PBN
.com
UPDATED DAILY
OCT. 15-21, 2007
VOL. 22, NUMBER 27
$1.50

PROVIDENCE BUSINESS NEWS
YOUR LOCAL SOURCE FOR BUSINESS NEWS IN SOUTHERN NEW ENGLAND

INVESTING

Florida's tax-avoidance appeal grows

Experts advise sunbirds to establish residency

BY WILLIAM HAMILTON
HAMILTON@PBN.COM

David Correira isn't trying to get you to move. He just wants you to give it some serious thought if you own assets totaling more than $1 million.

Correira, a lawyer at **Correira & Associates**, which has offices in Providence, said last week that a favorable income and estate tax climate in Florida might make it worthwhile for many Rhode Island and Massachusetts residents to head South for more than just winter.

Where Rhode Island can tax the estates of deceased residents totaling more than $675,000 – Massachusetts has a $1 million threshold – there is no estate tax in Florida. No income tax, either.

Estate planners have informed clients about those advantages for several years. But now more recent changes in Florida tax laws have increased the potential returns, according to Correira.

In January, Florida repealed its intangible property tax, creating a situation in which a Florida resident can form a business entity and transfer Rhode Island property into it to avoid the Rhode Island estate tax.

Correira said he's not telling people to move to Florida; his message is aimed at the "snowbirds," the people who live there for part of the year already.

"Becoming a Florida resident for tax planning purposes is becoming increasing important," he said in an interview last week. "Anyone who is spending time in Florida should think about spending enough time there to become a Florida resident."

Starting later this month, Correira & Associates is co-sponsoring seminars on the subject in Rhode Island, Massachusetts and Florida titled "Flocking to Florida: Estate Planning for New Englanders Marking the Snowbird Connection."

Attorney David Riedel, a former president of the **Estate Planning Council of Rhode Island**, said it's not just Florida. He has seen clients move to other states in recent years with a similar tax situation, such as Georgia.

"It's not a friendly tax climate in Rhode Island, for people or businesses," Riedel, who serves chairman on the **Rhode Island Bar Association**'s probate and trust committee, said in an interview last week.

Riedel said that before 2001, most states, including Rhode Island and Florida, piggybacked on the federal estate tax, meaning the estate tax was the same in both states. But after 2001, the states "decoupled" from the federal estate tax. In Rhode Island, the tax threshold was set at $675,000.

There is still a federal estate tax, but the threshold for taxation is $2 million and is slated to go up to $3.5 million in 2009.

Florida, where many Rhode Island residents own real estate, never established its own estate tax.

As a result, Reidel said, the tax on an estate totaling $1 million is about $33,000 for a Rhode Island resident. There would be no estate tax for a Florida resident.

> 'You want people to stay here and to die here and keep their money here.'
>
> DAVID RIEDEL
> attorney

Correira said those whose primary residence is in Rhode Island but who also own property in Florida, or anywhere else, will be taxed on an estate that includes the value of those out-of-state properties.

But those who make Florida their official home can avoid the Rhode Island estate tax on properties outside of Rhode Island. And if the Florida resident creates a Florida limited liability company, S corporation or family limited partnership and transfers Rhode Island property to that business entity, it's protected from the Rhode Island estate tax, according to Correira.

"That's a very powerful planning vehicle for clients," said Correira, adding that about 25 of his clients have made Florida their primary resident in the last year.

People interested in making that move to Florida have to meet several criteria, according to estate planners.

You must live in Florida at least six months of the year, register to vote in Florida and hold a Florida driver's license, among other things. In addition, Correira said, documents such as wills should be completed in Florida.

"We're not telling people that if you're in Florida for a month each year, stay for six," Correira said. "We're saying that if you're there for four or five months, stay another month and a day, become a Florida resident and eliminate your income tax, eliminate your death tax."

There have been attempts in the General Assembly to increase the Rhode Island's estate tax threshold to at least match Massachusetts' $1 million threshold. But because of state budget constraints, the attempts have failed so far.

The situation frustrates Reidel.

"The tax climate has to change if we're going to be competitive," he said. "The problem is you don't want to be the least tax-friendly state, because it's not going to do you any good."

In the meantime, Reidel continues to advise his clients about the advantages of moving to Florida or states with similar tax climates. "I don't like to encourage people to leave, but I tell them the basic facts and they make up their mind," he said.

The number of his clients who have left Rhode Island to save on taxes in recent years is "probably approaching 100," he said.

"You want people to stay here and to die here and keep their money here," Reidel said. "You need the money here for investment purposes and a lot of other reasons." ■