How a Dentist Can Eliminate State and City Income Taxes on Their Retirement Savings

The key is to move to a no-income-tax state, such as Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, or Wyoming.

Planning and preparing for retirement can be daunting. While everyone has personal factors to consider such as weather and family locations, state and city taxes are factors that should not be overlooked. Poor planning can result in large portions of your savings being lost to state and city income tax. Moving to a low-income-tax state before withdrawing any retirement plan or IRA funds can eliminate the state and city income tax on these retirement savings altogether.

For example, if you have $5,000,000 saved in retirement plans and IRA accounts at age 67, you expect to earn 6% per year, and plan on living to age 100, your monthly withdrawals could be $29,027.65. This means you would receive a total of $11,494,948 throughout your lifetime.

Assuming you currently live in New York City with a combined state and city income tax rate of about 13%, moving to a no-income-tax state could save you $1,494,343 throughout your retirement years. For many dentists, this income tax saving strategy could make a significant difference and can dramatically increase their standard of living throughout their retirement years.

When moving to a no-income-tax state from a high-income tax state, such as New York or California, you can expect a residency audit. You are required to live in your new state for at least 6 months and also follow the following guidelines to document that you actually landed in the new no-income-tax state. Some states are very sophisticated with these audits and have used tracking devices on taxpayers' cellphones to determine how many days they were in and out of their residence state.

It would be best for a retiring dentist to implement each of these 12 steps to help build their case, but at a minimum, they should try to do the majority of them.

1. Sell your home or residence in your current state and purchase or lease a home in a new, no-income-tax state.

2. Start new banking relationships in your new residence state, and close the old bank accounts in your former state. Also close your old safe deposit box and open a new one in your new residence state.

3. Have your car's title and registration updated and changed to your new residence state.

4. Obtain a new driver's license in your new residence state, and cancel your driver's license in your former state.

5. Acquire the homestead exemption and file an Affidavit of Domicile in your new residence state.

6. Register to vote in your new residence state and inform your former state voting registrar of your move.

7. Your new address should be used on your income tax return, and you should file a part-year change of residence state income tax return with your former state in the year of your move.

8. Terminate all church or temple affiliations in your former state. Join such organizations in your new residence state.

9. You should cancel your country club memberships and other business, professional, and personal affiliations with your former state and join new ones in your new residence state.

10. Hire an attorney in your new residence state to draft new wills, healthcare proxy, and power of attorney as part of your new and updated estate planning documents in your residence state.

11. You should always use your new state address when corresponding with the Social Security Administration, insurance companies, lenders, credit card companies, and any other government agencies.

12. Sell your old burial plot and purchase a new one in your residence state.

You have worked hard and made many sacrifices over the years as a dentist and have ultimately achieved your own personal financial independence. Implementing these strategies and properly documenting them could allow you to maintain this independence throughout your golden years.

If you're planning your retirement or have any questions, please do not hesitate to give me a call.