LESSON · TAX & WITHDRAWALS

State Taxes in Retirement: How Much Where You Live Actually Matters

Two retirees with identical income can end up with very different after-tax retirements depending on nothing more than which state they call home.

Read time: 8 minutes **Level:** Beginner **Includes:** Knowledge check

Two retirees with identical portfolios, identical Social Security benefits, and identical spending can end up with meaningfully different after-tax income depending on nothing more than which state they call home. State tax treatment of retirement income varies enormously — and it's one of the few variables in a retirement plan that's entirely within your control if you're willing to consider where you live.

The four broad categories of state tax treatment

CATEGORY 1

No state income tax at all

A handful of states (including Florida, Texas, Nevada, and a few others) levy no state income tax whatsoever, meaning Social Security, pensions, RMDs, and investment income are all free of state tax.

CATEGORY 2

No tax on Social Security, but other income taxed

Most states that do have an income tax exempt Social Security benefits specifically, even while taxing pensions, RMDs, and investment income at ordinary rates.

CATEGORY 3

Partial exemptions for retirement income

Some states offer a partial exclusion for pension or retirement account income up to a certain dollar amount, or exemptions that phase in with age, rather than an all-or-nothing rule.

CATEGORY 4

Full taxation, no special retirement treatment

A smaller number of states tax retirement income — Social Security included — the same as any other income, with no special carve-outs for retirees.

Worked example

A retiree with $70,000 a year in combined Social Security, pension, and RMD income relocates from a state that fully taxes all of it at roughly 5% to a state with no income tax at all. That's roughly $3,500 a year back in their pocket — not a one-time gain, but a recurring amount every year of retirement, easily rivaling the impact of many investment decisions made with far more attention and effort.

Income tax isn't the whole story

Property taxes, sales taxes, and estate/inheritance taxes matter just as much

A state with no income tax can still have high property taxes that erase much of the benefit for a homeowner, and a small number of states impose their own estate or inheritance tax with exemption thresholds far lower than the federal estate tax exemption. Comparing states purely on income tax treatment, without checking property tax rates and any state-level estate or inheritance tax, can produce a misleading picture of the total tax burden.

Domicile isn't just where you spend the most time

Changing your state of legal residence (domicile) for tax purposes generally requires more than simply spending over half the year there — states look at where you're registered to vote, where your driver's license is issued, where your primary home is, and other indicators of intent to make that state your permanent home. Someone who keeps significant ties to their old state (a home, a driver's license, voter registration) while claiming residency in a no-tax state can find the old state still asserting a tax claim, sometimes years later through a residency audit.

Other factors worth weighing alongside taxes

Moving purely to chase a lower tax bill, without weighing proximity to family, healthcare access and quality, and cost of living broadly (not just taxes), can produce a decision that saves money on paper but doesn't actually improve retirement. Tax treatment is a real and quantifiable factor — often more so than people realize — but it's one input among several, not the only one.

Evaluating a state for retirement

- [ ] Check the specific state's treatment of Social Security, pensions, and retirement account withdrawals — don't assume "no income tax" from headlines alone.
- [ ] Compare property tax rates and any homestead exemptions for retirees, not just income tax.
- [ ] Check for a state-level estate or inheritance tax and its exemption threshold.
- [ ] If relocating, take the steps needed to actually establish domicile (voter registration, driver's license, primary home) rather than just spending time there.
- [ ] Weigh healthcare access, family proximity, and overall cost of living alongside the tax picture, not in place of it.

KNOWLEDGE CHECK

Test what you just learned

Answer four quick questions to test what you just learned.

1. Do all states without a general income tax also exempt Social Security automatically?

> A. Yes, and this is redundant since no-income-tax states don't tax anything
>
> B. Most states with an income tax specifically exempt Social Security even while taxing other retirement income, and a few states have no income tax at all
>
> C. No state exempts Social Security under any circumstances

2. Besides income tax, what else should be compared when evaluating a state for retirement?

> A. Nothing else matters if there's no income tax
>
> B. Property taxes, sales taxes, and any state-level estate or inheritance tax
>
> C. Only the state's overall population size

3. What does establishing 'domicile' in a new state typically require?

> A. Spending more than half the year there and nothing else
>
> B. Demonstrating intent to make it a permanent home — voter registration, driver's license, primary residence — not just time spent there
>
> C. Simply informing the old state by mail

4. What risk exists for someone who claims residency in a no-tax state but keeps significant ties to their old state?

> A. No risk — the new state's tax rules always apply once you move
>
> B. The old state may still assert a tax claim through a residency audit
>
> C. Only federal taxes are affected, never state taxes

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