

Look Before You Move

Each year, thousands of people retire and immediately move to a state that assesses lower income taxes, on the theory that they will save money and make their dollars stretch further. Then they discover that they would have been better off at home, either because of a tax trap, or because they didn't consider the source of their income when they calculated their state tax bill.

Certain states—like Mississippi and Pennsylvania, for instance—exempt money received from private pensions and IRA distributions from taxation, which may reduce the state tax bite to near zero. Some states exempt government and military pensions as well. So many retirees might discover, after moving, that they would have paid less in state taxes in the state they relocated from.

The biggest potential tax trap is capital gains on their existing home. Consider a couple who move to another state, and decide to rent out the house they currently own. Eventually, they decide to sell that house and put the money into their retirement account.

But hold on: if they haven't used the house as their principal residence for at least two of the five years prior to the sale, they lose the \$500,000 capital gains exclusion on their tax form. The difference can be enormous on a valuable home.

Another unexpected tax bite is property taxes, which vary by municipality in unpredictable ways. If you're considering a move, you should research not just the cost of buying a home in the new location, but the property tax bite, which could be higher than the income taxes you would otherwise have paid. And if you think the bill is unreasonable, consider the fact that most assessment information is now required to be available online, so you can consider how to appeal it.

The bottom line: look before you leap. And don't forget to consider such "soft" factors as the network of friends you have in your current location, and proximity to family.

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