in another, your domicile state may also require you to file a tax return. Your ***residence*** is any place (or places) where you live; the term "residence" bears little or no legal significance.

Estate Planning

Where your will is **probated** is determined by your domicile. If your domicile is unclear at your death, several states may be able to claim you as a domiciliary and tax your estate accordingly. Keep in mind that estate tax laws vary by state, and state laws may differ from Federal laws. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Some states exempt smaller estates and certain property from the probate process. Other considerations may also apply.

In addition, your choice of domicile can affect your overall financial plan, especially regarding property ownership. Not all states define property ownership in the same way. Some allow married couples to own property and income separately. In other states, known as community property states, married couples share ownership of all assets acquired *during* the marriage, but each spouse may own previously acquired property separately.

Further, your choice of domicile can affect your state income tax. Your income may be taxed in your state of domicile, the state where you earn income, or both. If you change your domicile during the tax year and both

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