The Silver Lining of Inflation

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There a few positives from inflation. Fortunately, many Internal Revenue Code income tax provisions have cost-of-living adjustments. Because of the inflation spike in 2022, many adjustments will have significant increases in calendar year 2023.

Among these are:

1. **37% Bracket:**

The top income tax bracket of 37% is increased as follows:

- **Married Filing Jointly** from $647,850 to $693,750
- **Married Filing Separate** from $323,925 to $346,875
- **Head of Household** from $539,900 to $578,100
- **Unmarried Individuals** from $539,900 to $578,125
- **Estates and Trusts** from $13,450 to $14,450

2. **Capital Gains Rate:**

(a) 0% Rate:

- **Married Filing Jointly** from $83,350 to $89,250
- **Married Filing Separate** from $41,625 to $44,625
- **Head of Household** from $55,800 to $59,750
- **Unmarried Individuals** from $41,675 to $44,625
- **Estates and Trusts** from $2,800 to $3,000

(b) 15% Rate:

- **Married Filing Jointly** from $517,200 to $553,850
- **Married Filing Separate** from $258,600 to $276,900
- **Head of Household** from $488,500 to $492,300
- **Unmarried Individuals** from $459,700 to $492,300

- **Estates and Trusts** from $13,700 to $14,650

3. **Standard Deduction:**

- **Married Filing Jointly** from $25,900 to $27,700
- **Qualifying Widow or Widower** from 25,900 to $27,700
- **Married Filing Separate** from $12,950 to $13,850
- **Head of Household** from $19,400 to $20,800
- **Unmarried Individuals** from $12,950 to $13,850

4. **Gift Tax Annual Exclusion:** From $16,000 to $17,000

5. **Unified Credit, Basic Exclusion Amount:** $12,060,000 to $12,920,000

Some Observations:

1. During the year, you should have your tax preparer provide you with tax estimates from actual events that you have during the year by preparing pro-forma statements. Trying to "eyeball" estimates is usually a mistake, because of considerations such as the Alternative Minimum Tax.

2. For taxpayers who have exhausted their Basic Exclusion Amount, the increase of $860,000 per individual, $1,720,000 for married persons, increases the opportunity to make gifts in 2023.

3. When making gifts during 2023, the following are some of the considerations:
   (a) How much the taxpayer's Basic Exclusion Amount remains before the gift.
   (b) Should you retain the property until you die so that your legatees receive a step-up in basis.
   (c) By gifting assets that may significantly appreciate, you avoid increasing the dollar value of your estate (and potentially estate tax) by the appreciation. For example, if you invested $100,000 in a start-up that appreciates to $5 million, by gifting the start-up stock or membership interest when it is worth $100,000, you avoid $4.9 million of appreciation in your estate. Of course, if you are not near exhausting your Basic Exclusion Amount, it may be better to retain the interest because you will receive a step-up in basis when you die. Factors such as age, health, etc. enter what gifts to make.