

# IRS Releases Annual Inflation Adjustments for Tax Year 2022

The Internal Revenue Service recently released annual inflation adjustments for 2022. 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 \$12.06 million for an individual, up from \$11.7 million currently. This means that a married couple will have \$24.12 million of available exemption, up from \$23.4 million in 2021. High net worth clients who have already used up their entire exemptions may wish to consider making additional gifts up to \$360,000 (\$720,000 for a married couple) in 2022 to lock in the inflation-adjusted amount.
- The annual gift tax exclusion has increased from \$15,000 to \$16,000. As a result, starting in 2022 individuals will be able to give \$16,000 per year (\$32,000 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 \$159,000 to \$164,000. This provision applies only to couples where one of the spouses is not a US citizen, as gifts made directly to US citizen spouses are not taxable at any amount.
- The top individual tax rate for ordinary income (37%) will apply on 2022 income over \$539,900 for individuals, \$647,850 for married couples filing jointly, and \$13,450 for trusts and estates. In 2021, these thresholds were as follows: \$523,600 for individuals, \$628,300 for married couples filing jointly, and \$13,050 for trusts and estates.
- The maximum annual contribution to 401(k) (and similar) plans will be \$20,500, up from \$19,500 in 2021. The separate limit for IRA contributions will stay at \$6,000.

**It is important to note that these inflation adjustments do not reflect any changes in the tax laws that could be enacted as part of the proposed Democratic tax reform, such as the proposed 5% or 8% surtax on high-earning taxpayers.**

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

If you have questions regarding these developments, please contact a member of the Family Office Services team.

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