

Supplemental Memorandum of Decision: 01-20191572R
Individual Income Tax
For the Year 2016

NOTICE: IC § 4-22-7-7 permits the publication of this document in the Indiana Register. The publication of this document provides the general public with information about the Indiana Department of Revenue's official position concerning a specific set of facts and issues. The "Holding" section of this document is provided for the convenience of the reader and is not part of the analysis contained in this Supplemental Memorandum of Decision.

HOLDING

The Department agreed that Individual met her burden of demonstrating that she established a permanent residence outside Indiana during 2016; Individual provided documentation that she currently lives in Costa Rica and verifying that she moved to Costa Rica from Indiana with the intent of permanently residing in that country.

ISSUE

I. Individual Income Tax - Indiana Residency.

Authority: IC § 6-3-1-12; IC § 6-3-1-13; *Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579 (Ind. 2014); *State Election Bd. v. Bayh*, 521 N.E.2d 1313 (Ind. 1988); *Croop v. Walton*, 157 N.E. 275 (Ind. 1927); *Wendt LLP v. Indiana Dep't of State Revenue*, 977 N.E.2d 480 (Ind. Tax Ct. 2012); *Scopelite v. Indiana Dep't of Local Gov't Fin.*, 939 N.E.2d 1138 (Ind. Tax Ct. 2010); [45 IAC 3.1-1-21](#); [45 IAC 3.1-1-22](#); [45 IAC 3.1-1-22.5](#); [45 IAC 3.1-1-23](#); [45 IAC 3.1-1-7\(2\)](#); Income Tax Information Bulletin 28 (November 2016).

Taxpayer argues that the Indiana Department of Revenue erred when it denied Taxpayer a refund of 2016 income tax with Taxpayer claiming she was not an Indiana resident during 2016.

STATEMENT OF FACTS

Taxpayer is an individual currently claiming Costa Rican residency. Taxpayer filed a 2016 Indiana income tax return. On that return, Taxpayer sought a refund of income tax withheld on her behalf by an investment company on the ground that she was not an Indiana resident during 2016. Taxpayer maintained that the 2016 investment income was taxable in Costa Rica.

The Indiana Department of Revenue ("Department") denied the requested refund. Taxpayer disagreed with the decision denying the refund and submitted a protest challenging the Department's decision.

An administrative hearing was conducted by telephone during which Taxpayer's representative explained the basis for the protest. A Final Order Denying Refund (ODR) was issued October 2019. The ODR held that Taxpayer had not met her burden of demonstrating that she established a permanent residence outside Indiana and she had moved to Costa Rica from Indiana with the intent of permanently residing in that country.

Taxpayer disagreed with the decision and requested a rehearing. Taxpayer supplied additional documentation in support of that request. This Supplemental Memorandum of Decision results.

I. Individual Income Tax - Indiana Residency.

DISCUSSION

The issue is whether Taxpayer has met her burden of establishing that she was not an Indiana resident during 2016, was not required to file and pay Indiana income tax, and that the Department's decision denying the refund of income tax withheld on her behalf was wrong.

In bringing a matter to protest such as that raised here by Taxpayer, the petitioner is required to provide documentation explaining and supporting his or her challenge that the Department's position is wrong. Poorly developed and non-cogent arguments are subject to waiver. *Scopelite v. Indiana Dep't of Local Gov't Fin.*, 939 N.E.2d 1138, 1145 (Ind. Tax Ct. 2010); *Wendt LLP v. Indiana Dep't of State Revenue*, 977 N.E.2d 480, 486 n.9

Further, "[W]hen [courts] examine a statute that an agency is 'charged with enforcing . . . [courts] defer to the agency's reasonable interpretation of [the] statute even over an equally reasonable interpretation by another party.'" *Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579, 583 (Ind. 2014). Thus, interpretations of Indiana tax law contained within this decision, as well as the preceding audit decision, are entitled to deference.

For Indiana income tax purposes, resident "includes (a) any individual who was domiciled in this state during the taxable year, or (b) any individual who maintains a permanent place of residence in this state and spends more than one hundred eighty-three (183) days of the taxable year within this state . . ." IC § 6-3-1-12; see also [45 IAC 3.1-1-21](#). Nonresident is "any person who is not a resident of Indiana." IC § 6-3-1-13.

[45 IAC 3.1-1-23](#) explains further how "residency" affects a taxpayer's income tax liability, in relevant part, as follows:

(2) Taxpayer Moving from Indiana

Any person who, on or before the last day of the taxable year, changes his residence or domicile from Indiana to a place without Indiana, with the intent of abiding permanently without Indiana, is subject to adjusted gross income tax on all taxable income earned while an Indiana resident. Indiana will not tax income of a taxpayer who moves from Indiana and becomes an actual domiciliary of another state or country except that income received from Indiana sources will continue to be taxable.

...

(4) Part-Time Resident Individuals

Persons residing in Indiana but living part of the year in other states or countries will be deemed residents of Indiana unless it can be shown that the abode in the other state or country is of a permanent nature. Domicile is not changed by removal therefrom for a definite period or for a particular purpose. A domicile, once obtained, continues until a new one is acquired

The Department has revised the Adjusted Gross Income Tax regulations. Some of the revisions were intended to clarify the definition of a person's domicile for Indiana income tax purposes and afford additional considerations in determining a person's domicile. For reference sakes, this Letter of Findings cites to these regulations as guidance.

[45 IAC 3.1-1-22](#) (2017) states as follows:

(a) "Domicile" means a person's domicile is the state or other place in which a person intends to reside permanently or indefinitely and to return to whenever he or she leaves the place. **A person has only one (1) domicile at a given time even though that person may be statutorily a resident of more than one (1) state.** A person is domiciled in Indiana if he or she intends to reside in Indiana permanently or indefinitely and to return to Indiana whenever he or she leaves the state.

(b) A person is domiciled in a state or other place until such time as he or she voluntarily takes affirmative action to become domiciled in another place. **Once a person is domiciled in Indiana, that status is retained until such time as he or she voluntarily takes positive action to become domiciled in another state or country and abandons the Indiana domicile by relinquishing the rights and privileges of residency in Indiana.**

(c) In order to establish a new domicile, the person must be physically present at a place, and must have the simultaneous intent of establishing a permanent place of residence at that place. **The intent to change one's domicile must be present and fixed and not dependent upon the happening of some future or contingent event. It is not necessary that the person intend to remain there until death; however, if the person, at the time of moving to the new location, has definite plans to leave that new location, then no new domicile has been established.**

(d) There is no one (1) set of standards that will accurately indicate the person's intent in every relocation. The determination must be made on the totality of facts, supported by objective evidence, in each individual case.

(Emphasis added).

[45 IAC 3.1-1-22.5](#) (2017) further outlines the factors in determining a person's domicile, as follows:

- (a) The Department may require documentation from a person to evaluate domicile.
- (b) The one hundred eighty-three (183) day and permanent place of residence threshold in IC [§] 6-3-1-12(b) and [\[45 IAC 3.1-1-21\]](#) is not a test for domicile.
- (c) **A person is presumed not to have abandoned their state of domicile and established a new state or other place of domicile in a given year if, during that year, the person maintained a permanent place of residence (whether as an owner, renter, or other occupier of the residence) in that state and the person did more than one of the following:**
 - (1) Claimed a homestead credit or exemption or a military tax exemption on a home in that state.
 - (2) Voted in that state.
 - (3) Occupied a permanent place of residence in that state or other place of domicile for more days of the taxable year than in any other single state.
 - (4) Claimed a benefit on the federal income tax return based upon that state being the principal place of residence.
 - (5) Had a place of employment or business in that state.

A person may rebut this presumption through the presentation of substantial contrary evidence.

- (d) If a person's domicile is not resolved by subsection (c), the [D]epartment may consider additional relevant factors to determine the person's state or other place of domicile, including the state or other place where the person:
 - (1) maintained a driver's license or government issued identification card;
 - (2) was registered to vote;
 - (3) registered a vehicle;
 - (4) claimed as dependents immediate family members who relied, in whole or in part, on the taxpayer for their support;
 - (5) assigned or maintained a mailing address;
 - (6) maintained bank accounts;
 - (7) maintained active membership in a religious, social, cultural or professional organization;
 - (8) received professional services; and
 - (9) kept valuables or family heirlooms.

This list of additional, relevant factors is not exclusive.

(Emphasis added).

Thus, a new domicile is not necessarily created when an individual moves to a place outside of Indiana such as Costa Rica. Instead, the individual must move to the new location and have an intent to remain there indefinitely.

In *Croop v. Walton*, 157 N.E. 275 (Ind. 1927), a taxpayer, Mr. Walton, who was domiciled in Michigan sold his home in Michigan and moved to a new residence in Indiana where he and his Wife lived for several years for the benefit of his Wife's health. Mr. Walton lived in the Indiana home "on account of the mental and physical condition of his Wife, and continued to occupy it until such time as she could safely return to [Michigan] to live." *Id.* at 276. The court concluded that, based on the level of activity he maintained in Michigan and lack of intention to abandon his domicile, Mr. Walton did not change his domicile from Michigan to Indiana. The court explained, in relevant part, that:

"If [a] taxpayer has **two residences in different states**, he is **taxable at the place which was originally his domicile, provided the opening of the other home has not involved an abandonment of the original domicile and the acquisition of a new one.**"

'[D]omicile' . . . is the place with which a person has a settled connection for legal purposes, either because his home is there or because it is assigned to him by the law, and is **usually defined as that place where a man has his true, fixed, permanent home, habitation, and principal establishment, without any present intention of removing therefrom, and to which place he has, whenever he is absent, the intention of returning.**

Id. (Internal citations omitted)(**Emphasis added**).

In explaining the difference between "residence" and "domicile," the court in *Croop* stated:

'Domicile' "is a residence acquired as a final abode. To constitute it there must be (1) residence, actual or inchoate; (2) the nonexistence of any intention to make a domicile elsewhere." "The domicile of any person is, in general, the place which is in fact his permanent home, but is in some cases the place which, whether it be in fact his home or not, is determined to be his home by a rule of law."

"Residence is preserved by the act, domicile by the intention." "Domicile is not determined by residence alone, but upon a consideration of all the circumstances of the case." "While a person can have but one domicile at a time, he may have concurrently a residence in one place . . . and a domicile in another."

To effect a change of domicile, **there must be an abandonment of the first domicile** with an **intention not to return to it**, and there must be a **new domicile acquired by residence elsewhere** with an **intention of residing there permanently, or at least indefinitely**.

Id. (Internal citations omitted)(**Emphasis added**).

In *State Election Bd. v. Bayh*, 521 N.E.2d 1313 (Ind. 1988), the Indiana Supreme Court considered the issue of the meaning of "domicile" in determining that Mr. Bayh met the residency requirement for the office of Governor. Mr. Bayh's domicile remained in Indiana even though he moved to different states for various reasons for many years. The court stated, in pertinent part:

Once acquired, domicile is presumed to continue because "every man has a residence somewhere, and . . . he does not lose the one until he has gained one in another place." Establishing a new residence or domicile terminates the former domicile. A change of domicile requires an actual moving with an intent to go to a given place and remain there. "It must be an intention coupled with acts evidencing that intention to make the new domicile a home in fact **[T]here must be the intention to abandon the old domicile; the intention to acquire a new one; and residence in the new place in order to accomplish a change of domicile.**"

A person who leaves his places of residence temporarily, but with the intention of returning, has not lost his original residence

Residency requires a definite intention and "evidence of acts undertaken in furtherance of the requisite intent, which makes the intent manifest and believable." **Intent and conduct must converge to establish a new domicile.**

Id. at 1317-18. (**Emphasis added**).

Taxpayer's argument is that she "moved to Costa Rica in June 2014, and [has] been living here ever since." Taxpayer argues not only that she was not subject to Indiana's individual income tax but that she was entitled to a refund of the amount of tax withheld by her investment company. Taxpayer bases her argument on instructions contained within the IT-40PNR 2018 instruction booklet which states, "Pensions and most interest and dividends are taxed by your state of residence when you receive them."

The Department's Income Tax Information Bulletin 28 (November 2016), 20071003 Ind. Reg. 045070639NRA, explains:

Income received from Indiana sources is considered Indiana income to nonresidents, except certain types of Indiana source income subject to tax only by the taxpayer's state of legal residence. Interest, dividends, royalties, and gains from the sale of capital assets are subject to tax only by the taxpayer's state of legal residence unless such income results from the conduct of a trade or business in Indiana. If a trade or business is conducted in Indiana, the income should be reported as Indiana income. *Income from a qualified pension, annuity, or profit sharing plan is subject to tax by the taxpayer's state of legal residence.*

(*Emphasis added*).

[45 IAC 3.1-1-7\(2\)](#) provides as follows:

Income from a pension, annuity, profit-sharing, or stock-option plan that meets the qualifications of the

Internal Revenue Code is taxed by the state of legal residence. Lump sum distributions from qualified plans are taxed by the state which, at the time of the distribution, is the taxpayer's legal residence. Whether a plan meets the qualifications of the Internal Revenue Code is determined by the Internal Revenue Service.

Thus Taxpayer's challenge to the refund denial relies on Taxpayer's verification that she was not an Indiana resident during 2016. To that end, Taxpayer provided a copy of emails, bank receipts, an untranslated immigration document, bank statement, utility bill, an administrative resolution, and moving company documents. Some of the documents are from 2016 while others are from later years.

Taxpayer also provided copies of her Indiana tax income return and her federal return listing a Costa Rican address but both are 2018 returns.

In addition to the documentation described above - considered during the original protest - Taxpayer has now provided her Costa Rican home address and a contract for the purchase of that home. Taxpayer further explains that she has a Costa Rican driver's license, possessed a "Costa Rican Government issued Permanent Residency Card," is a member of a Costa Rican social organization, that her financial transactions are conducted through a Costa Rican bank, and that she receives medical, dental, veterinary services in Costa Rica. Taxpayer also provided documentation from the company which originally shipped her personal belongings from the United States to Costa Rica.

Given the totality of the circumstances and the documentation provided, the Department agrees that Taxpayer has met her burden of establishing she was not an Indiana resident during 2016. The evidence Taxpayer provided establishes that she moved to that country with the "intent of abiding permanently without Indiana." [45 IAC 3.1-1-23](#). As explained in [45 IAC 3.1-1-22](#), "Once a person is domiciled in Indiana, that status is retained until such time as he or she voluntarily takes positive action to become domiciled in another state or country and *abandons* the Indiana domicile" In this case, the weight of the evidence establishes that Taxpayer took steps to "abandon" her Indiana domicile and took "positive action to become domiciled in" Costa Rica.

FINDING

Taxpayer's protest is sustained.

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