

# TAX CHANGES FOR 2023

Tax brackets, standard deductions and retirement contributions increased for inflation.

## Overview

The start of a new year always brings changes to tax laws, impacting how much you can save for retirement and deduct from your tax returns. Inflation played a big role in tax law changes for 2023, with some adjustments being made in larger-than-usual percentages.

Here's what you need to know as we head into the 2023 tax year:

## Standard Deductions

The Tax Cuts & Jobs Act of 2017 substantially increased the amount of the standard deduction, and today it's estimated that 90% of Americans choose to take the standard deduction instead of itemizing on their annual returns.<sup>1</sup>

In 2023, the standard deduction for single and married filing separately taxpayers will be \$13,850. Heads of household can take a standard deduction of \$20,800, while those who are married and filing jointly can take \$27,700.<sup>2</sup>

## Tax Brackets

While the highest tax rate remains steady at 37%, brackets have expanded to account for inflation and rising wages. But remember: Taxpayers don't pay the full rate on their entire income. Instead, Americans pay a marginal tax rate. For example, a single filer in the 22% bracket would pay 10% on their first \$11,000 earned, 12% on \$11,001-\$44,725 and 22% on remaining income up to \$95,375.

### 2023 Tax Brackets<sup>3</sup>

Rate	Single filers	Married filing jointly
10%	\$0 - \$11,000	\$0 - \$22,000
12%	\$11,001 - \$44,725	\$22,001 - \$89,450
22%	\$44,726 - \$95,375	\$89,451 - \$190,750
24%	\$95,376 - \$182,100	\$190,751 - \$364,200
32%	\$182,101 - \$231,250	\$364,201 - \$462,500
35%	\$231,251 - \$578,125	\$462,501 - \$693,750
37%	\$578,126 or more	\$693,751 or more

New tax laws are set to take effect on Jan. 1. Tax brackets have expanded, while standard deductions and contribution limits to retirement accounts are higher. Gift tax limits and estate tax exclusion limits have also increased.



## Retirement Account Contributions

Great news! You'll be able to save more in your retirement accounts in 2023. Participants in an employer-sponsored plan (such as a 401(k), 403(b), 457 or Thrift-Savings Plan) can defer \$22,500 of their salary into the plan for the year. Americans who are age 50 and older defer an additional catch-up amount of \$7,500, bringing their total limit to \$30,000.<sup>4</sup>

IRA and Roth IRA owners are also getting higher contribution limits. The new maximum for IRA and Roth IRA contributions will be \$6,500, an increase of \$500 over 2022. Account owners who are age 50 and older can contribute an additional \$1,000, for a total contribution limit of \$7,500.<sup>5</sup>

The income phaseout amount for Roth IRAs also increases for 2023. Single taxpayers with income higher than \$153,000 will not be eligible to contribute to a Roth IRA, but they will be able to make partial contributions on income between \$138,000-\$153,000. The phaseout range for taxpayers who are married filing jointly is \$218,000-\$228,000.<sup>6</sup>

## Social Security Cost-of-Living Adjustment

Social Security recipients will see a significant jump in benefits in 2023, due to stubbornly high inflation. The 8.5% cost-of-living adjustment (COLA) is the highest increase in 40 years.<sup>7</sup>

## Gift Exclusion Limits

For 2023, the gift tax increases to \$17,000 per individual, up from \$16,000 in 2022. This is the amount one person can give to another without triggering a taxable event for the recipient. A married couple can both give \$17,000 to the same recipient, bringing the total gifted amount to \$34,000.<sup>8</sup>

## Estate Tax

The estate tax exclusion amount also increased in 2023, rising to \$12,920,000 (single) or \$25,840,000 (married). Estates under this amount will not be subject to federal taxes, although state and local taxes may apply.<sup>9</sup>



## Final Thoughts

Constantly shifting tax regulations can make it difficult to keep up with which laws apply to you and can create challenges when creating a financial plan. However, your financial professional can work with you to identify and implement tax strategies that work for your situation. They can also work with your accountant or CPA to help find potential opportunities to optimize taxes while potentially maximizing your current and future income.

<sup>1</sup> Lauren Ward. Bankrate. Oct. 4, 2021. "Standard deduction vs. itemized deduction: Pros and cons, and how to decide." <https://www.bankrate.com/taxes/standard-or-itemized-tax-deduction/#:~:text=You%20could%20potentially%20qualify%20for,when%20filing%20taxes%20each%20year>. Accessed Dec. 12, 2022.

<sup>2,3</sup> IRS. Dec. 8, 2022. "IRS provides tax inflation adjustments for tax year 2023." <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023>. Accessed Dec. 8, 2022.

<sup>4,5,6</sup> IRS. Dec. 8, 2022. "401(k) limit increases to \$22,500 for 2023, IRA limit rises to \$6,500." <https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500>. Accessed Dec. 13, 2022.

<sup>7</sup> Lorie Konish. CNBC. Oct. 13, 2022. "Social Security cost-of-living adjustment will be 8.7% in 2023, highest increase in 40 years." <https://www.cnbc.com/2022/10/13/social-security-cola-will-be-8point7percent-in-2023-highest-increase-in-40-years.html#:~:text=Amid%20record%20high%20inflation%2C%20Social,on%20average%20starting%20in%20January>. Accessed Dec. 12, 2022.

<sup>8,9</sup> IRS. Dec. 8, 2022. "IRS provides tax inflation adjustments for tax year 2023." <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023>. Accessed Dec. 8, 2022.

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