

The Best States to Retire in From a Tax Perspective

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When it comes to retirement tax planning, heading west or to Key West may be the way to go. State taxes are the new focus in estate planning given the new, higher federal estate tax exemption. Everyone is subject to the same federal rules, but the tax system in each of the fifty states and Washington DC is different. New federal taxes on investment income and capital gains will materially affect retirement income and the transfer of wealth and state taxes, which vary widely from state-to-state, will have the same consequence.

The purpose of this article is to present a compilation of state tax data and the authors' conclusion on the best states to retire in from a tax perspective. Together, the data and analyses should help readers conclude which states are among those that represent the lowest cost to a family's wealth. There are many factors to consider when deciding where to retire and state taxes are among the most important for high net worth families who desire to maximize wealth transfers to future generations.

Taxes Are Just One Factor in Retirement Planning

Many factors go into the decision of where to live for those who desire to change domiciles in retirement. The location of other family members, cost of living, familiarity of surroundings and weather all play a critical role in deciding where to live.

For some, taxes and the efficient transfer of wealth play a critical role in the decision-making process. With state estate tax rates as high as 19% and income tax rates above 8% in many jurisdictions, the state tax bite represents a significant impediment to the preservation of family wealth.

How the States Were Ranked

The study incorporated the various taxes that are most likely to affect high net worth retirees. Multiple categories were reviewed including income, sales, real estate and estate taxes. An individual's sources of income can make a big difference in considering which states retire to. Within the income tax category, seven different sub-categories were examined ranging from tax rates on W-2 earnings to whether or not the particular state subjects social security income to taxation. Each jurisdiction was ranked in order from 1 to 51 in each tax category.

In *Exhibit 1*, the states with the least amount of tax in each category received a top score of 1, while jurisdictions with the highest tax received a ranking of 51. For those states tied with one or more other states, they received the same number ranking. The next state received a ranking number that was greater than the previous number equal to the number of states that tied. An example would be the ranking of Arkansas, South Carolina, and Idaho in the category of W-2 income tax. Arkansas and South Carolina both have a maximum tax

rate of 7%, so both receive a ranking of 37. Idaho had the next highest tax rate of 7.4% and received a ranking of 39.

Real estate taxes can vary greatly from state to state so it was important to include them in the study. The calculations done by The Tax Foundation based on 2009 U.S. Census Bureau data were used, since that was the most recent data available. The ranking is based on the average property taxes paid per \$1,000 of home value. Those states with the lowest cost per \$1,000 received a ranking of 1, while the highest average real estate cost received a ranking of 51.

Estate, inheritance, and gift taxes were grouped as one category. These three taxes are not as straightforward as other taxes looked at in the study. Those states with no estate tax received a ranking of 1 while the states that currently have no tax because of the obsolete federal credit received a ranking of 8. For the remaining states, the maximum estate and inheritance tax and the exemption amount as well as any gift taxes were taken into account in arriving at the final ranking. No weighting was assigned to the various taxes due to the variability in application to all individuals. ***Exhibit 2*** shows an alphabetical listing of the states and the ranking in each category.

Many cities and local municipalities impose income taxes. Such taxes were not made part of this study.

Looking at State Taxes Closely

Although the ranking in ***Exhibit 1*** shows the overall best states to retire in from a tax perspective, the taxes imposed by each state vary widely and must be closely scrutinized to determine the best result in a given case. For example, Illinois does not tax retirement income distributions, but does have an estate tax. So, taxpayers receiving large IRA or qualified plan distributions in Illinois pay no state income tax, but could be subject to large amount of estate tax. Contrast that

with Ohio, which turns the tables dramatically. The Buckeye state taxes retirement income, but does not levy estate or inheritance taxes. High net worth families must look at each state's complete taxing system to determine where the best overall tax result will occur.

Although this study does not take into account city and local municipality income taxes, they must be considered. For example, Philadelphia imposes a 3.98% tax on income and New York City levies income tax at the rate of 3.648%. Several cities across the country impose taxes, which add on top of the federal and state levies.

State estate tax is levied only on assets located in a particular state. In looking at gift taxes at the state level, only two states, Connecticut and Minnesota, levy such a tax. So, planning lifetime transfer techniques becomes more complicated in those states. Persons that will begin taking minimum required distributions, may want to consider states that do not tax that income and defer moving to a state with no estate or inheritance to later in retirement. Of course, all of this depends on the client's appetite to reduce or eliminate transfer taxes on family wealth.

Some states levy only an inheritance tax. Such tax is usually paid by the person inheriting assets from the decedent, whereas the estate tax is paid by the estate. Two states, Maryland and New Jersey, impose both estate and inheritance taxes with low exemptions for each tax.

It is important to note that several states¹ no longer levy an estate tax simply because federal law no longer provides a credit for state estate taxes paid. Historically, many states collected the amount of the federal credit as their "estate tax." After the federal credit was eliminated, states "decoupled" from the federal system and began to levy their own tax. Twenty-four states decided

to not decouple and, barring any legislative changes by such states, could levy their tax once again if federal law changes back to the old method of allowing a federal credit for state estate taxes. For now, living in those states means that no state estate taxes are levied at death, but an inheritance tax applies in Iowa, Kentucky, Pennsylvania and Tennessee. The states are ranked in ***Exhibit 3*** from the perspective of estate, inheritance and gift taxes. ***Exhibit 4*** contains an alphabetical listing of the states and their death tax attributes. ***Exhibit 5*** lists the states alphabetically and shows each state's tax rates.

Coordinating State Taxes and Retirement Estate Planning

Interesting estate planning opportunities result from the different state tax systems and asset protection laws. For example, there are seven states that do not tax trust income: Florida, Alaska, Nevada, South Dakota, Texas, Washington and Wyoming. In addition, some of those states, notably, Alaska, Nevada, South Dakota and Wyoming have very favorable asset protection laws. For those so inclined, it is possible to form a trust in one of the mentioned states and protect the assets from creditors, shield income from state taxation, have the trust assets escape state estate taxation and make them available to the person creating the trust. Compare that to New Jersey residents who form trusts in that state. New Jersey income tax will be payable on trust income and the assets could be subject to New Jersey estate tax, where the exemption is the lowest among all states at \$675,000.

For estates under \$10 million, the focus is clearly on state income and estate taxes. The federal exemption should serve to shield a couple's total estate from federal estate tax. For the twenty jurisdictions that impose either an estate or inheritance tax, planners need to be mindful of the state tax traps clients can fall into. Jurisdictions with low estate tax exemptions that collect estate

tax on retirees of moderate wealth are as follows:

Connecticut	New Jersey
District of Columbia	New York
Iowa	Oregon
Kentucky	Pennsylvania
Maine	Rhode Island
Maryland	Tennessee
Massachusetts	Vermont
Minnesota	Washington
Nebraska	

The estate tax rate in the state of Washington can run as high as 19% and that can take quite a bite out of wealth that is passed on to future generations. Keep in mind that most jurisdictions do not have a gift tax. Therefore, gifting at a late stage in life, as opposed to moving, may prove helpful to avoid state transfer taxes where the couple's total estate may cross the exemption threshold in a particular state.

For estates over \$10 million, federal and state taxes must be considered. Also, gifting may still be an important even though the transferor's federal exemption will be used to accomplish the overall tax minimization goal. From a federal tax perspective, gifting during life removes future appreciation from estate taxation. For those concerned about losing access to assets gifted away, consider the 2009 Internal Revenue Service ruling case in which the IRS held that a grantor of an Alaskan self-settled trust may be its beneficiary and that the assets will not be included in the grantor's estate.²

Retirees With High Income From Social Security, IRAs and Qualified Plans

Many retirees enjoy a high income from individual retirement accounts and other qualified retirement plans. In such cases, it is important to know how states tax that income and whether an inheritance or estate tax will diminish that asset at the owner's death. Many states do not levy income tax on Social Security income, but

those listed below go further and also do not tax IRA and qualified plan income:

Alaska	New Hampshire
Florida	<u>Pennsylvania</u>
<u>Hawaii</u>	South Dakota
<u>Illinois</u>	<u>Tennessee</u>
Michigan	Texas
Missouri	Wyoming
Nevada	<u>Washington</u>

Living in a state that does not impose income tax on retirement income may present a false sense of security if the person has a large estate. Many states impose an estate or inheritance tax on relatively small estates resulting in diminished family generational wealth. The five states underlined above do not tax retirement plan income, but levy an estate or inheritance tax.

Persons with large qualified plan balances must balance state income and estate taxation, federal exemption portability and required minimum distributions. For those with large qualified plan or IRA balances, several strategies are available to minimize overall income and estate taxes, including the following:

Portability Strategy – If the person lives in a state with no estate tax, but a taxable estate for federal estate tax purposes, consider deferring use of the exemption of the first spouse to die via portability so that future required minimum distributions (and taxes thereon) reduce the size of the tax-deferred asset that is subject to estate taxation at the second spouse's death.

"Use the Exemption Early" Strategy – If the person lives in a state with an estate tax, it may make sense to use that person's state and federal estate tax exemptions upon the first spouse's death. Even though the federal exemption will be used "early" and

required minimum distributions will diminish the estate that has already used part of the federal exemption, utilizing the state estate tax exemption may make sense in some cases.

The interplay of federal taxation and the various state tax schemes makes planning a critical exercise.

Retirees With High Investment Income

Those who will depend on interest, dividend and capital gain income in retirement, would be best served living in states that do not tax that income: Florida, Alaska, South Dakota, Texas, Nevada, Washington and Wyoming. With the new 3.8% Medicare surtax on investment income, closer attention must be paid to the total tax levied on this important source of retirement income.

The new federal surtax is levied on the lesser of: 1.) net investment income; or 2.) modified adjusted gross income minus the applicable threshold amount (single individuals: \$200,000; married couples: \$250,000 and trusts: \$11,950). Therefore, if a trust has adjusted gross income over \$11,950 that contains investment income, then the surtax may apply. Having the investment income earned in a state that does not tax it, may soften the sting of the new Medicare tax.

In determining net investment income, expenses properly allocable to such income are deductible.³ Therefore, deductions related to investments and state taxation of investment income are important considerations in preserving such income on an after-tax basis.

No State Gift Taxes

In most instances, it is more tax efficient to transfer wealth to intended heirs while living rather than at death. That is so for two main reasons: 1.) from a federal

transfer tax perspective, gifts happen during life and are tax exclusive, whereas transfers at death are tax inclusive; and 2.) except for Connecticut and Minnesota, states do not impose gift taxes. Consider the following:

1.) **Estate Tax** - At death, transfers to heirs are tax inclusive, since the transfer to intended heirs carry with them the burden of the federal and state estate taxes levied on the estate; whereas

2.) **Gift Tax** - During life, transfers to gift recipients are tax exclusive, since the transferor pays any federal gift tax, there are no state gift taxes (except Connecticut and Minnesota) and asset growth escapes future estate taxation.

The added benefit of gifts during life includes the fact that asset growth after the gift is made escapes estate taxation upon the transferor's death. When gifts are made early in life, significant tax minimization occurs.

State Exemptions Are Not Portable

The federal estate tax exemption is portable. That is, the unused exemption of the first spouse to die may be used by the surviving spouse. So far, no state has made its exemption portable. Therefore, if the exemption is not used by the first spouse to die, it is lost forever.

Some persons may feel that because the federal exemption is portable little or no planning need be done currently or upon the first spouse's death. However, in states where the estate or inheritance tax exemption is extremely low like Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island and Washington DC, failing to use the exemption of the first spouse to die can have a damaging effect on the preservation of family wealth. Federal exemption portability can lure a couple into planning apathy, which can result in

unnecessary state taxes and post-death planning fees.

High Net Worth - Overfunding the Credit Shelter Trust

Wills and trusts that employ the most common estate planning strategy of setting up credit shelter and marital trusts upon the first spouse to die, use a formula to determine the amount to be placed in each trust. Historically, the formula funded the credit shelter trust with an amount equal to the federal estate tax exemption. With the federal exemption being over \$5 million, that could result in funding the credit shelter trust in excess of the applicable state exemption. Such occurrence could result in state estate tax being paid prematurely or unnecessarily. Funding formulas must be examined closely to determine if they result in the optimal funding for federal and **state** tax purposes.

Establishing Residency in Another State

Many individuals will choose to become a resident of another state for many reasons, including taxes. With states scrutinizing residency, care must be taken to be sure that the move results in the tax certainty one is looking for.

There is no set of defined steps to take to ensure that a person is, in fact, a resident of another state. Rather, a series of actions is generally required to prove that person has given up residency in one jurisdiction and now is a bona fide resident of another. In general, each state has its own statutory or judicially imposed requirements or guidelines to establish residency. Recently, an Illinois appellate court⁴ ruled that despite continuing to own an Illinois home, persons may escape Illinois tax when permanently moving to other states.

In changing domicile, glitches often occur in subtle areas such as real estate tax exemptions. For example, most persons are reluctant to give up homeowner exemptions on the home they are leaving behind, since

loss of the exemption usually results in higher real estate taxes on the “old” home. Those exemptions are usually reserved only for the principal residence a couple owns, which theoretically can be in only one state.

Staying “Home” and Forming a Trust in Another State

Leaving home is just too difficult for many and the lure of lower taxes elsewhere is not enough to motivate someone to move away from family and familiar surroundings. Is there another solution for those who cannot bear the thought of leaving home?

Some states do not tax trust income⁵, so it is possible to create a trust that is domiciled in another state and have the income escape state taxation. Such trusts require the trustee to be located in the new jurisdiction and the costs associated with the strategy may outweigh the benefit. Caution is advised, however, since many states deem out-of-state trusts formed by their residents to be a “resident trust.” Many of the tax-friendly states permit “directed” trusts where the local trustee performs administrative functions, but the investment management can be performed by another firm or person closer to the grantor’s home. As noted above, it is possible to structure the trust so that the person creating it may retain access to trust assets usually by way of his or her spouse or an ascertainable distribution standard.

State Taxes and Their Effect on Millionaire Migration

It is reasonable to assume that, at some level, state taxation would cause a high net worth family to consider moving where the tax cost can be mitigated. In fact, existing studies support that proposition and prove that high net worth retirees migrate because of high state taxes.⁶ For example, the Tax Foundation reports that New York, one of the least desirable states from a tax perspective, lost \$45.6 billion of personal

income from 2000-2010 while Florida gained \$67.3 billion.⁷

Under the American Taxpayer Relief Act of 2012, high income retirees will lose all or part of the federal itemized deduction for state income taxes.⁸ Couple that with new, higher income tax rates, taxes on investment income and the various state taxes retirees have quite a headwind to contend with in producing retirement income and transferring wealth to future generations. Retirees should re-calculate the effect of the mentioned taxes on their retirement cash flow projections. It appears that taxes can quickly move up the list when prioritizing factors in the “where to retire” decision.

Business Owners – New Residency Before the Sale

Business owners considering the sale of their business should consider the effect of state taxes. Changing residency long before the sale, if possible from a management perspective, could result in significant state tax savings.

Conclusion

State taxes have a material effect on the accumulation and transfer of family wealth. Studies show that high state taxes cause millionaires to move to lower tax jurisdictions. **Alaska, Florida, Nevada, South Dakota, Texas and Wyoming** are the best states to retire in from an overall tax perspective. However, the final decision largely depends on sources of income and where a person’s wealth is located. For those unwilling to move, several strategies exist to live in one’s home state, but take advantage of another’s state’s favorable laws. The most important tax consideration is that each person’s situation is unique requiring a close analysis from the perspective of the vastly different state tax systems.

State taxes are critically important in deciding where to retire. The states with the best overall tax environments for high income and high net worth retirees are **Alaska, Florida, Nevada, South Dakota, Texas** and **Wyoming**. Those states do not levy income, estate, inheritance or gift taxes and stack up well in most other tax categories, except for Nevada (high sales taxes) and Texas (high real estate taxes).

Other states also have favorable tax systems, but not in each tax category like the six noted above. Each retiree's situation is unique and a satisfactory tax outcome may result in states other than the six most favorable ones. For example, if a retiree has a lot of interest and dividend income, then Washington may be a good state to retire in if a married couple has less than \$4 million in total assets, since it has no state income tax.

Retirees with a lot of IRA and tax qualified plan income should consider Alaska, Florida, Nevada, New Hampshire, South Dakota, Texas and Wyoming, which do not tax such income and levy no estate tax. Since Illinois, Pennsylvania, Washington do not impose income taxes on such income, they may also be favorable domiciles, unless the estate or inheritance tax they impose applies.

Since almost all states do not have a gift tax, transferring wealth during life via gift is an important strategy. Lifetime transfers to non-spouse recipients is more efficient, since no state tax is due on the transfer unless the donor lives in Minnesota or Connecticut. Transfers during life are tax exclusive, meaning the recipient receives the full amount of the gift and the transferor pays the gift tax. Transfers at death generally carry the tax burden along with the transferred asset, i.e. they are tax inclusive.

If estate taxes and inheritance taxes are a concern when planning the transfer of wealth, then pay close attention to the twenty states that levy such taxes. The states with extremely low exemptions include Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island and Washington DC making planning even more challenging for high net worth retirees.

There are strategies that permit a person to remain in his or her home state and have wealth taxed in another, more favorable jurisdiction. For example, IRS Private Letter Ruling 200944002 provides that a person can create an irrevocable, spendthrift Alaska trust, be its discretionary beneficiary and have the trust assets excluded from the grantor's estate for estate tax purposes. Also, changing residency long before the sale of a business could result in significant tax savings.

The tax systems of the states are very different. A retiree's type and amount of assets can generate widely different results in different states. If state taxes are a priority to a retiree, he or she must closely examine the type and amount of assets and determine which state provides the best overall tax result.

Disclosures

Balasa Dinverno Foltz LLC does not practice law and no part of this document should be relied upon as a written tax opinion. Any estate planning or tax information provided herein should not be used as the primary basis for entering into any strategy or transaction. BDF recommends consulting with a certified public accounting firm or law firm in the relevant state or local jurisdiction regarding the information contained herein. BDF's Firm Brochure discussing its advisory services and fees is available on its website (www.BDFLLC.com) or upon request.

Exhibit 1: Ranking by State - All Taxes											
Jurisdiction	Income Tax							Sales Tax ¹⁹	RE tax per \$10,000 ⁹	Estate, Inheritance, Gift	Total
	W-2	Capital Gains	Interest	Dividends	IRA	Pension	Social Security				
Wyoming	1	1	1	1	1	1	1	7	11	8 ¹⁰	33
Alaska	1	1	1	1	1	1	1	1	31	8 ¹⁰	47
South Dakota	1	1	1	1	1	1	1	7	36	8 ¹⁰	58
Florida	1	1	1	1	1	1	1	25	30	1	63
Nevada	1	1	1	1	1	1	1	44	24	8 ¹⁰	83
New Hampshire	1	1	15	15	1	1	1	1	50	8 ¹⁰	94
Texas	1	1	1	1	1	1	1	37	49	8 ¹⁰	101
Washington	1	1	1	1	1	1	1	42	29	39	117
Alabama	17	20	15	15	18	20	1	7	3	8 ¹⁰	124
Indiana	11	13	9	9	12	15	1	46	25	1	142
Michigan	13	15	11	11	14	1	1	25	44	8 ¹⁰	143
Pennsylvania	10	12	8	8	1	1	1	25	39	47 ^{10, 16, 17}	152
Arizona	14	16	12	12	15	17	1	43	16	8 ¹⁰	154
Tennessee	1	1	26	26	1	1	1	46	14	40 ^{10, 16, 18}	157
Colorado	15	17	13	13	16	18	41	6	12	8 ¹⁰	159
Oklahoma	21	24	20	20	21	23	1	15	18	1	164
Mississippi	17	20	15	15	18	20	1	46	8	8 ¹⁰	168
New Mexico	16	10	14	14	17	19	42	22	10	8 ^{10, 14}	172
North Dakota	12	11	10	10	13	16	40	18	42	8 ¹⁰	180
Louisiana	27	31	26	26	27	29	1	7	1	8 ¹⁰	183
Utah	17	20	15	15	18	20	43	16	12	8 ¹⁰	184
Illinois	17	20	15	15	1	1	1	37	46	36	189
Missouri	27	31	26	26	27	1	1	14	28	8 ¹⁰	189
Georgia	27	31	26	26	27	29	1	7	22	8 ¹⁰	204
Ohio	25	29	24	24	25	27	1	23	41	1	220
Virginia	23	27	22	22	23	25	44	18	18	1	223
Massachusetts	21	24	20	20	21	23	1	37	31	41	239
South Carolina	37	14	37	37	37	38	1	25	7	8 ¹⁰	241
Maryland	23	27	22	22	23	25	1	25	26	50 ¹³	244
Arkansas	37	18	37	37	37	38	1	25	8	8 ¹⁰	246
Delaware	34	38	34	34	36	37	1	1	4	32 ¹¹	251
Kentucky	27	31	26	26	27	29	1	25	16	48 ^{10, 13}	256
Kansas	31	35	31	31	31	32	1	40	37	1	270
Montana	36	18	36	36	35	36	49	1	22	8 ¹⁰	277
West Virginia	32	36	32	32	32	33	46	25	6	8 ¹⁰	282
North Carolina	40	42	40	40	40	41	1	17	21	1	283
Hawaii	50	40	50	50	50	1	1	7	2	35 ¹²	286
Idaho	39	41	39	39	39	40	1	25	15	8 ¹⁰	286
Wisconsin	40	26	40	40	40	41	1	18	47	8 ¹⁰	301
Rhode Island	26	30	25	25	26	28	45	46	39	34 ¹⁵	324
New York	44	45	44	44	44	45	1	7	35	33 ¹⁵	342
District of Columbia	45	46	45	45	45	46	1	25	5	41	344
Maine	43	44	43	43	43	44	1	18	34	38	351
Oregon	49	50	49	49	49	50	1	1	26	41	365
Nebraska	35	39	35	35	34	35	48	24	47	46 ^{10, 13}	378
California	51	51	51	51	51	51	1	51	18	8 ¹⁰	384
Connecticut	33	37	33	33	33	34	47	41	45	51	387
Iowa	48	49	48	48	48	49	1	25	37	45 ^{10, 13}	398
Minnesota	42	43	42	42	42	43	50	45	33	44	426
Vermont	45	46	45	45	45	46	51	25	43	37	428
New Jersey	47	48	47	47	47	48	1	46	51	49 ¹³	431
Please see endnotes and disclosures.											

Exhibit 2: Alphabetical Ranking - All Taxes											
Jurisdiction	Income Tax							Sales Tax ¹⁹	RE tax per \$10,000 ⁹	Estate, Inheritance, Gift	Total
	W-2	Capital Gains	Interest	Dividends	IRA	Pension	Social Security				
Alabama	17	20	15	15	18	20	1	7	3	8 ¹⁰	124
Alaska	1	1	1	1	1	1	1	1	31	8 ¹⁰	47
Arizona	14	16	12	12	15	17	1	43	16	8 ¹⁰	154
Arkansas	37	18	37	37	37	38	1	25	8	8 ¹⁰	246
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Colorado	15	17	13	13	16	18	41	6	12	8 ¹⁰	159
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Delaware	34	38	34	34	36	37	1	1	4	32 ¹¹	251
District of Columbia	45	46	45	45	45	46	1	25	5	41	344
Florida	1	1	1	1	1	1	1	25	30	1	63
Georgia	27	31	26	26	27	29	1	7	22	8 ¹⁰	204
Hawaii	50	40	50	50	50	1	1	7	2	35 ¹²	286
Idaho	39	41	39	39	39	40	1	25	15	8 ¹⁰	286
Illinois	17	20	15	15	1	1	1	37	46	36	189
Indiana	11	13	9	9	12	15	1	46	25	1	142
Iowa	48	49	48	48	48	49	1	25	37	45 ^{10, 13}	398
Kansas	31	35	31	31	31	32	1	40	37	1	270
Kentucky	27	31	26	26	27	29	1	25	16	48 ^{10, 13}	256
Louisiana	27	31	26	26	27	29	1	7	1	8 ¹⁰	183
Maine	43	44	43	43	43	44	1	18	34	38	351
Maryland	23	27	22	22	23	25	1	25	26	50 ¹³	244
Massachusetts	21	24	20	20	21	23	1	37	31	41	239
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Nebraska	35	39	35	35	34	35	48	24	47	46 ^{10, 13}	378
Nevada	1	1	1	1	1	1	1	44	24	8 ¹⁰	83
New Hampshire	1	1	15	15	1	1	1	1	50	8 ¹⁰	94
New Jersey	47	48	47	47	47	48	1	46	51	49 ¹³	431
New Mexico	16	10	14	14	17	19	42	22	10	8 ^{10, 14}	172
New York	44	45	44	44	44	45	1	7	35	33 ¹⁵	342
North Carolina	40	42	40	40	40	41	1	17	21	1	283
North Dakota	12	11	10	10	13	16	40	18	42	8 ¹⁰	180
Ohio	25	29	24	24	25	27	1	23	41	1	220
Oklahoma	21	24	20	20	21	23	1	15	18	1	164
Oregon	49	50	49	49	49	50	1	1	26	41	365
Pennsylvania	10	12	8	8	1	1	1	25	39	47 ^{10, 16, 17}	152
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Utah	17	20	15	15	18	20	43	16	12	8 ¹⁰	184
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Washington	1	1	1	1	1	1	1	42	29	39	117
West Virginia	32	36	32	32	32	33	46	25	6	8 ¹⁰	282
Wisconsin	40	26	40	40	40	41	1	18	47	8 ¹⁰	301
Wyoming	1	1	1	1	1	1	1	7	11	8 ¹⁰	33
Please see endnotes and disclosures.											

Exhibit 3: Ranking by State - Estate, Inheritance, and Gift Taxes						
Jurisdiction	Estate Tax		Inheritance Tax		Gift Tax	
	Top Rate	Exemption	Top Rate	Exemption	Top Rate	Exemption
Florida	N/A		N/A		N/A	
Indiana	N/A		N/A		N/A	
Kansas	N/A		N/A		N/A	
North Carolina	N/A		N/A		N/A	
Ohio	N/A		N/A		N/A	
Oklahoma	N/A		N/A		N/A	
Virginia	N/A		N/A		N/A	
Alabama	0% ¹⁰		N/A		N/A	
Alaska	0% ¹⁰		N/A		N/A	
Arizona	0% ¹⁰		N/A		N/A	
Arkansas	0% ¹⁰		N/A		N/A	
California	0% ¹⁰		N/A		N/A	
Colorado	0% ¹⁰		N/A		N/A	
Georgia	0% ¹⁰		N/A		N/A	
Idaho	0% ¹⁰		N/A		N/A	
Louisiana	0% ¹⁰		N/A		N/A	
Michigan	0% ¹⁰		N/A		N/A	
Mississippi	0% ¹⁰		N/A		N/A	
Missouri	0% ¹⁰		N/A		N/A	
Montana	0% ¹⁰		N/A		N/A	
Nevada	0% ¹⁰		N/A		N/A	
New Hampshire	0% ¹⁰		N/A		N/A	
New Mexico	0% ¹⁰		N/A ¹⁴		N/A	
North Dakota	0% ¹⁰		N/A		N/A	
South Carolina	0% ¹⁰		N/A		N/A	
South Dakota	0% ¹⁰		N/A		N/A	
Texas	0% ¹⁰		N/A		N/A	
Utah	0% ¹⁰		N/A		N/A	
West Virginia	0% ¹⁰		N/A		N/A	
Wisconsin	0% ¹⁰		N/A		N/A	
Wyoming	0% ¹⁰		N/A		N/A	
Delaware	2001 ¹¹	\$5,250,000	N/A		N/A	
New York	1998 ¹⁵	\$1,000,000	N/A		N/A	
Rhode Island	2001 ¹⁵	\$910,725	N/A		N/A	
Hawaii	15.7% ¹²	\$5,250,000	N/A		N/A	
Illinois	16%	\$4,000,000	N/A		N/A	
Vermont	16%	\$2,750,000	N/A		N/A	
Maine	12%	\$2,000,000	N/A		N/A	
Washington	19%	\$2,000,000	N/A		N/A	
Tennessee	0% ¹⁶		9.5% ¹⁸	\$1,250,000	N/A	
District of Columbia	16%	\$1,000,000	N/A		N/A	
Massachusetts	16%	\$1,000,000	N/A		N/A	
Oregon	16%	\$1,000,000	N/A		N/A	
Minnesota	16%	\$1,000,000	N/A		10%	\$1,000,000
Iowa	0% ¹⁰		15% ¹³	\$25,000	N/A	
Nebraska	0% ¹⁰		18% ¹³	\$10,000	N/A	
Pennsylvania	0% ¹⁶		15% ¹⁷	\$3,500	N/A	
Kentucky	0% ¹⁰		16% ¹³	\$500	N/A	
New Jersey	16%	\$675,000	16% ¹³	\$500	N/A	
Maryland	16%	\$1,000,000	10% ¹³	\$150	N/A	
Connecticut	16%	\$2,000,000	N/A		12%	\$2,000,000
Please see endnotes and disclosures.						

Exhibit 4: Alphabetical - Estate, Inheritance, and Gift Taxes						
Jurisdiction	Estate Tax		Inheritance Tax		Gift Tax	
	Top Rate	Exemption	Top Rate	Exemption	Top Rate	Exemption
Alabama	0% ¹⁰		N/A		N/A	
Alaska	0% ¹⁰		N/A		N/A	
Arizona	0% ¹⁰		N/A		N/A	
Arkansas	0% ¹⁰		N/A		N/A	
California	0% ¹⁰		N/A		N/A	
Colorado	0% ¹⁰		N/A		N/A	
Connecticut	16%	\$2,000,000	N/A		12%	\$2,000,000
Delaware	2001 ¹¹	\$5,250,000	N/A		N/A	
District of Columbia	16%	\$1,000,000	N/A		N/A	
Florida	N/A		N/A		N/A	
Georgia	0% ¹⁰		N/A		N/A	
Hawaii	15.7% ¹²	\$5,250,000	N/A		N/A	
Idaho	0% ¹⁰		N/A		N/A	
Illinois	16%	\$4,000,000	N/A		N/A	
Indiana	N/A		N/A		N/A	
Iowa	0% ¹⁰		15% ¹³	\$25,000	N/A	
Kansas	N/A		N/A		N/A	
Kentucky	0% ¹⁰		16% ¹³	\$500	N/A	
Louisiana	0% ¹⁰		N/A		N/A	
Maine	12%	\$2,000,000	N/A		N/A	
Maryland	16%	\$1,000,000	10% ¹³	\$150	N/A	
Massachusetts	16%	\$1,000,000	N/A		N/A	
Michigan	0% ¹⁰		N/A		N/A	
Minnesota	16%	\$1,000,000	N/A		10%	\$1,000,000
Mississippi	0% ¹⁰		N/A		N/A	
Missouri	0% ¹⁰		N/A		N/A	
Montana	0% ¹⁰		N/A		N/A	
Nebraska	0% ¹⁰		18% ¹³	\$10,000	N/A	
Nevada	0% ¹⁰		N/A		N/A	
New Hampshire	0% ¹⁰		N/A		N/A	
New Jersey	16%	\$675,000	16% ¹³	\$500	N/A	
New Mexico	0% ¹⁰		N/A ¹⁴		N/A	
New York	1998 ¹⁵	\$1,000,000	N/A		N/A	
North Carolina	N/A		N/A		N/A	
North Dakota	0% ¹⁰		N/A		N/A	
Ohio	N/A		N/A		N/A	
Oklahoma	N/A		N/A		N/A	
Oregon	16%	\$1,000,000	N/A		N/A	
Pennsylvania	0% ¹⁶		15% ¹⁷	\$3,500	N/A	
Rhode Island	2001 ¹⁵	\$910,725	N/A		N/A	
South Carolina	0% ¹⁰		N/A		N/A	
South Dakota	0% ¹⁰		N/A		N/A	
Tennessee	0% ¹⁶		9.5% ¹⁸	\$1,250,000	N/A	
Texas	0% ¹⁰		N/A		N/A	
Utah	0% ¹⁰		N/A		N/A	
Vermont	16%	\$2,750,000	N/A		N/A	
Virginia	N/A		N/A		N/A	
Washington	19%	\$2,000,000	N/A		N/A	
West Virginia	0% ¹⁰		N/A		N/A	
Wisconsin	0% ¹⁰		N/A		N/A	
Wyoming	0% ¹⁰		N/A		N/A	
Please see endnotes and disclosures.						

Exhibit 5:		Alphabetical - All Taxes													
Jurisdiction	Income Tax							Sales Tax ¹⁹	RE tax per \$10,000 ⁹	Estate Tax		Inheritance Tax		Gift Tax	
	W-2	Capital Gains	Interest	Dividends	IRA	Pension	Social Security			Top Rate	Exemption	Top Rate	Exemption	Top Rate	Exemption
Alabama	5%	5%	5%	5%	5%	5%	0%	4%	\$33	0% ¹⁰		N/A		N/A	
Alaska	0%	0%	0%	0%	0%	0%	0%	0%	\$104	0% ¹⁰		N/A		N/A	
Arizona	4.54%	4.54%	4.54%	4.54%	4.54%	4.54%	0%	6.6%	\$72	0% ¹⁰		N/A		N/A	
Arkansas	7%	4.9%	7%	7%	7%	7%	0%	6%	\$52	0% ¹⁰		N/A		N/A	
California	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	0%	7.5%	\$74	0% ¹⁰		N/A		N/A	
Colorado	4.63%	4.63%	4.63%	4.63%	4.63%	4.63%	4.63%	2.9%	\$60	0% ¹⁰		N/A		N/A	
Connecticut	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.35%	\$163	16%	\$2,000,000	N/A		12%	\$2,000,000
Delaware	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%	0%	0%	\$43	2001 ¹¹	\$5,250,000	N/A		N/A	
District of Columbia	8.95%	8.95%	8.95%	8.95%	8.95%	8.95%	0%	6%	\$46	16%	\$1,000,000	N/A		N/A	
Florida	0%	0%	0%	0%	0%	0%	0%	6%	\$97	N/A		N/A		N/A	
Georgia	6%	6%	6%	6%	6%	6%	0%	4%	\$83	0% ¹⁰		N/A		N/A	
Hawaii	11%	7.25%	11%	11%	11%	0%	0%	4%	\$26	15.7% ¹²	\$5,250,000	N/A		N/A	
Idaho	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	0%	6%	\$69	0% ¹⁰		N/A		N/A	
Illinois	5%	5%	5%	5%	0%	0%	0%	6.25%	\$173	16%	\$4,000,000	N/A		N/A	
Indiana	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	0%	7%	\$85	N/A		N/A		N/A	
Iowa	8.98%	8.98%	8.98%	8.98%	8.98%	8.98%	0%	6%	\$129	0% ¹⁰		15% ¹³	\$25,000	N/A	
Kansas	6.45%	6.45%	6.45%	6.45%	6.45%	6.45%	0%	6.3%	\$129	N/A		N/A		N/A	
Kentucky	6%	6%	6%	6%	6%	6%	0%	6%	\$72	0% ¹⁰		16% ¹³	\$500	N/A	
Louisiana	6%	6%	6%	6%	6%	6%	0%	4%	\$18	0% ¹⁰		N/A		N/A	
Maine	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	0%	5%	\$109	12%	\$2,000,000	N/A		N/A	
Maryland	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	0%	6%	\$87	16%	\$1,000,000	10% ¹³	\$150	N/A	
Massachusetts	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	0%	6.25%	\$104	16%	\$1,000,000	N/A		N/A	
Michigan	4.25%	4.25%	4.25%	4.25%	4.25%	0%	0%	6%	\$162	0% ¹⁰		N/A		N/A	
Minnesota	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%	6.875%	\$105	16%	\$1,000,000	N/A		10%	\$1,000,000
Mississippi	5%	5%	5%	5%	5%	5%	0%	7%	\$52	0% ¹⁰		N/A		N/A	
Missouri	6%	6%	6%	6%	6%	0%	0%	4.225%	\$91	0% ¹⁰		N/A		N/A	
Montana	6.9%	4.9%	6.9%	6.9%	6.9%	6.9%	6.9%	0%	\$83	0% ¹⁰		N/A		N/A	
Nebraska	6.84%	6.84%	6.84%	6.84%	6.84%	6.84%	6.84%	5.5%	\$176	0% ¹⁰		18% ¹³	\$10,000	N/A	
Nevada	0%	0%	0%	0%	0%	0%	0%	6.85%	\$84	0% ¹⁰		N/A		N/A	
New Hampshire	0%	0%	5%	5%	0%	0%	0%	0%	\$186	0% ¹⁰		N/A		N/A	
New Jersey	8.97%	8.97%	8.97%	8.97%	8.97%	8.97%	0%	7%	\$189	16%	\$675,000	16% ¹³	\$500	N/A	
New Mexico	4.9%	2.45%	4.9%	4.9%	4.9%	4.9%	4.9%	5.125%	\$55	0% ¹⁰		N/A ¹⁴		N/A	
New York	8.82%	8.82%	8.82%	8.82%	8.82%	8.82%	0%	4%	\$123	1998 ¹⁵	\$1,000,000	N/A		N/A	
North Carolina	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	0%	4.75%	\$78	N/A		N/A		N/A	
North Dakota	3.99%	2.8%	3.99%	3.99%	3.99%	3.99%	3.99%	5%	\$142	0% ¹⁰		N/A		N/A	
Ohio	5.93%	5.93%	5.93%	5.93%	5.93%	5.93%	0%	5.5%	\$136	N/A		N/A		N/A	
Oklahoma	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	0%	4.5%	\$74	N/A		N/A		N/A	
Oregon	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	0%	0%	\$87	16%	\$1,000,000	N/A		N/A	
Pennsylvania	3.07%	3.07%	3.07%	3.07%	0%	0%	0%	6%	\$135	0% ¹⁶		15% ¹⁷	\$3,500	N/A	
Rhode Island	5.99%	5.99%	5.99%	5.99%	5.99%	5.99%	5.99%	7%	\$135	2001 ¹⁵	\$910,725	N/A		N/A	
South Carolina	7%	3.92%	7%	7%	7%	7%	0%	6%	\$50	0% ¹⁰		N/A		N/A	
South Dakota	0%	0%	0%	0%	0%	0%	0%	4%	\$128	0% ¹⁰		N/A		N/A	
Tennessee	0%	0%	6%	6%	0%	0%	0%	7%	\$68	0% ¹⁶		9.5% ¹⁸	\$1,250,000	N/A	
Texas	0%	0%	0%	0%	0%	0%	0%	6.25%	\$181	0% ¹⁰		N/A		N/A	
Utah	5%	5%	5%	5%	5%	5%	5%	4.7%	\$60	0% ¹⁰		N/A		N/A	
Vermont	8.95%	8.95%	8.95%	8.95%	8.95%	8.95%	8.95%	6%	\$159	16%	\$2,750,000	N/A		N/A	
Virginia	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5%	\$74	N/A		N/A		N/A	
Washington	0%	0%	0%	0%	0%	0%	0%	6.5%	\$92	19%	\$2,000,000	N/A		N/A	
West Virginia	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6%	\$49	0% ¹⁰		N/A		N/A	
Wisconsin	7.75%	5.43%	7.75%	7.75%	7.75%	7.75%	0%	5%	\$176	0% ¹⁰		N/A		N/A	
Wyoming	0%	0%	0%	0%	0%	0%	0%	4%	\$58	0% ¹⁰		N/A		N/A	
Please see endnotes and disclosures.															

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Endnotes

¹ See the states marked with ¹⁰ in the exhibits.

² Internal Revenue Service Private Letter Ruling 200944002

³ IRC section 1411 (c)(1)(B)

⁴ Cain v. Hamer 2012 Il App (1st) 112833

⁵ Florida, Alaska, South Dakota, Texas, Nevada and Washington.

⁶ Internal Revenue Service. Migration Data, (<http://www.irs.gov/uac/SOI-Tax-Stats-Migration-Data>); Bakija, Jon, and Slemrod, Joel, "Do the Rich Flee from High State Taxes? Evidence from Federal Estate Tax Returns." NBER Working Paper No. 10645. National Bureau of Economic Research, Cambridge, MA. July 2004 (<http://www.bus.umich.edu/otpr/WP2004-6.pdf>). Young, Cristobal and Varner, Charles. "Millionaire Migration And State Taxation Of Top Incomes: Evidence From A Natural Experiment," National Tax Journal, June, 2011, p. 278.

⁷ Study published August 19, 2013 by Tax Foundation.org (<http://taxfoundation.org/blog/monday-map-migration-personal-income>)

⁸ IRC section 68(a)

⁹ Calculations done by The Tax Foundation based on 2009 U.S. Census Bureau data.

¹⁰ The estate tax equals the federal credit for state estate taxes, therefore no tax is currently in effect.

¹¹ The estate tax equals the federal credit for state estate taxes in effect in 2001, but current federal exemption applies.

¹² For Hawaii residents.

¹³ Limited or no application to the surviving spouse and lineal descendants for inheritance tax.

¹⁴ The recipient of an inheritance may have to include it into income.

¹⁵ Estate tax equals state death tax credit allowable under Internal Revenue Code as it existed prior to year shown.

¹⁶ Estate tax: compare "credit for state death tax" to inheritance tax. If "credit" is greater, difference is estate tax. Inheritance tax is calculated like estate tax. Exemption increases to: 2014: \$2m; 2015: \$5m. No tax beginning in 2016.

¹⁷ No inheritance tax on transfers to surviving spouse or to parent from child age 21 or younger. Exemption applies only to family members.

¹⁸ No inheritance tax imposed after 2015.

¹⁹ State sales tax only, does not include local tax.

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