

BETTER THE DEVIL YOU KNOW...



Recently, a longtime client and friend sent me an email asking my opinion on an article pertaining to the Pennsylvania state inheritance tax. The article began by posing the provocative question, “Do I really want to die in Pennsylvania?” The article suggested you don’t want to die in Pennsylvania because of the Pennsylvania state inheritance tax. (Of course, I for one am not real excited about dying anywhere much less Pennsylvania.)

That said, when we die as a permanent resident in Pennsylvania our assets may be subject to the Pennsylvania state inheritance tax. All real estate and personal property located in Pennsylvania at the time of a decedent’s death is taxable. All intangible property owned by the decedent, no matter where located, is taxable.

The tax rates are as follows:

- 0% on transfers to a surviving spouse or to a parent from a child age 21 or younger.
- 4.5% on transfers to direct descendants and lineal heirs.
- 12% on transfers to siblings and 15% on transfers to any other heir except charitable organizations, exempt institutions, and government entities.

Here is a simple example:

A married couple with children in Peters Township owns a home, IRAs, bank accounts, and investments totaling \$1 million. When they both pass away, the children (and/or estate) will owe about \$45,000 to the state of Pennsylvania less deductions for various qualifying expenses.

No one wants to harness their heirs with taxes and expenses, but many are not prepared to move to another state simply to avoid state inheritance tax in Pennsylvania. Florida is an attractive state if you want to escape the cold Pennsylvania winter months, and there is no state inheritance tax, although Florida may not be right for everyone. Other states may offer a warmer climate and more frequent sunshine, but some of them also have various state taxes to consider.

For example, a few years ago, we had a client who changed residence from Washington County to Maryland. Upon retirement, she and her husband established permanent residency in their house in Deep Creek. We were not informed of the change and viewed the home in Deep Creek as a vacation home. To our surprise and their children, they were now subject to state inheritance tax (worse than Pennsylvania at the time) in Maryland since their Deep Creek property was considered their primary residence.

We also have a number of clients who have moved to North Carolina. In all cases the relocations were not tax motivated, but we were disappointed to discover that North Carolina state income tax applies to distributions from IRAs.

In Pennsylvania, when you contribute to a 401(k) plan your contribution is net of Pennsylvania state income tax currently 3.1%. By moving to North Carolina and withdrawing from that same IRA, the distributions are then subject to a 5% state income tax in North Carolina resulting in what might be considered a double taxation - taxed both in Pennsylvania and North Carolina.

These North Carolina taxes alone should not dissuade someone from moving to North Carolina. It’s a beautiful state, but it’s another example of how states raise revenues through various taxes. Tax laws continue to change from state to state as well as in the federal government.

At H Financial, we have clients who live in more than 30 states, all relationships we developed right here in Southwestern Pennsylvania. We live in a mobile society. Executives are transferred, job opportunities arise, and clients who are retired or financially independent choose to move to other states for a variety of reasons such as moving close to family or just tired of the long Pennsylvania winters.

Taxes may be a consideration when one moves but should probably not be the primary driver of those decisions. Better the Devil you know versus the Devil you don’t know. If you are planning to move to another state it is a good idea to do some research—look at taxes and other factors that might impact you financially. It may not be the determining factor, but it will avoid any unpleasant surprises later. We, at H Financial, have a great deal of experience with these issues. If you should need help, please call our office and request an introductory meeting.



This **Industry Insight** was written by Garrett S. Hoge.

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