



Are “Tax-Friendly” States Really That Tax Friendly for Retiring Clients?

Where clients retire matters, and relocating may help them make the most of the money they have to spend during retirement. While family relationships often drive relocation decisions—with 58% of middle-class Americans citing more time with family as a top retirement goal¹—it’s equally important to understand the bigger picture, which includes evaluating the total tax burden of a potential move.

Clients who are approaching retirement or already retired may be looking for ways to stabilize retirement income and maintain their lifestyles. This can entail packing up and moving to a more tax-friendly locale, but what exactly does that mean these days?

The One Big Beautiful Bill Act (OBBBA) and an increasing number of Social Security-friendly states have expanded the map for retirees. Understanding how different income sources—wages, Social Security benefits, qualified plan retirement distributions—are taxed differently across states can help clients make informed decisions. Financial professionals are in a unique position to educate their clients, reveal states with favorable policies for their specific income mix, and uncover the true burden or benefit of a move.

The “Social Security 42”: Expanding the Tax-Friendly State Map

While many retirees may feel restricted by the buying power of their Social Security retirement benefits, tax-exemption expansions are broadening their options for tax-friendly states. As of 2026, 42 states (plus Washington, D.C.) exempt Social Security retirement benefits from state income taxes. Joining the ranks of other newcomers (Kansas, Missouri, and Nebraska), West Virginia finished its three-year phaseout of Social Security income taxes, making 2026 its first fully exempt year.²

But a retiree’s relocation prospects are often influenced by more than their Social Security retirement income. Many clients want to retire in a state with a lower overall financial burden—especially when it comes to their retirement accounts. Understanding the primary source of their income is crucial to evaluating which states offer the most advantageous tax treatment.

The Retirement Titans: Comparing No-Tax vs. Exempt States

When evaluating tax-friendly states for clients, it’s essential to distinguish between different tax structures and understand which income sources receive preferential treatment in each state. Tax-friendly states don’t always offer broad income tax exemptions across all categories, which may be what clients are expecting. With the adoption of the OBBBA and its state and local tax (SALT) cap increases, the considerations for affordability have changed significantly. Retirees don’t need to avoid states with income taxes at all costs; it may be more prudent to review the total tax burden of a move, assess the hidden costs associated with a state’s tax policy, and determine whether the whole picture makes financial sense.

No-Income-Tax States: There are currently nine states with no income tax (including levies on wages and Social Security retirement benefits): Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.³

¹Collinson, Catherine. “The Retirement Outlook of the American Middle Class.” [Transamerica Center for Retirement Studies, August 2024.](#)

²Walters, Stefan. “42 States That Don’t Tax Social Security Benefits.” [The Motley Fool, January 15, 2026.](#)

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However, “income-tax-free” doesn’t mean “tax-free” altogether. These states make up for the revenue loss by imposing higher taxes in other areas, such as sales, property, capital gains, and retirement distributions.⁴

Qualified-Plan-Distributions-Exempt States: For retirees who are no longer working for a paycheck and instead receive income primarily from Social Security, pensions, and qualified plan distributions, such as distributions from 401(k)s and IRAs, an alternative to the no-income-tax states would be a state that doesn’t tax, or only partially taxes, Social Security, pensions, and qualified plan distributions: Illinois, Iowa, Michigan, Mississippi, and Pennsylvania.⁵ For clients evaluating these options, the choice often comes down to their primary income source. For example, a retiree whose primary income comes from 401(k) distributions may fare better in Pennsylvania than one whose income comes from dividends and interest payments.⁶

Financial professionals need to be specific about this dynamic in their conversations with clients: Identifying modern tax-friendly states is about more than a “no-income-tax label.” It’s about uncovering the total tax burden and matching it to the client’s specific income profile.

The Hidden Burden: Property and Sales Levies

States need tax revenue to cover their infrastructure costs. A no-income-tax promise is enticing for retirees in search of a new, more affordable lifestyle, but it should raise questions, including “How does the state make up for lost tax revenue?”

For many states, the answer is to raise property or sales taxes. For example, New Hampshire and Texas promise no income tax, but they also hold some of the highest property taxes in the country: 2.29% and 1.9% respectively.⁷ It’s critical to understand that these rates represent effective tax rates calculated as a percentage of home value, not just the nominal assessment rate. Property tax calculations involve applying a county-specific assessment ratio to a property’s assessed value—and then multiplying by local millage rates.⁸ In summary, a nice house in an area with a higher millage rate and a lower assessed value can be less expensive than a house in an area with a lower millage rate but a higher assessed value. These values often can be determined by checking realtor websites for the estimated taxes on a property.

Along those lines, Louisiana and Washington are among the states with the highest sales tax rates: as high as 11% in Louisiana and 10.7% in Washington respectively, accounting for SALT.⁹ However, it’s important to note that sales taxes can vary significantly based on what’s being taxed. As of 2026, most states have exempted basic grocery items, such as bread, milk, and vegetables, from sales tax, with only a handful still with only a handful that still do not exempt groceries—primarily Hawaii (4% full rate), Idaho (6% full rate with a senior grocery credit), South Dakota (4.2% rate), and Tennessee (4% state rate).¹⁰

Recent research illustrates why retirees are reluctant to draw down savings for spending. Even when they can afford it, retirees consistently avoid using their savings and instead rely heavily on lifetime-income streams such as Social Security, pensions, and annuities. Research by David Blanchett and Michael Finke found that converting assets to guaranteed income roughly doubles the amount retirees will spend compared with leaving money in investment portfolios—a finding first documented in their June 2024 “Guaranteed Income: A License to Spend” paper and reinforced in an April 2025 study.^{11,12} This behavioral pattern means that for clients who draw most of their income from sources other than traditional employment, high sales or property taxes could have a more significant impact on their retirement lifestyles than a moderate state income tax would.

The Federal Interaction: Maximizing the OBBBA Benefits

The OBBBA salvaged many of the more popular deductions and rates from the Tax Cuts and Jobs Act of 2017. It also introduced new deductions, such as the “Senior Deduction” (sometimes referred to colloquially as the “Senior Bonus”), and increased SALT deductions from \$10,000 to \$40,000 for certain taxpayers with the cap increasing by approximately 1% annually. The Senior Deduction is temporary, available for tax years 2025 through 2028, and allows taxpayers age 65 or older to deduct up to \$6,000 (\$12,000 for married couples where both spouses qualify), with a phase-out that begins when modified adjusted gross income exceeds \$75,000 for single filers or \$150,000 for joint filers.¹³

³Cruz-Martinez, Gabriella. “9 States with No Income Tax.” [Kiplinger, January 28, 2026.](#)

⁴State Tax Reliance: The Tax Your State Depends on the Most.” [National Conference of State Legislatures, Updated April 9, 2024.](#)

⁵Mengle, Rocky. “13 States That Don’t Tax IRA and 401(k) Distributions.” [AARP, January 12, 2023.](#)

⁶Cruz-Martinez, Gabriella. “States That Don’t Tax Pension Income in 2026.” [Kiplinger, January 8, 2026.](#)

⁷Taylor, Mia, and Probasco, Jim. “Property tax rates by state: What to expect in your area.” [Bankrate, May 7, 2025.](#)

⁸Realty Transfer Tax 2024 Common Level Ratio Real Estate Valuation Factors.” [Pennsylvania Department of Revenue, January 2026.](#)

⁹Des Etages, Kai. “Top 10 States with the Highest Sales Tax Rates in 2026.” [Intuit, March 2, 2026.](#)

¹⁰Huddleston, Cameron. “10 States That Tax Groceries in 2025.” [AARP, February 6, 2025.](#)

¹¹Blanchett, David, and Finke, Michael. “Guaranteed Income: A License to Spend.” [Alliance for Lifetime Income, May 2024.](#)

¹²Blanchett, David, and Finke, Michael. “Retirees Spend Lifetime Income, Not Savings.” [Alliance for Lifetime Income, April 2025.](#)

¹³Taylor, Kelley R. “New \$6,000 ‘Senior Bonus’ Deduction: What It Means for Taxpayers Age 65-Plus.” [Kiplinger, February 23, 2026.](#)

If a state conforms to the federal system—meaning it uses federal taxable income or adjusted gross income as its starting point—then these benefits may result in a lower state-level taxable income as well. This means the gap between a no-income-tax state and a state with income taxes may be narrower than clients expect.

Understanding the SALT Cap Impact: The \$40,000 SALT deduction cap takes effect for tax year 2025 and rises to \$40,400 in 2026, \$40,804 in 2027, \$41,212 in 2028, and \$41,624 in 2029 before reverting to \$10,000 in 2030. For retirees who own homes, especially in areas with higher property taxes, this higher cap reduces the effective tax penalty on large property-tax bills. However, this benefit is primarily relevant for clients whose income is below the phase-out threshold (starting at \$500,000 in 2025 and rising with the cap each year) and who itemize rather than take the standard deduction.¹⁴

Most retirees use the standard deduction, as they typically don't have large mortgages or extraordinarily high property taxes. The SALT cap increase primarily benefits those with property taxes and other state/local taxes that substantially exceed the previous \$10,000 limit. For the majority of retirees with more modest housing costs, the standard deduction may continue to provide greater tax savings.

The Holistic Road Map: Guiding a Potential Relocation

Modern tax-friendly states are more inclusive than ever before. Clients are no longer forced to make binary decisions between income tax or income-tax exemption when considering relocation.

Financial professionals have the opportunity to educate their clients about the factors to consider when evaluating a relocation. By taking a proactive, consultative approach and accounting for the total tax burden—including income taxes, property taxes, sales taxes, and how federal deductions interact with state tax systems—you can help guide your clients toward destinations that fit their lifestyles and bottom lines.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients looking to relocate in retirement and discuss their reasons for doing so. Encourage them to work closely with their tax advisor.**
- **Familiarize yourself with popular “retirement” states’ tax structures for different income types.**
- **Determine which taxes could affect clients the most based on their primary income sources.**
- **Create a holistic plan that accounts for each client’s total tax burden and personal priorities.**

¹⁴Rauber, Michael. “SALT Deduction Cap Delivers Relief to Homeowners.” [National Association of Realtors, October 22, 2025.](#)

Additional Resources and Links

[One Big Beautiful Bill Act: Key Provisions](#)

[The One Big Beautiful Bill Act \(OBBBA\) on Social Security Taxes: A Deduction—Not a Repeal](#)

[Retirement Contributions in 2026](#)

[Tax Management](#)

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