

2023 IRS Inflation Adjustments

By Ben Kaup

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The IRS has released their inflation adjustments for 2023. Many important tax deductions, credits, and income tax brackets have increased, some substantially, from prior years. See below for the adjustments happening in 2023s

Standard Deduction

The standard deduction for married couples filing jointly for tax year 2023 rises to \$27,700 up \$1,800 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to \$13,850 for 2023, up \$900, and for heads of households, the standard deduction will be \$20,800 for tax year 2023, up \$1,400 from the amount for tax year 2022.

Earned Income Credit

The tax year 2023 maximum Earned Income Tax Credit amount is \$7,430 for qualifying taxpayers who have three or more qualifying children, up from \$6,935 for tax year 2022. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds and phase-outs.

Flexible Spending Arrangements

For the taxable years beginning in 2023, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements increases to \$3,050. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$610, an increase of \$40 from taxable years beginning in 2022.

Federal Estate Tax Exemption

Estates of decedents who die during 2023 have a basic exclusion amount of \$12,920,000, up from a total of \$12,060,000 for estates of decedents who died in 2022.

Annual Gifting Exclusion

The annual exclusion for gifts increases to \$17,000 for calendar year 2023, up from \$16,000 for calendar year 2022.

Retirement Account Contributions

- The contribution limit for employees who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan will increase to \$22,500.
- The limit on annual contributions to an IRA will increase to \$6,500. The IRA catch-up contribution limit for individuals age 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.
- The catch-up contribution limit for employees age 50 and over who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan will increase to \$7,500.
- The catch-up contribution limit for employees age 50 and over who participate in SIMPLE plans will increase to \$3,500, up from \$3,000.
- The phase-out ranges for deducting contributions to a traditional IRA will also increase. Taxpayers should review Notice 2022-55 regarding the details for their situation.
- The income phase-out range for people making contributions to a Roth IRA will increase for taxpayers filing as single, head of household and married filing jointly. Again, taxpayers should consult Notice 2022-55 for specifics about their situation.
- The income limit for the Saver's Credit for low- and moderate-income workers is \$73,000 for married couples filing jointly; \$54,750 for heads of household; and \$36,500 for singles and married individuals filing separately.
- The amount individuals can contribute to their SIMPLE retirement accounts will increase to \$15,500.

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