

Inflation Adjustments for 2023

As the end of 2022 grows near, many individuals begin to reflect on this past year in efforts to prepare for the 2023 New Year. As of October 18th, 2022, the IRS released their annual inflation adjustments for the 2023 tax year (2024 filing year) with more than 60 tax provisions which include the tax rate schedules and other important tax changes. As Year End tax planning approaches, understanding these key changes could help taxpayers comprehend where they stand for the upcoming 2023 Tax year and allow plenty of time to make necessary adjustments to maximize potential tax saving opportunities. Let us take a look at the upcoming adjustments.



Changes in Personal Income Tax Brackets & Tax Rates

The chart below displays the new 2023 income levels matched to their tax bracket. All 7 tax rate percentages remain the same. The new provisions show a 7% increase for each income bracket compared to those of 2022.

Tax Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	Up to \$10,999	Up to \$21,999	Up to \$10,999	Up to \$15,699
12%	\$11,000 to \$44,724	\$22,000 to \$89,449	\$11,000 to \$44,724	\$15,700 to \$59,849
22%	\$44,725 to \$95,374	\$89,450 to \$190,749	\$44,725 to \$95,374	\$59,850 to \$95,349
24%	\$95,375 to \$182,099	\$190,750 to \$364,199	\$95,375 to \$182,099	\$95,350 to \$182,099
32%	\$182,100 to \$231,249	\$364,200 to \$462,499	\$182,100 to \$231,249	\$182,100 to \$231,249
35%	\$231,250 to \$578,124	\$462,500 to \$693,749	\$231,250 to \$346,874	\$231,250 to \$578,099
37%	\$578,125 or more	\$693,750 or more	\$346,875 or more	\$578,100 or more

Increase in Standard Deductions

For 2023, the Standard Deduction amounts have increased for each of the following filing categories:

Filing Status	Amount
Single	\$13,850
Married Filing Joint	\$27,700
Married Filing Separately	\$13,850
Head of Household	\$20,800

The additional standard deduction amount for the aged and blind is \$1,500 & \$1,850 for unmarried taxpayers. The standard deduction for an individual who may be claimed as a dependent by another taxpayer cannot surpass the greater of \$1,250 or the sum of \$400 and the individual's earned income. (Not to exceed the regular standard deduction amounts).

Alternative Minimum Tax (AMT)

The AMT exemption amounts for the 2023 tax year are:

Filing Status	Exemption Amount	Threshold Phaseout Amount	Complete Phaseout Amount
Single	\$81,300	\$578,150	\$903,350
Married Filing Joint	\$126,500	\$1,156,300	\$1,662,300
Married Filing Separately	\$63,250	\$578,150	\$831,150
Estate & Trusts	\$28,400	\$94,600	\$208,200

Tax Credits & Deductions

The adjusted changes for the following 2023 tax credits and deductions are:

- **Child Tax Credit** – the inflation adjustment increases the refundable portion of the Child Tax Credit to \$1,600 (\$100 increase)
- **Earned Income Credit** – The maximum amount available to qualifying taxpayers with no children is \$600, for those with one child is \$3,995; for taxpayers with two children is \$6,604, and for taxpayers with 3 or more children is \$7,430. Income phaseouts do apply.
- **Adoption Assistance Credit** – The credit allowed for an adoption of a child with special needs is \$15,950, which phase outs for taxpayers with MAGI in excess of \$239,230 and is completely phased out at \$279,230 or more.
- **Lifetime Learning Credit** – this credit is not adjusted for inflation in taxable years beginning in 2020. The credit is phased out for taxpayers with MAGI exceeding \$80,000 (\$160,000 for joint filers)
- **Interest on Education Loans** – The maximum deduction amount for interest paid on qualified education loans is \$2,500, and begins to phase out for taxpayers with a MAGI of \$75,000 (\$155,000 married filing jointly) and is completely phased out at \$90,000 (\$185,000 for married filing jointly)



- **Health Flexible Spending Arrangements** – the dollar limitation for employee salary reductions for contributions to an HSA increases to \$3,050. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover is \$610.
- **Foreign Earned Income Exclusion** – The foreign earned income exclusion amount is \$120,000 (increase of \$8,000)
- **Medical Savings Accounts (MSA)** –
 - For participants who have self-only coverage in a MSA, the plan must have an annual deductible not less than \$2,650 (\$200 increase) but not more than \$3,950 (\$250 increase). The maximum out-of-pocket expense amount is \$5,300. (\$350 increase)
 - For participants with family coverage, the new annual deductible is \$5,300 (\$350 increase) and the deductible cannot be more than \$7,900 (\$500 increase). The out-of-pocket expense limit is \$9,650 (Increase of \$600)

Qualified Business Income Deduction under Section 199 (Pass-through deduction)

Sole-proprietors and owners of pass-through businesses are eligible for a deduction of up to 20% of their qualified business income. Below are the thresholds and phase-in amounts.

Filing Status	Threshold Amount	Phase-in range amount
Married Filing Joint	\$364,200	\$464,200
Married Filing Separate	\$182,100	\$232,100
Other returns	\$182,100	\$232,100

Federal Estate Tax Unified Credit – Estates of decedents who pass away during 2023 have a basic exclusion of \$12.92 million, up from \$12.06 million in 2022.

Limits to Personal Gifts – The 2023 annual exclusion for gifts increases to \$17,000, compared to the \$16,000 in 2022.



Retirement Accounts

401(K), 403(b), 457 Plans – Contribution limits for these popular retirement savings accounts will rise to \$22,500 (up \$,2000), reflecting the price of consumer price index. Likewise, the catch-up contribution limit for individuals aged 50 and over also increases to \$7,500.

SIMPLE Retirement Accounts – The contribution limit for individuals with this type of account has increased to \$15,500 (up \$1,400 from 2022)

Traditional IRA – Contribution limits to an IRA increase to \$6,500 (up \$500) with an additional \$1,000 catch-up amount allowed for those aged 50 and over.

When a taxpayer meets certain condition, their contributions to a Traditional IRA are deductible on their tax return. These conditions include filing status, AGI limits, and whether the taxpayer and/or spouse are covered by a workplace retirement plan. For 2023, the phase-out AGI limits were increased as follows:

- **Single Taxpayers** covered by a workplace retirement plan – phase out range is increased to between \$73,000 and \$83,000, up \$5,000 from last year.
- **Married Filing Jointly**
 - For the spouse making the IRA contribution and is covered by the workplace retirement plan, the phase-out ranges are increased to between \$116,000 and \$136,000. (Up \$7,000 from 2022)
 - For the spouse that is married to someone who is covered by a workplace retirement plan, the phase-out ranges increase to between \$218,000 and \$228,000. (Up \$14,000 from 2022)
- **Married Filing Separately** – the phase-out range is not subject to an annual cost of living adjustment and remains between \$0 and \$10,000.

Roth IRA – The income phase-out range for taxpayers making contributions to a Roth IRA have increased as follows:

- **Single and Head of Household** – between \$138,000 and \$153,000
- **Married Filing Jointly** - \$218,000 and \$228,000
- **Married Filing Separately** – The phase-out range is not subject to annual cost-of-living adjustments and remains between \$0 and \$10,000

Let us help you prepare for next year!

These adjustments are some of the many tax provisions modified for the 2023 tax year. With an ever-changing economy, knowing your tax options is highly important. If you would like a more in-depth discussion as to how these or any other tax provisions may affect you, feel free to contact our office. We are always ready to help assist our clients develop a sound tax plan for the future!

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