



It's a Dry Heat – State Residency Planning to Mitigate State-Level Estate Tax Exposure

Introduction

Many families who traditionally migrated to Arizona during the winter only to return home to their state of residency during our “not-so-fun summers” are now deciding that a few months of heat might not be so bad when compared to the tax bill of maintaining their current state of residency (after all it is a “dry heat”).

The purpose of this article is to discuss state residency planning, specifically with regards to mitigating state level estate taxes, with a focus on Washington, Oregon, and Illinois.

Overview of Estate Tax Exposure

Families with significant wealth in Washington, Oregon, and Illinois face considerable state estate tax burdens that reduce the wealth transferred to their beneficiaries. Below is a comparison of 2025 estate tax laws in such states:

- **Washington:** Estates exceeding \$3 million are subject to a progressive tax, with rates ranging from 10% to a maximum of 35% for the largest estates. For large estates subject to both the federal and state-level estate tax, the combined effective tax rate is a maximum of approximately 61%.
- **Oregon:** Oregon's exemption is fixed at \$1 million, the lowest in the nation, with no inflation adjustment. Estates above this threshold face taxes from 10% to 16% for amounts exceeding \$7.5 million, impacting a broad range of estates.
- **Illinois:** Estates valued over a static \$4 million exemption are taxed at graduated rates up to 16%. The lack of inflation indexing increases tax exposure as asset

values rise over time.

As an illustration, an unmarried resident with a \$10 million estate could expect to pay approximately following in state-level estate taxes:

- **Washington:** \$2,280,000
- **Oregon:** \$1,102,500
- **Illinois:** \$1,068,360

In contrast, Arizona imposes no state estate tax, presenting a compelling opportunity for tax mitigation.

Benefits of Changing Residency

Many families with significant net worth will have a second home in a state; typically a state with better weather during certain times of the year than their home state (e.g., Arizona).

These homes may offer such families the opportunity to shift their residency to a more tax-favorable state by changing the “secondary residence” to a “primary residence.” Doing so may accomplish the following:

- **Mitigating State Estate Taxes:** By becoming a resident of a more tax favorable state (e.g., Arizona), families may avoid state estate taxes and pass a greater portion of family wealth to subsequent generations rather than to the government.
- **Retention of Secondary Residence:** With proper planning, families may retain a vacation or summer/winter home in the family’s original state of residence, using it for temporary visits (e.g., escaping that “dry” Arizona heat), while maintaining their primary residence outside of the tax-unfavorable state. In some cases, structuring ownership of the secondary home through a limited liability company (LLC) or trust can further minimize tax exposure in the former state with respect to the secondary home.
- **Reducing Income Taxes:** In addition to state estate taxes, families may choose jurisdictions with more favorable state income tax laws to further reduce tax liabilities during life.

Risks of Not Properly Establishing Residency

Failing to thoroughly establish domicile in the new state of residence may jeopardize a family's tax-saving objectives, for example:

- **Aggressive State Tax Audits:** States like Oregon and Illinois actively audit residency changes, particularly for high-net-worth individuals relocating to states with more favorable tax laws. Auditors may examine time spent in each state, property ownership, voter registration, and social ties. Inadequate disconnection from the former state could lead to prolonged audits, requiring extensive documentation to substantiate a family's new residency.
- **Domicile Disputes:** If a former state asserts that you remained a resident at death, it may impose its full estate tax. In rare cases, multiple states claiming domicile could lead to double taxation, with legal disputes complicating estate administration. The estate may bear the burden of proving residency, and failure could potentially result in back-taxes, penalties, and interest.
- **Impact on Beneficiaries:** An unsuccessful residency change can burden heirs with unexpected tax obligations and legal expenses. This could necessitate asset sales (to pay additional taxes), reduce inheritances, and delay distributions, causing financial and emotional strain for beneficiaries.

These risks emphasize the importance of meticulous planning and professional guidance to unequivocally establish domicile in a family's new state of residency to avoid challenges from high-tax states.

Action Items

As an example, to effectively transition your residency to Arizona and secure its tax advantages, families are generally recommended to take the following actions:

- **Establish Arizona Domicile:** Designate your Arizona home as your primary residence by residing there for the majority of the year. Obtain an Arizona driver's license, register vehicles, and enroll to vote in Arizona. Update all federal and legal documents, including tax returns, passports, and estate planning instruments, to reflect your Arizona address.

- **Sever Ties with Former State:** Relegate your Washington, Oregon, or Illinois home to secondary status, using it for temporary visits (e.g., under 200 days annually, particularly in Oregon). Avoid actions indicating residency, such as voting, claiming homestead exemptions, or maintaining professional licenses in the former state.
- **Update Estate Planning Documents:** Families should update their estate planning documents to reflect their new state of residence; specifically, create an Arizona will, an Arizona revocable trust, health care and financial powers of attorney, etc.
- **Maintain Comprehensive Documentation:** Keep detailed records of time spent in Arizona versus other states, using calendars, travel receipts, or digital location data. Retain evidence of Arizona ties, including utility bills, health care provider records, club memberships, and charitable contributions. Such documentation is critical to defend residency claims during audits.
- **Ensure Ongoing Compliance:** Regularly assess your ties to Arizona and the former state, filing Arizona resident tax returns and, if necessary, nonresident returns in the former state. Avoid filings or actions that suggest continued residency in Washington, Oregon, or Illinois.

Residency Factors Table

The following table compares key residency factors across Arizona, Washington, Oregon, and Illinois, highlighting criteria used to determine domicile.

Factor	Arizona	Washington	Oregon	Illinois
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		Resident if actions	Resident if domiciled in	Resident if in
	Resident if in state for other than temporary /	indicate intent to live in WA beyond	OR unless no permanent abode in OR,	IL for other than temporary /
Residency Definition	transitory purpose, domiciled in AZ, or spends >nine months/year (presumption).	temporary basis; presumption based on specific actions (e.g., voter registration).	has abode elsewhere, and spends ≤30 days/year in OR; or spends >200 days in OR.	transitory purpose or domiciled in IL but temporarily absent.
Domicile Criteria	Predominant home in AZ, intent to remain permanently, supported by conduct (e.g., time spent, records).	Fixed, permanent home with intent to return; retained unless new domicile acquired elsewhere.	Fixed, permanent home with intent to return; retained unless new domicile established.	True, fixed, permanent home with intent to return; retained until new domicile acquired.
Time Spent	Presumption of residency if >nine months / year; more time in AZ than other states strengthens claim.	No specific day count, but maintaining a residence for personal use triggers presumption.	>200 days / year triggers residency presumption unless proven temporary.	No specific day count, but long / indefinite presence (e.g., for health, business) indicates residency.

Voter Registration	Registering in AZ strengthens domicile claim; evidence via voter card or official correspondence.	Registering in WA creates residency presumption.	Not explicitly mentioned, but voting in OR suggests residency intent.	Not explicitly mentioned, but voting in IL supports residency claim.
	AZ license and relinquishment of other states' licenses support residency.	WA license creates residency presumption.	Not explicitly mentioned, but OR license suggests residency intent.	IL license supports residency claim.
Vehicle Registration	AZ registration for vehicles / boats strengthens residency claim.	Not explicitly mentioned, but WA registration supports residency presumption.	Not explicitly mentioned, but OR registration suggests residency.	Not explicitly mentioned, but IL registration supports residency.
Tax Filings	Use AZ address on federal / state tax returns; file in AZ's national office.	Using WA address for taxes creates residency presumption.	Not explicitly mentioned, but OR tax filings suggest residency.	Using IL address for taxes supports residency claim.
Property Ownership	Move property to AZ; open AZ bank accounts, safe deposit boxes.	Maintaining a WA residence for personal use triggers presumption.	Maintaining a permanent abode in OR with >200 days spent triggers residency.	Maintaining an IL abode with long-term presence indicates residency.

Social / Civic Ties	Join AZ clubs, purchase memberships, donate to AZ charities, vote in AZ.	Club memberships and social ties in WA support residency presumption.	Not explicitly mentioned, but social / civic ties in OR suggest residency.	Social ties (e.g., clubs) in IL weaken nonresident claims if present.
Health Care Providers	Establish AZ health care providers (e.g., primary care, dentist).	Not explicitly mentioned, but health care ties in WA support residency.	Not explicitly mentioned, but OR health care ties suggest residency.	Health care providers in IL support residency claim.

[Download](#) our checklist outlining specific actions to establish Arizona residency.

This blog was drafted by [Samuel M. DiPietro](#), an attorney in the Spencer Fane Phoenix, Arizona, office. For more information, visit www.spencerfane.com.

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