

Tax Notes

IRS Releases Tax Inflation Adjustments for Tax Year 2023

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Rising inflation is impacting many aspects of the tax code. The IRS recently announced annual inflation adjustments for the 2023 tax year for over 60 tax provisions, including the 2023 standard deductions and IRS tax brackets. These adjustments will be welcomed by many taxpayers who can shield more of their money from taxes, especially in keeping up with rising wages.

New for 2023

Standard Deduction

The standard deduction for tax year 2023 for married couples filing jointly increases to \$27,700 (a \$1,800 increase from 2022).

For single taxpayers and married couples filing separately, the standard deduction rises to \$13,850 for 2023 (a \$900 increase from 2022).

For head of household filers, the standard deduction will be \$20,800 for 2023 (a \$1,400 increase from 2022).

Marginal Rates

For tax year 2023, the top tax rate remains unchanged at 37% for individual single taxpayers with incomes greater than \$578,125 (\$693,750 if married filing jointly).

The other rates are:

- 35% for incomes over \$231,250 (\$462,500 if married filing jointly)
- 32% for incomes over \$182,100 (\$364,200 if married filing jointly)
- 24% for incomes over \$95,375 (\$190,750 if married filing jointly)
- 22% for incomes over \$44,725 (\$89,450 if married filing jointly)
- 12% for incomes over \$11,000 (\$22,000 if married filing jointly)
- 10% for incomes less than \$11,000 (\$22,000 if married filing jointly)

Capital Gain Tax Brackets

Capital gains are taxed using different brackets and rates than earned income and have also been adjusted for inflation. During 2023, taxpayers who earn below \$44,625 (\$89,250 for married filing jointly) are not required to pay capital gains taxes on their investments. This is an increase of \$2,950 from tax year 2022. Single taxpayers who earn above that amount are subject to a 15% capital gains tax, while those who earn above \$492,300 in 2023 (\$553,850 for married filing jointly) will be subject to the top capital gains rate of 20%.

Alternative Minimum Tax (AMT)

The AMT exemption amount for tax year 2023 is \$81,300 and begins to phase out at \$578,150 (\$126,500 if married filing jointly with the phase out at \$1,156,300). These exemption amounts are increased from 2022 where the exemption amount was \$75,900 and began to phase out at \$539,900 (\$118,100 if married filing jointly with the phase out at \$1,079,800).

Earned Income Tax Credit

The earned income tax credit for 2023 is \$7,430 for qualifying taxpayers who have three or more qualifying children. This is a \$495 increase from tax year 2022.

Annual Gifting Exclusion

The annual exclusion for gifts will increase to \$17,000 for tax year 2023. This is a \$1,000 increase from tax year 2022.

Estate Tax Exclusion

The IRS will exempt up to \$12,920,000 from the estate tax. This is a \$860,000 increase from 2022.

Qualified Transportation Fringe Benefit

For tax year 2023, the monthly limitation for the qualified transportation fringe benefit and monthly limitation for qualified parking increases to \$300. This is a \$20 increase from 2022.

Self-Only and Family Coverage

For participants who have self-only coverage in a medical savings account, the plan must have an annual deductible that is not less than \$2,650, an increase of \$200 from 2022, but not more than \$3,950, an increase of \$250 from 2022. For self-only coverage, the maximum out-of-pocket expense amount is \$5,300, an increase of \$350 from 2022.

For family coverage, the annual deductible is not less than \$5,300, an increase of \$350 from 2022. However, the deductible cannot be over \$7,900, an increase of \$500 from 2022. For family coverage, the out-of-pocket expense limit will be \$9,650, an increase of \$600 from 2022.

Flexible Spending Arrangements (FSA)

Flexible spending accounts allow workers to put money in an account that can be used to pay for medical expenses. The new IRS limit for FSA contributions will increase to \$3,050 in 2023. This is a \$200 increase from tax year 2022.

Foreign Earned Income Exclusion

The foreign earned income exclusion will be \$120,000. This is an increase of \$8,000 from tax year 2022.

Adoption Credit

The maximum credit allowed for adoptions for tax year 2023 for qualified adoption expense is \$15,950. This is an increase of \$1,060 from 2022.

Items Not Indexed for Inflation

Personal Exemption

The personal exemption for tax year 2023 remains at 0, as it was for 2022.

Itemized Deduction

For 2023, there is no limitation on itemized deductions. This is consistent with tax years 2018–2022.

Lifetime Learning Credit

The modified adjusted gross income (AGI) amount used by joint filers to determine the reduction in the Lifetime Learning Credit is not adjusted for inflation for taxable years beginning after December 31, 2020. The Lifetime Learning Credit is phased out for taxpayers with modified AGI in excess of \$80,000 (\$160,000 for joint returns).

Looking Ahead

Most taxpayers will see savings as a result of the 2023 indexing changes. While these adjustments won't apply until the tax year 2023 – which will be filed in 2024 – it is important to understand these changes when considering your overall financial strategy.

Contact Us

If you have any questions, contact your client service partner or

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