

Are Investments in Tax Free States Always Better?

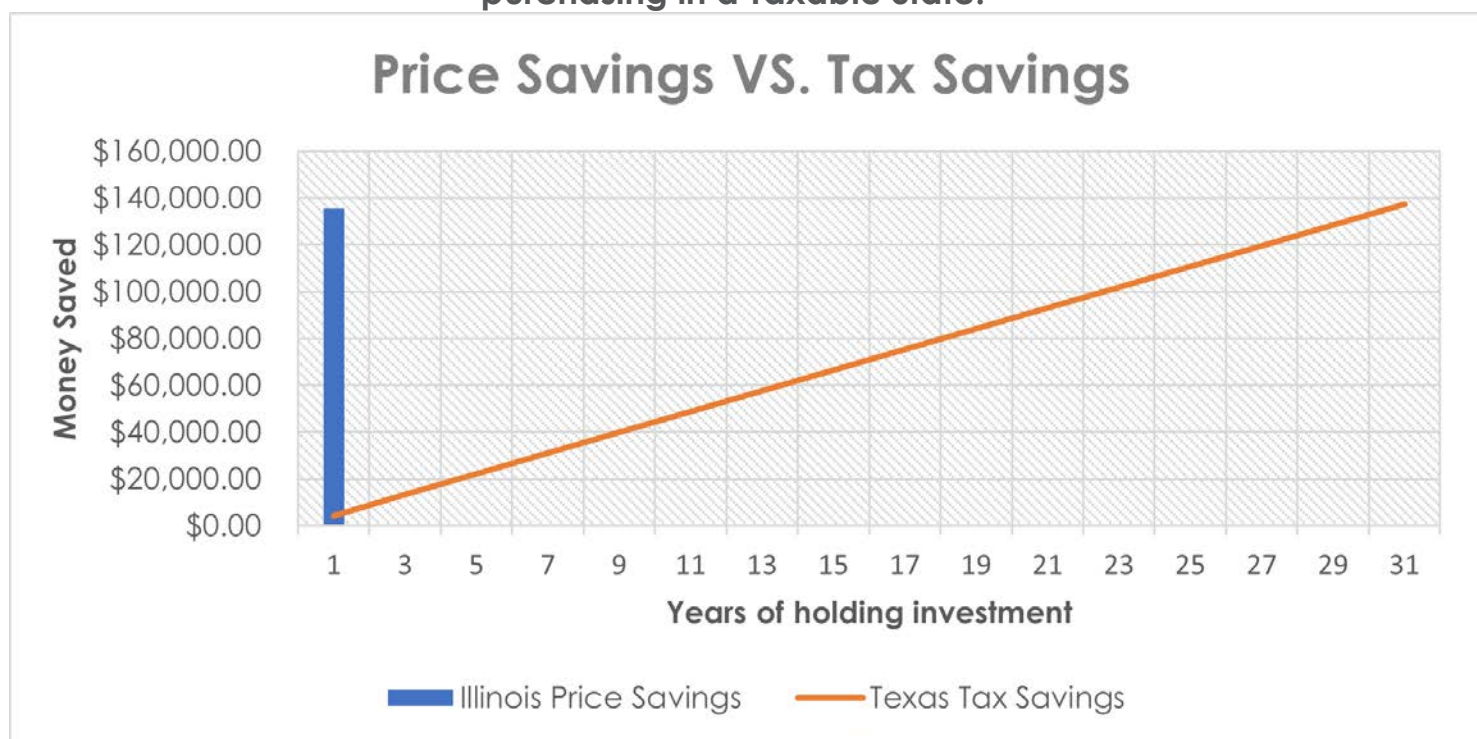
Owning an Investment in a Tax Free State is not always better, many variables affect whether you will make more money from your Investment in a Tax Free State than in an Income Tax State

In this example, there is a Dollar General in Texas, a Tax Free state, and a Dollar General in Illinois, a 4.95% Income Tax Rate state. Both stores have 15 years remaining on the lease term, NNN-Absolute, and have the same NOI of \$89,500. However, they are asking a 5.50% cap rate for the store in Texas and a 6.0% cap rate for the store in Illinois. How does that affect your return?

	NOI	Asking Cap Rate	Asking Price	State Income Tax Rate	Annual Tax Expense	Years to Recoup Price Difference
Texas Dollar General	\$89,500.00	5.50%	\$1,627,272.73	0.00%	\$0.00	30.61
Illinois Dollar General	\$89,500.00	6.00%	\$1,491,666.67	4.95%	\$4,430.25	

\$135,606.06

As you can see, the difference in price that is charged due to the Texas Dollar General being in a Tax Free State is \$135,606.06. The Annual Tax Expense for the Illinois Dollar General is \$4,430.25. You would need to hold the property for 30.61 years in order to make up the difference in price with your Tax Expense as shown in the graph. So, although you would be saving on an annual tax expense, the overall Tax Savings would take 30.61 years to equal the Price Savings of purchasing in a Taxable State.



Tax FAQs

Q: What are the tax free states?

A: Alaska, Washington, Nevada, Wyoming, South Dakota, Texas, Florida, Tennessee, and New Hampshire**

Check our [State Income Tax Map](#) for further information

**New Hampshire currently only tax on interest and dividend income

Q: Are all tax free states the same?

A: Typically no, they vary by state, there can be different methods of ownership needed in order to reduce your tax liability. As well as other conditions that could be applied, it's necessary to check the specific state you're interested in.

Q: If I'm not paying state income tax, are there other fees I am paying?

A: It's possible. For example, in Tennessee, depending on your type of ownership, you may have to pay a franchise and excise tax. These fees can be alleviated if you follow the state's rules with the correct type of ownership.

Q: If I own a property in a tax free state, do I have to pay state income tax in my home state?

A: Typically, if you file a return in the state where you own the property, you usually don't have to file in your home state. There are exceptions to this, it's always a good idea to seek the advice of your accountant.