

Five key federal tax changes in 2023

The United States is experiencing the worst inflation in 40 years following unprecedented financial stimulus as a result of the Covid-19 Pandemic. While consumers are feeling this pain in their everyday purchases, the IRS is offering some relief by making adjustments during the 2023 tax year that will lower the tax burden for most Americans.

Five significant changes to the tax legislation are:

- **Tax brackets will increase** by 7%, with the top 37% tax bracket increasing from \$539,900 in 2022 to \$578,125 in 2023. Simply put, this means that a portion of your income will be taxed at a lower rate. While this change will have the biggest impact on high earners, all taxpayers will see a decrease in their tax bill. For example, a someone that makes \$200,000 a year and takes the standard deduction can expect to pay \$40,088 in federal taxes in 2022 vs \$38,400 in 2023, or a \$1,688 decrease on their tax bill. Additionally, tax brackets for capital gain taxes will increase by 7% as well.
- **Standard Deduction is increasing** from \$12,950 to \$13,850 for single filers and \$25,900 to \$27,700 for married couples.
- **Gift Exclusions will increase** to \$17,000 from \$16,000. This means that individuals can give \$17,000, or \$34,000 for married couples, to their family or friends without paying tax on it. This method will help lowering estate taxes for your descendants.
- **401(k) Contribution limits are increasing** \$2,000 from \$20,500 in 2022 to \$22,500 in 2023. This increase will help tax conscious investors prepare for retirement by contributing more to their retirement plans.
- **The Estate Tax Exemption will grow** from \$12.06 million in 2022 to \$12.92 million in 2023, meaning that descendants would not have to pay a tax on an additional \$900 thousand at the time of their inheritance.

However, not all deductions and credits will not be adjusted for inflation for the 2023 tax year. For example, the Child Tax Credit will remain at \$2,000 per qualifying child. Please consult with your tax advisor to discuss how these changes may affect you.

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