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TAX STUDY

How Tax-Friendly Is Your State?

Analysis of income, state, sales and property taxes reveals the most tax-friendly states for residents.

By Jeff Ostrowski

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State and local governments maintain roads, run schools and pay police, and they need to fund public functions and state infrastructure. For most Americans, this additional tax burden comes from a combination of state income taxes, state and local sales taxes, and local property taxes.

Every state handles these taxes a little differently, and which state you live in has a significant impact on your wallet. But while citizens have long since considered the cost of taxes when determining if and where to move, the debate has only intensified over the past year with the rise of remote working and the idea that you're not necessarily tied to the same location as your employer.

But which states are the most tax-optimized? In order to generate a ranking of the tax-friendliness of US states, MoneyGeek analyzed tax costs across all 50 states to measure those with the lowest tax burden, considering sales, income, and property taxes…

Analysis Shows Population Growth in Lower Tax States

For many, the pandemic has altered their perceptions about where they want to live and where they can live. Millions of city-weary residents aching for more space have moved since the start of the pandemic.

Analysis of state tax burden rates and the change in population from 2019 to 2020 as estimated by the U.S. Census Bureau shows a negative correlation. The lower the state and local tax burden, the higher the population growth in 2020.

Four of the five states with an A grade in tax friendliness had population growth at or above the national average. The fifth state in the group with negative population growth was Alaska.

Of the states with an E grade, all three had population declines in 2020. Of the 9 states with a D grade, only one, New Hampshire, had population growth higher than the national average.

The included expert insights section on this page has advice on how to manage moving and taxes.

Expert Insights: Moving and Taxes

Making the move to a different state is a big step, and from a tax perspective, it can get complicated. MoneyGeek interviewed several experts to elaborate on the unique tax issues that moving presents and what you may need to take into account if you're thinking about making a move across state lines. The views expressed are the opinions and insights of the individual contributors…

John Bonk

Partner and State & Local Tax Leader, Marcum Accountants and Advisors

What tax implications should someone consider if they are moving from one state to another? What records would they need to show, if any?

This can depend on if the move is a full move or a partial move. Moving fully has fewer issues as you just need to be aware of the taxes in the new state you are moving to. However, if it is a partial move, there is a question as to if the taxpayer is actually changing their domicile. If the domicile isn’t changed, they may still owe taxes as a resident to their original state. So, for example, if someone spends 11 months out of the year in Florida, but their domicile is still in New York, they still have to file a resident return, which means 100% of your taxes are paid to New York.

If audited, for domicile, many things are requested. A day log showing where you have been during the audit period is usually requested. Credit card statements, drivers’ licenses, letters from your children’s school, letters from places of worship, letters from your doctors, etc., are also usually requested. The audit is trying to paint a picture of where your true home is.

What factors determine where your true home is?

There are many things that are considered, and it isn’t always black and white. The primary factors that New York considers are (1) home, (2) active business involvement, (3) time, (4) items near and dear, and (5) family connections.

How does working remotely affect one’s taxes? Similarly, what if you work in one place but choose to live in another because you can now work from home? What happens if you choose to work remotely out of another state for a period of time?

This depends on the states involved. However, if you work temporarily out of one state but don’t change your domicile, you will still pay taxes to your domicile state on all of your wages. There could also be a “convenience of the employer” issue, which is a rule a small number of states have where your income may be sourced to your workplace even if you don’t go to the workplace.

How can someone looking to optimize their taxes do so by moving states?

Moving to a lower- or no-tax state would directly decrease your tax burden. However, there are many things to consider when that isn’t a full move to the new state and there is still a connection to the prior state.