

IRS Releases Annual Inflation Adjustments for Tax Year 2023

The Internal Revenue Service recently released annual inflation adjustments for 2023. They include increased gift, estate, and generation-skipping transfer (“GST”) tax exemptions and annual gift tax exclusions, increased retirement account limits, and new income tax brackets. Here are the key figures:

- The lifetime gift, estate, and GST tax exemptions will increase to \$12.92 million for an individual, a significant increase from \$12.06 million currently. This means that a married couple will have \$25.84 million of available exemption, up from \$24.12 million in 2022. High net worth clients who have already used up their entire exemptions may wish to consider making additional gifts up to \$860,000 (\$1,720,000 for a married couple) in 2023 to lock-in the inflation-adjusted amount.
- The annual gift tax exclusion has increased from \$16,000 to \$17,000. As a result, starting in 2023 individuals will be able to give \$17,000 per year per recipient (\$34,000 for a married couple) to any number of recipients, completely free of gift or estate taxes.
- The annual gift tax exclusion for gifts to non-US citizen spouses has increased from \$164,000 to \$175,000. This provision applies only to couples where one of the spouses makes a gift to the other, and the recipient is not a US citizen. By contrast, gifts made directly from one spouse to a US citizen spouse are not taxable at any amount.
- The top individual tax rate for ordinary income (37%) will apply on 2023 income over \$578,125 for individuals, \$693,750 for married couples filing jointly, and \$14,450 for trusts and estates. In 2022, these thresholds were as follows: \$539,900 for individuals, \$647,850 for married couples filing jointly, and \$13,450 for trusts and estates.
- The maximum annual contribution to 401(k) (and similar) plans will be \$22,500, up from \$20,500 in 2022. The separate limit for IRA contributions will increase to \$6,500, up from \$6,000 in 2022.

We will continue to monitor any further developments, and we invite you to reach out to any member of your Choate team for guidance.

Please contact a member of Choate's Wealth Management Group if you are interested in exploring any of these opportunities further.

Wealth Management Group Team

Jessica L. Lambert

Co-Chair – Wealth Management Group
617-248-5223 | jlambert@choate.com

Kristin T. Abati

Partner
617-248-5266 | kabati@choate.com

A. Silvana Giner

Partner
617-248-5216 | nginer@choate.com

William A. Lowell

Senior Counsel
617-248-4085 | wlowell@choate.com

Andree M. Saulnier

Of Counsel
617-248-5055 | asaulnier@choate.com

Brian W. Monnich

Co-Chair – Wealth Management Group
617-248-5218 | bmonnich@choate.com

Charles A. Cheever

Co-Managing Partner
617-248-4027 | ccheever@choate.com

Renat V. Lumpau

Partner
617-248-4040 | rlumpau@choate.com

Courtney N. Carr

Principal
617-248-5225 | ccarr@choate.com