Considering Retirement?
Tax Burdens Can Help You Decide Where

Retirement is a major life event which requires much consideration. Since many retirees prefer to simplify their lives upon retirement, they may consider relocating to another state. Often, a heavily weighted factor in this decision is the state and local tax burden imposed by high-tax jurisdictions, such as New York or California.

Income, sales and property tax

Choosing to retire to a state that has no personal income tax may be very appealing, however property and sales taxes must also be considered.

Suppose a retiree has a choice of relocating between two states, Florida and Arizona. Florida does not impose a state income tax while Arizona does at a marginal rate that is below 5%. At first glance, Florida appears to be a more attractive option because it seems less expensive. Upon examining sales and property tax rates for each state, the conclusion may be different. Depending on the locality, Florida sales tax rates range from 6% to 8.5% where Arizona ranges from 5.85% to 11.20%. If choosing a state based on tax savings alone, again, it appears that Florida may be the winner.

Let's now take a look at property tax rates. Florida rates average at around 1.1% of a property's assessed value compared to Arizona's average rate of 0.77% of assessed value. If the assessed value of the retiree's property were constant in both states, Arizona is more affordable. Also, keep in mind that home values can vary drastically between states. If home values are higher in Florida, the overall property tax burden would be greater, hence lessening its overall appeal as a low-tax state.

More to consider

Other important considerations include the types of income a retiree will have. If the state they choose to retire to has an income tax, it may offer tax breaks on certain retirement plan and Social Security income. Also, some states do not impose an income tax on wages but do tax interest and dividends.

Prior to 2018, the Federal income tax deduction allowable for state and local property and income or sales taxes could compensate for some of the economic differences between higher- and lower-tax states. The Tax Cuts and Jobs Act (TCJA) now limits that deduction to $10,000 for married couples filing jointly ($5,000 for married couples filing separately), which diminishes the tax savings of living in a high-tax state — at least through 2025, after which the limit is scheduled to expire.

Last, but certainly not least, one must also consider the estate tax. Estate taxes can influence where retirees ultimately settle down. While not all states have an estate tax, the ones that do often do not conform to the federal exemption limits. Under the TCJA, the federal estate tax exemption has increased to $11.4 million per individual for 2019. Some states, such as Delaware and Hawaii, conform to the federal exemption limits, while others such as Massachusetts and New York, do not. There are also states, such as Arizona, which do not impose an estate tax at all. This is an area of the law that is very complex and should be considered carefully when developing an estate plan.

Choose wisely

State and local taxes is an area that can be overwhelming due to the various jurisdictions' laws. While it is important to factor in state tax burdens when deciding where to retire, the choice is not always apparent at first. It is important to work with a tax professional to minimize any unintended tax consequences. Contact your Anchin Relationship Partner or Tara Burek, a Director in Anchin Private Client, at 212.840.3456 or info@anchin.com.

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