IRS Announces 2023 Tax Inflation Adjustments

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The IRS recently announced inflation adjustments for tax year 2023 regarding a number of tax matters, some of which are highlighted below. As always, contact us for a more thorough discussion on tax and financial planning matters.

- Unified Credit Against Estate Tax: The gift/estate tax basic exclusion amount increases to $12,920,000 in 2023 (up from $12,060,000 in 2022)
- As a reminder, the increased gift/estate tax exclusion amount will sunset at the end of 2025, which means the limits will drop back to $5M (closer to $6M with inflation adjustments) for 2026.
- Annual Gift Tax Exclusion: The annual exclusion for gifts increases to $17,000 for calendar year 2023, up from $16,000 for 2022 (and up from $15,000 in 2021 and earlier years)
- Remember that gifts paid directly to educational institutions for tuition only and directly to medical providers for medical expenses are excludible from the gift tax calculation entirely. These gifts do not use up annual exclusion amounts or lifetime exemption amounts.
- Also, taxpayers can accelerate 5 years of annual exclusion contributions to a 529 plan into one year if they elect to do so and file Form 709. Effectively, this means a married couple who split gifts could put $170,000 into a 529 program and shelter the entire amount in one year as an annual exclusion gift to the beneficiary, using zero of their lifetime exemption.
- Standard Deduction: The standard deduction amounts for 2023 are $27,700 for married couples filing jointly (an increase of $1,800 from 2022); $13,850 (up $900) for single taxpayers and married individuals filing separately; and $20,800 (up $1,400) for heads of households.
- Marginal Tax Rates: All tax brackets will increase for 2023. The highest rate remains 37% for incomes greater than $693,750 for married filing jointly and $578,125 for single taxpayers.
- Flexible Spending Accounts: starting in 2023, the dollar limitation for employee salary reductions for contributions to health FSAs increases to $3,050 (up from $2,850 in 2022).
- Health Savings Accounts: starting in 2023, participants in qualified health plans may contribute up to $3,850 for an individual and $7,750 for a family (increases of $200 and $450 from 2022, respectively).
- Social Security Wage Base: the 2023 base is $160,200, up from $147,000 in 2022, and the cost of living adjustment for Social Security recipients in 2023 is 8.7%.

Please reach out to a member of your client service team with any questions or if we can be of assistance.

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