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10 Great Low-Tax Places to Retire

By Emily Brandon

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Full-time work is often taxing. Retirement shouldn't be. Picking a retirement location with low taxes gives you more cash to spend exploring the surrounding scenic beauty, taking in the local nightlife, or hoarding your hard-earned dough for future expenses. Kicking less money up to Uncle Sam also helps retirees on fixed incomes better cope with food, gas, and utility costs.

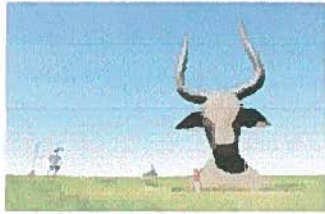


PHOTO GALLERY
Ten Low Tax Places

Americans will spend more on taxes in 2008 than on food, clothing, and housing combined, according to Tax Foundation President Scott Hodge. This year, Americans worked 74 days to pay their federal taxes and 39 days more to cover state and local levies, the Tax Foundation calculated. There's not much you can do about the federal taxes if you want to live in the United States, but the state and local tax burden varies

considerably by location. The most expensive state and local taxes are typically sales and excise taxes (14 days' pay), property taxes (12 days' pay), and income tax (10 days' pay).

To find low-tax places to retire, *U.S. News* cranked up our [Best Places to Retire search tool](#). We sifted through more than 2,000 U.S. places to find locales that have relatively low taxes but also offer amenities important to retirees like a reasonable cost of living and fine recreational and cultural choices. Many of the low-tax retirement havens have no state sales tax, like Billings, Mont., or no state income tax, like Sioux Falls, S.D. There's nothing like zero tax to make your retirement dollar go further.

One low-tax retirement gem, Stafford, Texas, a suburb of Houston, eliminated its property tax in 1995. Texas is also one of seven states with no income tax. (The others are Alaska, Florida, Nevada, South Dakota, Washington, and Wyoming.) Stafford also has the lowest sales tax in the Houston area.

Seniors looking to maximize their fixed income may also want to give Manchester, N.H., a

look. There is no sales or traditional income tax, but New Hampshire does levy a 5 percent tax on interest and dividend income above \$2,400 annually (\$4,800 for couples). Residents ages 65 and older pay tax only on amounts above \$3,600, and that's outside your retirement accounts. Withdrawals from retirement accounts are not taxed in New Hampshire.

Many retirement locales offer tax perks specifically for seniors. Nashville-Davidson County, Tenn., the home of country-music (and state) capital Nashville, for example, was the first jurisdiction in the state to allow homeowners ages 65 and older earning less than \$35,390 in 2007 to freeze the amount of property tax due on their primary residence in the year they qualify, even if tax rates increase later. The frozen dollar amount will rise if the owner sells or makes improvements to the house. If the house drops in value and the current taxes become lower than the frozen amount, homeowners pay the lower amount. And like New Hampshire, Tennessee also doesn't tax earned income, just dividends and interest.

Low-tax towns don't have to be dull. Doral, Fla., is home to the Doral Golf Resort & Spa, which hosts a PGA tournament every year. And Henderson, Nev., Las Vegas's less glittery cousin, is only a short drive from the Strip, Hoover Dam, and Lake Mead. Businesses often flock to tax-friendly cities. And thriving local economies are sure to help retirees find second careers and start small businesses. The business-friendly tax structure of Spokane, Wash., is key to attracting prime technology jobs to the area. After work, retirees can stroll along the Spokane River, which runs through the center of town, or hike in the nearby mountains.

Some cities, like Cheyenne, Wyo., try to slash their budgets rather than increase taxes. In October, Cheyenne Mayor Jack Spiker announced a hiring freeze on nonessential personnel, a reduction of out-of-town travel, and a review of equipment expenditures. "Just like taxpayers, the city needs to tighten its financial belt during these times of economic uncertainty," he says. By leaving vacant positions open until the end of the year, the city estimates it will save \$3,160 a month per entry-level employee and \$5,050 monthly for each vacant mid-level position.

Perhaps the most tax-friendly state for retirees is Alaska. The geographically largest state in the union is the only one without any kind of income or sales tax. The city of Juneau

levies a 5 percent sales tax, but seniors ages 65 and older who have lived in the city for at least 30 days and plan to remain indefinitely in the state can get a Senior Sales Tax Exemption Card for a \$20 application fee. Those over age 65 may also be eligible for a senior-citizen property tax exemption on the first \$150,000 of assessed value. All Alaska residents with at least one year in the state also receive annual Alaska Permanent Fund dividends. The payout was an unusually high \$3,269 in 2008, but even more typical dividends have been nothing to scoff at, ranging from \$827 to \$1,964 over the past two decades. This dividend may be taxed as income on federal tax returns.

Here are 10 great tax havens for retirees:

- *Billings, Mont.
- *Cheyenne, Wyo.
- *Doral, Fla.
- *Henderson, Nev.
- *Juneau, Alaska
- *Manchester, N.H.
- *Nashville, Tenn.
- *Sioux Falls, S.D.
- *Spokane, Wash.
- *Stafford, Texas

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