

December 12, 2022

## IRS ANNOUNCES 2023 INFLATION ADJUSTMENTS

The IRS recently announced annual inflation adjustments for the 2023 tax year. With the inflation adjustments, Revenue Procedure 2022-38 provides for the tax year 2023:

**Unified credit against estate tax.** Estates of decedents who die during 2023 have a basic exclusion amount of \$12,920,000 (which is an increase of \$860,000 from 2022).

**Annual gift tax exclusion.** The annual exclusion for gifts increased to \$17,000.

**The standard deduction.** The standard deduction amounts for 2023 are:

- \$27,700 for married couples filing jointly (up \$1,800 in 2022);
- \$13,850 (up \$900) for single taxpayers and married individuals filing separately; and
- \$20,800 (up \$1,400) for heads of households.

**Marginal rates.** The top tax rate is still 37% for individual single taxpayers with incomes greater than \$578,125 (\$693,750 for married couples filing jointly). The other rates are:

- 12% for incomes over \$11,000 (\$22,000 for married couples filing jointly)
- 22% for incomes over \$44,725 (\$89,450 for married couples filing jointly);
- 24% for incomes over \$95,375 (\$190,750 for married couples filing jointly);
- 32% for incomes over \$182,100 (\$364,200 for married couples filing jointly); and
- 35% for incomes over \$231,250 (\$462,500 for married couples filing jointly).

The lowest rate is 10% for single individuals with incomes of \$11,000 or less (or \$22,000 for married couples filing jointly).

For trusts and estates, the rates are as follows:

- 10% for incomes less than \$2,900;
- 24% for incomes over \$2,900;
- 35% for incomes over \$10,550; and
- 37% for incomes over \$14,450.

**Long-term capital gains.** For 2023, the capital gains tax rates will be as follows:

- 0% for incomes less than \$44,625 (\$89,250 for married couples filing jointly);
- 15% for incomes over \$44,625 (\$89,250 for married couples filing jointly); and
- 20% for incomes over \$492,300 (\$553,850 for married couples filing jointly).

**Alternative Minimum Tax.** The AMT exemption amount for tax year 2023 is \$81,300 (up from \$75,900) and it begins to phase out at \$578,150 (\$539,900). The AMT exemption for joint filers is \$126,500 and their exemption begins to phase out at \$1,156,300 (up from \$1,079,800).

**Earned income tax credit.** The maximum EITC amount for 2023 is \$7,430 for qualifying taxpayers who have three or more qualifying children, which is up from \$6,935 for 2022. Rev Proc 2022-38 contains a table that provides the maximum EITC amount for other categories, income thresholds, and phase-outs.

**Qualified transportation fringe.** For tax year 2023, the monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking increased by \$20 to \$300.

**Health flexible savings accounts.** Beginning in 2023, the dollar limitation for employee salary reductions based on contributions to health FSAs increased to \$3,050. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$610, which is an increase of \$40 from 2022.

**Medical savings accounts.** For tax year 2023, an HSA participant with self-only coverage must have a high-deductible health plan with an annual deductible of at least \$2,650, but not more than \$3,950. The maximum out-of-pocket expense amount is \$5,300 (up from \$4,950 in 2022). For family coverage, the HDHP must have an annual deductible of not less than \$5,300 and no more than \$7,900 (up \$500 from 2022). The out-of-pocket expense limit is \$9,650 (a \$600 increase over 2022).

**Foreign earned income exclusion.** For tax year 2023, the foreign earned income exclusion is \$120,000, which is up from \$112,000 in 2022.

**Adoption credit and exclusion for adoption assistance.** The maximum credit allowed for adoptions in 2023 is \$15,950, (up from \$14,890 for 2022). Employees who receive adoption assistance can exclude up to \$15,950 of such assistance from income.

**Kiddie tax.** The exemption for the kiddie tax for 2023 will be \$2,500 (up from \$2,300 in 2022).

**MAGI limits for deductible contributions to traditional and Roth IRAs.**

- For 2023, for single tax payers and heads of household, the otherwise allowable deductible contribution will be phased out ratably for MAGI between \$73,000 and \$83,000 (which is up

from \$68,000 and \$78,000 in 2022). For married couples filing jointly, the deduction is phased out ratably for MAGI between \$116,000 and \$136,000 (which is up from \$109,000 and \$129,000 in 2022).

- In 2023, for single tax payers and heads of household, the maximum annual contribution that can be made to a Roth IRA is phased out ratably for taxpayers with MAGI between \$138,000 and \$153,000 (which is up from \$129,000 and \$144,000 in 2022). For married couples filing jointly, the otherwise allowable contributions to a Roth IRA will be phased out ratably for 2023 for MAGI between \$218,000 and \$228,000 (which is up from \$204,000 and \$214,000 in 2022).

**Items not indexed for inflation.** By statute, certain items that previously were indexed for inflation no longer are adjusted. Those items include:

- The personal exemption for tax year 2023 remains at 0, as it was for 2022. Since 2018, there also has been no limit on itemized deductions. Both the personal exemption and the limit on itemized deductions were eliminated by the Tax Cuts and Jobs Act.
- The modified adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit provided in § 25A(d)(2) is not adjusted for tax years beginning after December 31, 2020. The Lifetime Learning Credit is phased out for taxpayers with modified adjusted gross income in excess of \$80,000 (\$160,000 for joint returns).

## JAH Can Help

If you have any questions regarding the IRS 2023 inflation adjustments and Revenue Procedure 2022-38 contact a member of our **Trusts & Estates Group** or complete our **General Contact Form**.

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