

## Rising Inflation Affects Ceilings on Retirement Contributions, Transfer Tax Credits and Income Tax Brackets for 2023

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The IRS on Friday announced a historic increase in contribution limits to 401(k) and other qualified retirement plans. In 2023, you may contribute up to \$22,500 to your 401(k), 403(b) and most 457 plans, which represents more than a 9.7% increase from the 2022 contribution limits. It is the largest increase since the limits first became tied to inflation.

In addition, the “catch up” contribution limit for older taxpayers increased to \$7,500 for 2023, up from \$6,500 for 2022. Beginning next year, those 50 and older may contribute a total of \$30,000 to their 401(k) or other ERISA-governed, tax-deferred retirement plans. The “catch up” limit may be made at any time during the year that a taxpayer turns 50.

Unfortunately, according to the Employee Benefits Research Institute, only 14% of those contributing to 401(k) plans reached the maximum in 2021. Vanguard estimates that only 16% of those eligible to make “catch up” contributions took advantage of the increased limit.

The maximum contributions to traditional IRAs and Roth IRAs will increase, as well, from \$6,000 to \$6,500. The IRA “catch up” contribution remains \$1,000. To be eligible to contribute to a Roth IRA in 2023, a taxpayers’ modified AGI must be under \$153,000 for single filers (\$228,000 for married taxpayers filing jointly).

On October 18, the IRS also announced 7% inflation adjustments for income tax brackets. The 2023 top tax rate remains 37% for individual single taxpayers but top inflation-adjusted income bracket will be \$578,125 (\$693,750 for married couples filing jointly). The standard deduction for 2023 will be \$13,850 for single filers and \$27,700 for joint filers.

In addition, the recently issued [Revenue Procedure 2022-38](#) announced the 2023 annual inflation adjustments for the Estate, Gift, and Generation-Skipping Tax Exemptions.

Effective January 1, 2023, the estate and gift tax basic exclusion amount and the generation skipping transfer (“GST”) tax exemption are scheduled to increase from the 2022 exemption amount of \$12,060,000 to \$12,920,000. The 2023 inflation-adjusted exclusion amount increases by \$860,000 per individual or by \$1,720,000 for a married couple. Individuals who had previously used their entire basic exclusion amount can make additional gifts in 2023 to utilize this increased exclusion amount. This means that a married couple can pass up to \$25,840,000 free of estate tax if the surviving spouse elects to “port,” or add to their own exemption amount, the deceased spouse’s exemption amount. It is important to note that absent any legislative updates, the basic exclusion amount and GST tax exemption are scheduled to revert to approximately \$6,000,000 in 2026.

Also, effective January 1, 2023, the gift tax annual exclusion amount will also increase from \$16,000 per person in 2022 to \$17,000 per person in 2023. This gift tax annual exclusion is specific to present interest gifts and does not include gifts of future interests in property. This means that in 2023, a donor can gift \$17,000 to an unlimited number of people without creating a federal gift tax consequence. Married couples may combine their gift tax exclusion amounts, allowing one spouse to make gifts up to \$34,000 per donee in 2023. In addition to the updated exemption amounts noted above, the annual exclusion for gifts to a spouse who is not a citizen of the United States will increase by \$11,000: from \$164,000 in 2022 to \$175,000 in 2023.

These new developments from the Internal Revenue Service benefit taxpayers by increasing the estate and gift tax basic exclusion amount, the GST tax exemption, and the gift tax annual exclusion amount. Please feel free to contact our estate planning team if you have any questions or would like to discuss your estate planning goals.

With inflation adjustments come tax planning opportunities. We look forward to working with you as 2022 draws to a close and into the new year.

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