

Retirement Living

Does Leaving Maryland Purely for Tax Reasons Really Make Sense?

By Clark Kendall



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Many of our Montgomery County clients dream of moving to a lower-cost area of the country when they retire in order to stretch their retirement savings out further. In particular, they envision saving thousands of dollars every year in taxes by moving to a state with no state income tax such as Florida, Texas or Nevada.

However, the big-time tax savings they envisioned don't always materialize for many of these retirees. From what I see, they frequently end up spending dimes and quarters moving in order to save nickels in taxes.

Offsetting Costs Eats into Tax Savings

What many of these retirees don't realize is that while some states may feature no state income tax, this is often offset by higher property and sales taxes and higher insurance rates. For example, the median property tax rate in Maryland is 0.87 percent, which is lower than the median tax rate in Florida (.97 percent) or Texas (1.81 percent).

Let's take a look at Mark and Mary, a recently retired couple living in Montgomery County. They are thinking about moving to West Palm Beach to live out their retirement years since they will pay no state or local income tax in south Florida.

Mark and Mary have an annual income of \$100,000 and their home here in Maryland is valued at \$700,000—they plan to buy a Florida home for about the same amount of money. My experience is that everyone says they are going to downsize when they retire. More often than not, retirees buy a smaller home but often it is just as expensive, if not more. Mark and Mary are currently paying about \$6,500 a year in property taxes on their Montgomery County home, but taxes on the same value home will rise to more than \$7,800 a year when they move to south Florida. This will result in an increase of nearly \$1,300 a year in property tax.

Mark and Mary's homeowner's and car insurance will also be more expensive in Florida. Here in Montgomery County, they pay about \$900 a year for homeowner's insurance and \$1,400 a year for car insurance, or \$2,300 total. In West Palm Beach, they will pay about \$2,100 a year for homeowner's insurance and \$1,800 a year for car insurance, or \$3,900 total. This will result in an increase of around \$1,600 a year in homeowner's and car insurance.

Now let's add state and local income tax to the equation. Mark and Mary will save \$4,200 a year in state income tax and \$2,870 a year in



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local income tax by moving to Florida, or \$7,070 total. Subtracting the increase in property tax and insurance from this results in a net savings for Mark and Mary of \$5,470 by moving to south Florida.

Are the Savings Worth It?

The question Mark and Mary have to answer is this: Does saving about \$5,500 a year justify uprooting their lives and moving to West Palm Beach?

If there are other reasons they want to move that aren't financial related, then maybe it does. For example, maybe they are avid outdoor people and want to enjoy the year-round nice weather south Florida has to offer. Or maybe they have family in West Palm Beach and want to live near them during their retirement years.

But if they are moving strictly for financial reasons, Mark and Mary might want to reexamine their thinking. Saving a little more than \$5,000 a year might not be worth all the hassle and expense involved in moving. This is especially true if they have put down roots in their community and have lots of friends and family here in Montgomery County.

It's worth noting that if Mark and Mary had a higher annual income and more expensive home, they would save much more money by moving to Florida. For example, if their annual income is \$1 million and their

home is worth \$1.5 million, their net annual savings would be more than \$82,000. This can make moving for financial reasons much more appealing and tempting.

Lower Retiree Taxes in the Future?

It might get even less expensive for retirees to live in Maryland if Governor Larry Hogan has his way. In an effort to make it more affordable for retirees to stay in Maryland, the governor has made a commitment to eliminate all retirement taxes in our state "just as other states have done," he said.

The governor recently announced a billion-dollar-plus tax relief proposal that would lower taxes for more than 230,000 state retirees. The Retirement Tax Reduction Act of 2020 would eliminate all state income tax on the first \$50,000 of income for retirees with up to \$100,000 in federal adjusted gross income per year. Also, retirees with Maryland income up to \$50,000 per year would pay no Maryland state income tax whatsoever.

Governor Hogan said that this legislation is an effort to address the fact that Maryland was rated the worst state in the country for retirees from an affordability standpoint in a recent study. "The legislation will keep tens of thousands of Maryland retirees from being forced to flee our state," he said.