

Retire in Kentucky: Affordable Living & Tax Benefits

Admin User · February 12, 2026

Discover Kentucky's attractive retirement benefits, including no Social Security tax, pension exclusions and low cost of living.

This article is a part of the 50 states retirement tax-planning series. [View the series here.](#)

By Wesley Botto

The Bluegrass State is an appealing destination for retirees, offering a mix of affordable living, beautiful landscapes and tax policies that can be beneficial for retirees, such as exemptions on Social Security income and a reasonable flat income tax rate. Depending on your situation though, there are considerations to take into account, such as capital gains and inheritance taxes.

Affordability

Kentucky offers a cost of living that is 11.4% lower than the national average, making it an affordable place to retire. The average annual salary in Kentucky is \$43,794, with a cost-of-living index of 86.9. This means living expenses are significantly lower than in many other states, with an average monthly cost of \$1,809. Health insurance premiums in Kentucky are also lower than the national average, with individual plans averaging \$431 per month and family plans at \$1,437. Housing costs are also affordable compared with the rest of the country, with the average home value at \$207,528, and relatively affordable rents as well.

Personal Income Tax

Kentucky has a flat income tax rate of 4.0% on all taxable income, which is a simple system compared to those used in other states. The current rate of 4.0% is down from the 2023 rate of 4.5%, and the rate may become even lower in future years if certain economic triggers are met. In addition to the state 4.0% income tax rate, certain

jurisdictions also collect local taxes. Even with those additional local taxes though, Kentucky still falls in about the middle for total state and local taxes levied.

Taxpayers age 65 and older will also receive a credit of \$40 for each individual. Taxpayers will also see a standard deduction of \$3,160 for the 2024 tax year, and new thresholds for the Family Size Tax Credit, which allows a credit for lower-income families.

Favorable Treatment of Retirement Income

Retirees who depend on Social Security as a major source of income will have a big advantage in Kentucky, as the state does not tax Social Security benefits regardless of total income. In addition to the Social Security exclusion, Kentucky also offers a significant exclusion for other retirement income. The state exempts up to \$31,110 of pension income per person (\$62,220 for married couples filing jointly) from taxation. This includes income from pensions, 401(k)s and IRAs. Amounts above this are taxed at the 4.0% flat rate. This helps reduce the tax burden for retirees receiving notable pension or retirement distributions. Other investment income, such as dividends, interest and capital gains (outside of tax-advantaged retirement accounts) are taxed as regular income at the flat rate. Both short- and long-term capital gains are taxed at the same flat rate.

Sales and Property Taxes

Kentucky's low sales and property tax rates can help retirees keep living costs manageable and help make their retirement savings go further.

Kentucky's sales tax rate is 6%. Kentucky does offer exemptions on essential items such as groceries and prescription drugs, which can be beneficial for seniors managing health care costs. Municipalities are not allowed by state law to impose additional local sales taxes on top of the state sales tax rate.

Homeowners in Kentucky benefit from a low property tax rate. The state's average effective property rate is just 0.80%, which is below the national average. For the average homeowner in this state, the annual property tax bill is around \$1,382, approximately half the national median. Seniors age 65 and older may also receive the Kentucky homestead exemption which is applied against the assessed value; this exemption is currently set at \$46,350.

Estate and Inheritance Taxes

Although Kentucky no longer has an estate tax, it still imposes an inheritance tax, which should be a consideration for those planning to leave assets to their beneficiaries. The tax rate varies depending on the relationship between the deceased and the beneficiary. Transfers to immediate family members may qualify for significant exemptions or lower rates, while transfers to more distant relatives or non-relatives could be subject to higher taxes. This is particularly important for retirees intending to pass assets on to non-immediate family members or friends.

Kentucky: Affordable Living and Tax Benefits

Kentucky is an appealing retirement destination, offering affordable living and tax benefits like Social Security exemptions, pension exclusions and a flat 4.0% income tax rate. With low property taxes and a cost of living below the national average, it's a great place for retirees to stretch their savings. However, retirees should consider the inheritance tax and potential long-term care costs. Overall, Kentucky provides a tax-friendly environment and a relaxed lifestyle for those looking to enjoy their retirement years.

Working with a financial professional can provide invaluable assistance in optimizing your retirement plan to take full advantage of your state's tax benefits while ensuring your overall financial health. You can find a licensed professional [here](#). To find a licensed professional in Kentucky, click [here](#).

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