

The Silver Lining of Inflation

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There are 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.