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IRS Releases Annual Inflation Adjustments for Tax Year 2025

The Internal Revenue Service (IRS) has released annual inflation adjustments for 2025. They include increased gift, estate, and generation-skipping transfer (GST) tax exemptions and annual gift tax exclusions, and new income tax brackets.

Here are the key figures:

- The lifetime gift, estate, and GST tax exemptions will increase to $13.99 million for an individual, a significant increase from $13.61 million currently. This means that a married couple will have $27.98 million of available exemption, up from $27.22 million in 2024. High net worth clients who have already used up their entire exemptions may wish to consider making additional gifts up to $380,000 ($760,000 for a married couple) in 2025 to lock-in the inflation-adjusted amount.
- The annual gift tax exclusion has increased from $18,000 to $19,000. As a result, starting in 2025 individuals will be able to give $19,000 per year per recipient ($38,000 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 $185,000 to $190,000. 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 2025 income over $626,350 for individuals, $751,600 for married couples filing jointly, and $15,650 for trusts and estates. In 2024, these thresholds were as follows: $609,350 for individuals, $731,200 for married couples filing jointly, and $15,200 for trusts and estates.

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

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