

Moving Your Business to a Low-Tax State

As explained in the *April 2018 Sapient CPA Client Bulletin*, the Tax Cuts and Jobs Act of 2017 has put a cap on state and local tax (SALT) deductions. Beginning with your 2018 tax return, if you itemize deductions, you can count no more than \$10,000 a year of SALT deductions for income and property tax on a single or joint tax return (you can choose to include sales tax instead of income tax). SALT deductions (other than those for state and local income taxes) are not limited if they relate to income from a trade or business or for property held for the production of income.

Therefore, paying large amounts of SALT will become more painful because there will be scant relief from a federal income tax deduction. The more you pay in SALT each year, the more the \$10,000 ceiling will hurt. In addition, if you plan to make a profitable sale of your company within the foreseeable future, the state income tax on your sale could be substantial, yet not deductible.

Moreover, the new tax law's SALT cap could have a ripple effect on your company. If you have key employees, chances are they pay relatively high state and local income and property tax because of ample compensation and living in valuable homes. These employees might be thinking of their own tax-related relocation if you're in a high-tax area now.

Plan Yourself First

The idea of moving to a lower tax state could be more appealing now. Such a decision should be based on careful research.

To start, determine whether you want to personally relocate. Moving your business to another state while continuing to live in your current state may cause problems. Say you have decided to move your business from New York to Florida. It may be difficult to convince New York that you have moved your company to Florida if your own residence is still in Manhattan or Brooklyn.

If you do decide to personally relocate, your claimed change in residence will be more convincing if you sell your home in New York and cut all ties. That could include getting a new driver's license, voter registration, local bank account, and so on. You might have to put young children into school within the new state. If you choose to keep other New York real estate after moving, it may be costly. New York will seek to tax rents on property within its borders, and the property, if still owned at death, will be subject to New York state estate tax.

Besides comparing tax burdens, look at other major costs, as well. Will home and auto insurance be higher or lower after a move? How will health insurance be affected?

If your spouse works outside your company, will there be job opportunities in the new area? Determine if the total savings will justify the disruption that a move will create.

Getting Down to Business

Once you've decided that a personal move would be cost effective, analyze what a business move would entail. If your business is very small, perhaps just yourself and an assistant, relocating may be fairly straightforward. As long as it will pay off for your family, moving to save money paid for state and local tax could make sense.

With larger companies, though, more factors must be considered. You might have to deal with relinquishing office space and finding suitable new business premises. Other decisions could involve dealing with business property, offering employees help to relocate, providing severance pay to those who will be left behind, obtaining various licenses and registrations in the new jurisdiction, and so on. The sooner you move and the longer you operate in the low-tax state, the greater your chance of avoiding tax from your old state on a sale of the company.

The bottom line is that moving a business may be challenging, but it is doable. Such relocation is implemented all the time by many types of companies. The new tax law, with its limit on SALT deductions, may be the proverbial final straw that gets you going. Our firm can calculate the overall cost savings from such a move and help you deal with the regulatory requirements that might arise.