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The Best States To Move To For Tax Purposes

Federal income taxes can take a big bite out of your income, but they aren't your only tax concern, particularly if you're about to retire. Don't forget to take state and local income taxes into account. For instance, if you'll be relying less on Social Security and more on investment income during retirement, you might move to a state that doesn't have an income tax or that has relatively low tax rates. Conversely, if you expect to depend heavily on Social Security, consider moving to a state that doesn't tax these benefits. Here are a few key areas to ponder.

State income tax rates: Currently, seven states—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—don't tax income of individuals at all. Two other states—New Hampshire and Tennessee—impose income tax only on dividends and interest. Those favorable taxation rules have made several of these states very popular with retirees.

In addition, some states have a relatively low income tax rate across all income levels. For example, the highest marginal income tax rates for Arizona, New Mexico, Kansas and North Dakota are below 5%. Other states charge a relatively low flat rate regardless of how much you make. These include Pennsylvania (3.07%), Indiana (3.4%), and North Dakota (3.99%). On the other hand, retirees may shy away from notoriously high-tax states such as California (10.55%) and New York (8.97%).

State income tax on retirement income: In the 41 states that do tax income, as well as the District of Columbia, the tax treatment of retirement benefits varies widely. For example, some states don't tax any income from qualified plans such as 401(k)s or Social Security, some states provide a partial exemption, and finally some states tax all retirement income. The two states that currently exempt retirement plan income from taxation are Mississippi and Pennsylvania.

Of course, all of these rules are subject to legislative changes, as revenue-hungry states look for new ways to fill their coffers.

State income tax on Social Security benefits: According to tax publisher CCH, more than one quarter of all states (14) impose income tax on Social Security benefits. The states are Colorado, Connecticut, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia. These states either tax Social Security income in the same way the federal government does or they provide breaks, usually for taxpayers at lower income thresholds.

State and local sales taxes: 45 states and the District of Columbia impose a state sales-and-use tax. Only Alaska, Delaware, Montana, New Hampshire, and Oregon do not. You may want to consider combined state and local sales taxes when figuring out where to retire. For instance, CCH says

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Generation X Members Have Retirement Work Cut Out For Them

According to a new study by the Pew Charitable Trusts, those currently in their late 30s to late 40s (Generation X), may be less prepared for retirement than the "Baby Boomers" now entering their golden years.

The report says Gen Xers suffered losses of 45% of median net worth between 2007 and 2010, a worse setback than for those born during the 20 years after World War II. Based on the report's projections, typical Gen X members are on track to replace half of their pre-retirement income if they stop working at 65. But Baby Boomers born between 1946 and 1955 are poised to replace 82% of income, while those born at the tail end of the boom, between 1956 and 1965, are ready to replace 59%.

As a result, Gen Xers might have to take other steps, such as increasing savings and borrowing less, to help maintain a comfortable retirement.

A few other factors also are working against Generation X. This group bears the full brunt of the gradual change in the age for receiving full Social Security retirement benefits from age 65 to 67. Also, life expectancies are rising, so assets have to last longer. And many Gen Xers will be relying on 401(k) plans, which generally don't provide as much retirement income as traditional pension plans have done.

But don't despair: You still have plenty of time to make up for lost ground. It will just require extra dedication.

Jim Joseph, CFP®
Vice President

Saving For Retirement At All Ages

Financial planners often are asked, "When should I start saving for retirement?" Although everyone's circumstances differ, the answer usually is a variation on this theme: As soon as possible. But that doesn't mean it's ever too late to begin, or that you'll have the same financial priorities at every age. When you're embarking on a career, you may not have much extra income to set aside, but you can work on establishing sound financial habits. Later, though you'll likely earn more, you'll also likely have greater obligations—supporting your family, paying a mortgage note, and, yes, saving for retirement. Still other factors may come into play as you approach your golden years.

Consider these basic approaches during different financial stages of your life.

In your 20s. Retirement may seem several lifetimes away. What's more, the salary you earn during your early working years likely won't provide much cushion for savings. But you may be surprised by how much you can accumulate if you're dedicated, thanks largely to the power of tax-deferred compounding. For instance, if you save $1,000 a month and earn 8% on your savings compounded annually for 40 years until retirement, you will amass a staggering $3,271,022.95. (These figures are hypothetical and not indicative of any particular investment.)

The easiest way for most people to sustain tax-deferred growth is through a 401(k) or another tax-advantaged retirement plan. If your employer provides matching contributions, try to contribute at least as much as you need to qualify for the maximum match.

In your 30s and 40s. These are prime earning years, but you also might incur substantial expenses raising the kids, buying and maintaining a home, and paying for college. Nevertheless, you should do your best to stay disciplined and contribute as much as you can to your retirement plans. For 2013, you can defer up to $17,500 of salary to your 401(k). In addition, if you establish an IRA, the annual contribution limit is $5,500. Meanwhile, although contributions to a Roth IRA are never tax-deductible, future payouts may be tax-free. ï€†

In your 50s and 60s. This may be when you earn the highest salary of your career. If the kids are out of college and the mortgage is paid off, it's truly time to make hay while the sun shines. Although you might not have been as diligent at retirement saving in the past as you would have hoped to be, you can recover lost ground quickly by socking away more in your retirement plans at this point in your life. For 2013, you can contribute an extra $5,500 to a 401(k) and an additional $1,000 to an IRA, above the limits already discussed. And you can save still more in taxable accounts outside your retirement plans. ●

Computers For Grandparents: 10 Tips

Older brains stay younger with stimulation, and social media and photo-sharing allows you to stay in touch with your family. But which computer is best for grandparents? Here's some help.

1. Old Computers. If your children offer you a computer, only consider it if it's less than three years old. Prices have dropped on computers and you can probably find one for $1,000 or less.

2. What's It For? If texting, email, web-surfing, and video-chat are all you need, consider a tablet that has the advantage of portability.

3. Mac Or PC? An iPad will be easiest for a novice. But if you're a veteran PC-user, you may prefer a Windows tablet. If you already own an iPhone, stick with an iPad or Mac computer because you already know how to operate it.

4. Screen Size. New tablets and "ultraportable" computers now come in small sizes. Before buying a screen less than 11-inches in diameter, be sure you can read all the text in emails and on the Internet.

5. Set Up. If you're a novice, salespeople at the computer store will help you learn how to set up your new machine. Apple and Microsoft stores often offer classes. Or maybe you can persuade a child or grandchild to help you.

6. App Store. Whether you're seven or 75, the app store has something for you. No matter what your age, make sure you know how to use the app store.

7. FaceTime Or Skype. Be sure to set up a video calling service. Apple FaceTime and Skype are free and easy to use once they're set up, and they allow video calls across the country or across the world for free.

8. Sharing Photos. Ask family members whether they use any photo-sharing or social websites already,

Remarrying In Your 50s? 7 Key Aspects

Jack Webster had given up on romance after his marriage splintered five years ago. His two children were now both in college. Rhoda Seaver, divorced with three teen-aged children, also was skeptical about diving back into the dating pool. But Jack and Rhoda found each other through a dating service and now are engaged to be married.

It's not an uncommon story. According to the Census Bureau, more than 50% of the divorced males in this country over age 50 and more than 40% of the divorced females in the same age bracket end up remarrying. But there's more to creating a union late in life than just melding family units. Several important financial considerations may be difficult to resolve for soon-to-be retirees. Here are seven issues that could cause problems:

1. Social Security and pension benefits. If you're divorced, getting remarried generally will suspend your right to receive Social Security benefits based on your ex-spouse's earnings record. Similarly, if you're widowed and plan on collecting benefits based on your deceased spouse's record, you may have to wait until age 60 to remarry. (Getting married again also could affect the amount you're entitled to from a former spouse's pension plan. Contact the pension plan administrator to determine the impact of remarriage on benefits.)

2. Marriage penalty. Because of the way federal income tax rates are structured, some couples are hit with a "marriage penalty" if both have substantial incomes. In other words, filing a joint return will produce greater tax liability than they would have to pay if they continued to be single filers. That problem has been exacerbated by the 2013 tax law and its new top income tax rate of 39.6%.

3. Estate planning. It's always crucial to have a valid will in place so that your heirs won't have to depend on state law to dictate where assets will go. That's even more important if you're remarrying. You'll certainly need to revise an existing will as well as being sure to update beneficiary designations for retirement plans, because those supersede your will. Moreover, even if your will says your home will go to children from a prior marriage, it will go to your new spouse if the two of you own it jointly with rights of survivorship.

4. College financial aid. Will a new marriage in your 50s affect the financial aid your children are entitled to when attending college? To determine financial aid awards, the government looks at the income and assets of the "custodial parent"—the one with whom a child has lived for most of the preceding year—but such calculations also may reflect income and assets of a new spouse when the custodial parent remarries. Your intended's wealth indeed might reduce your child's college aid. (Some colleges also include the noncustodial parent's assets in the equation.)

5. Health-care expenses. Your state may impose special rules relating to payments of medical expenses, and the rules for nursing home care could be particularly significant. Typically, if someone requires nursing home care, it may be possible to transfer some of that person's assets in attempt to qualify for assistance under Medicaid (subject to certain imposing restrictions). However, in some states, you may still be responsible for the costs of a spouse, even if the spouse has transferred assets out of his or her name. Such rules could affect your financial arrangements with a new husband or wife.

6. Alimony. If you receive alimony from your ex-spouse, it likely will come to a halt when you remarry, though remarriage generally doesn't affect child support. Consider how this will affect your family's lifestyle. Figure out whether you still will be able to afford some of the luxuries you enjoy now or whether you'll have to scale back. Look at options for replacing the lost income.

7. Beneficiary designations. When you get remarried, it's common practice to change the designated beneficiary (or beneficiaries) on insurance, retirement plan accounts and annuity contracts (see #3). Don't forget to do this. If you fail to do this, an ex-spouse might be entitled to most or all of such benefits.

It's only prudent for Jack and Rhoda to consider these financial issues before saying "I do." Other considerations, such as whether to use joint checking accounts or a prenuptial agreement, also may come into play. Having an open discussion before you remarry may avoid problems that could fester later. ●

such as Facebook, Twitter, or Flickr. They can send you an invitation to see all their photos. With Flickr, which allows you to store and share photos for free, you can set up an account that only family members can see.

9. Passwords. A password-management program would be wise. LastPass.com is free, easy, and secure, but there are many other options.

10. Financial Data. Accessing your financial accounts online can make life simpler, but security is paramount.

If you're not a veteran Web surfer, before posting sensitive information or accessing your accounts, please call our office. We would be happy to help you get the basics set up so you can access your information securely 24/7 from anywhere. ●

Roundup Of New Estate Tax Changes

For more than a decade, estate planning has harkened back to the "wild, wild west," a time when even the best hired guns didn't know what would happen next. Now, finally, there's more certainty, thanks to the estate tax provisions in the American Taxpayer Relief Act (ATRA). The new law, signed as the country teetered on the brink of the "fiscal cliff," extends several favorable tax breaks, with a few modifications.

Before we explore ATRA's main provisions, let's recap the events dating back to 2001, the year the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) was enacted. Among the changes, EGTRRA gradually increased the federal estate tax exemption from $1 million to $3.5 million in 2009 while decreasing the top estate tax rate from 55% to 45%. It also severed the unified estate and gift tax systems, creating a lifetime gift exemption of $1 million unrelated to the estate tax exemption. Then the law repealed the estate tax completely, but just for 2010. After that year, the estate tax provisions were scheduled to "sunset," restoring more onerous rules that had been in effect before EGTRRA unless new legislation dictated otherwise.

The Tax Relief Act of 2010 generally postponed the sunset for two years. It hiked the estate tax exemption to $5 million (indexed for inflation), lowered the top estate tax rate to 35%, and reunified the estate and gift tax systems. That law also allowed "portability" of exemptions between spouses.

Now, at long last, ATRA brings permanent clarity. Here are the key estate changes:

- The estate tax exemption remains at $5 million with inflation indexing. For 2013, the exemption is $5.25 million. Also, portability of exemptions between spouses is made permanent, so a married couple can effectively pass up to $10.5 million tax-free to their children or other non-spouse beneficiaries, even if the exemption of the first spouse to die isn't exhausted.
- The top estate tax rate is bumped up to 40%. Not as low as the 35% rate in 2011 and 2012, but still better than the 55% rate slated for 2013 prior to ATRA.
- The estate and gift tax systems remain reunified. This means that the lifetime gift tax exemption is equal to the estate tax exemption of $5.25 million in 2013. (That's now the maximum exemption for combined taxable lifetime gifts and estate bequests.) Other provisions, including the generation-skipping tax that applies to most bequests and gifts to grandchildren, are coordinated within the system.

As a result of these changes, now is a good time to examine wills, trusts, and other aspects of your estate plan. Depending on your situation, revisions may be required or you might create a new trust to take advantage of the current estate tax law. ●

Best States To Move To

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that Tennessee (9.44%), Arizona (9.16%), Louisiana (8.87%), Washington (8.86%) and Oklahoma (8.67%) have the highest combined state and local sales tax rates. Among states with sales taxes, the lowest combined rates are in Alaska (1.11%), Hawaii (4.35%), Maine (5%), Virginia (5%), and Wyoming (5.17%).

State and local property taxes: While property values have declined over recent years in many areas, property taxes haven't necessarily gone down, too. According to the Tax Foundation, residents of New York, New Jersey, and Connecticut had the highest tax burdens in 2010. In those states, residents forked over more than 12% of income in state and local taxes.

Residents of Alaska, which has been the least-taxed state for more than a quarter of a century, paid the lowest percentage of income in 2010 at 7%, followed by South Dakota, Tennessee, and Louisiana.

State estate taxes: Estate taxes also may influence where you want to retire. The rules can differ widely from state to state and in several cases, state laws don't follow federal estate tax rules. As of January 1, 2013, 17 states and the District of Columbia collected estate tax and had varying exemption thresholds. (Some other states have inheritance taxes.) In several states, the threshold is $1 million or less. Only Delaware, Hawaii, and North Carolina use the current federal exclusion amount of $5 million (indexed to $5.25 million in 2013). Certain other states have neither an estate tax nor an inheritance tax. But these rules, too, are subject to change.

Remember that this is just a brief summary of state taxation rules. Of course, other factors also will come into play, but it pays to consider state and local tax consequences in choosing a location for your retirement years. ●