

2023 COL ADJUSTMENTS

► HOW WILL THEY AFFECT YOUR TAX SITUATION?

The 2023 cost-of-living adjustments from the IRS are here, and they affect everything from your tax bracket to your eligibility for certain tax credits to how much you can put into tax-advantaged retirement plans. Many of the amounts (though not all) have increased to account for inflation. Be sure to take these 2023 adjustments into account in your 2023 tax planning.

Bear in mind that, under the Tax Cuts and Jobs Act (TCJA), annual inflation adjustments are now calculated using the chained consumer price index (also known as the C-CPI-U). This change increases tax bracket thresholds, the standard deduction, certain exemptions, and other figures at a slower rate than with the consumer price index previously used, potentially pushing taxpayers into higher tax brackets and making various breaks worth less over time. The law adopts the C-CPI-U on a permanent basis.

Impact on Individual Income Tax Brackets

Tax-bracket thresholds increase for each filing status, but because they're based on percentages, they increase more significantly for the higher brackets. For example, the top of the 12% bracket increases by \$1,450 for married filing jointly, but the top of the 35% bracket increases by \$45,900 for joint filers.

2023 Ordinary-Income Tax Brackets

TAX RATE	SINGLE	HEAD OF HOUSEHOLD	MARRIED FILING JOINTLY OR QUALIFYING WIDOWER	MARRIED FILING SEPARATELY
10%	\$0 - \$11,000	\$0 - \$15,700	\$0 - \$22,000	\$0 - \$11,000
12%	\$11,001-\$44,725	\$15,701-\$59,850	\$22,001-\$89,450	\$11,001-\$44,725
22%	\$44,726-\$95,375	\$59,851-\$95,350	\$89,451-\$190,750	\$44,726-\$95,375
24%	\$95,376-\$182,100	\$95,351-\$182,100	\$190,751-\$364,200	\$95,375-\$182,100
32%	\$182,101-\$231,250	\$182,101-\$231,250	\$364,201-\$462,500	\$182,101-\$231,250
35%	\$231,251-\$578,125	\$231,251-\$578,100	\$462,501-\$693,750	\$231,251-\$346,875
37%	Over \$578,125	Over \$578,100	Over \$693,750	Over \$346,875

Now, thanks to the TCJA, personal exemptions are suspended through 2025. Increases to the standard deduction help some taxpayers make up for the loss of personal exemptions, although it might not be as beneficial to taxpayers who usually itemize deductions.

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For 2023, the standard deduction is \$27,700 (married couples filing jointly), \$20,800 (heads of households), and \$13,850 (singles and married couples filing separately). After 2025, standard deduction amounts are scheduled to drop back to the amounts under pre-TCJA law.

How Is the Alternative Minimum Tax (AMT) Affected?

The alternative minimum tax (AMT) is a separate tax system that limits some deductions, bans others, and treats certain income items differently. Taxpayers whose AMT liability exceeds normal tax liability must pay the AMT.

Like the regular tax brackets, the AMT brackets are annually indexed for inflation.

2023 AMT Brackets

TAX RATE	SINGLE	HEAD OF HOUSEHOLD	MARRIED FILING JOINTLY OR QUALIFYING WIDOWER	MARRIED FILING SEPARATELY
26%	\$0 - \$220,700	\$0 - \$220,700	\$0 - \$220,700	\$0 - \$110,350
28%	\$0 - \$220,700	\$0 - \$220,700	\$0 - \$220,700	Over \$110,350

Both the AMT exemptions and exemption phaseouts are also indexed. The 2023 exemption amounts are \$81,300 for singles and heads of households and \$126,500 for joint filers.

Education and Child-Related Tax Breaks

For the most part, the cost-of-living adjustments did little to affect the maximum benefits of various education- and child-related breaks. Most of these breaks are limited based on a taxpayer's modified adjusted gross income (MAGI). Taxpayers whose MAGIs are within the applicable phaseout range are eligible for a partial break — and breaks are eliminated for those whose MAGIs exceed the top of the range.

The MAGI phaseout ranges for eligible taxpayers adopting a child increase by \$15,820 to \$239,230-\$279,230 for joint, head-of-household and single filers. The adoption credit increases by \$1,060 to a maximum \$15,950.

The MAGI phaseout ranges for the Lifetime Learning credit and other education-related tax breaks generally remain the same or increase modestly for 2023. For example, the MAGI phaseout range for the Lifetime Learning credit (maximum \$2,000 per tax return) remains \$160,000 for joint filers and \$80,000 for other filers.

Reminder: If your MAGI is too high for you to qualify for a break for your child's education, your child might be eligible to claim one on his or her tax return.

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Will Gift and Estate Taxes Change?

The basic exclusion amount for an estate of a person who dies in 2023 has increased to \$12.92 million (up from \$12.06 million for 2022).

The annual gift tax exclusion will jump \$1,000 to \$17,000 in 2023. Since it is only adjusted in \$1,000 increments, it typically will only increase every few years.

Understanding Changes for Retirement Plans

Not all the limits related to retirement plans increase for 2023, so you may have limited opportunities to increase your retirement savings if you've already been contributing the maximum amount allowed.

TYPE OF LIMITATION	2022 LIMIT	2023 LIMIT
Elective deferrals to 401(k), 403(b), 457(b)(2), and 457(c)(1) plans	\$20,500	\$22,500
Annual benefit for defined benefit plans	\$245,000	\$265,000
Contributions to defined contribution plans	\$61,000	\$66,000
Contributions to SIMPLEs	\$14,000	\$15,500
Contributions to IRAs	\$6,000	\$6,500
"Catch-up" contributions to 401(k), 403(b), 457(b)(2), and 457(c)(1) plans for those age 50 and older	\$6,500	\$7,500
Catch-up contributions to SIMPLEs	\$3,000	\$3,500
Catch-up contributions to IRAs	\$1,000	\$1,000
Compensation for benefit purposes for qualified plans and SEPs	\$305,000	\$330,000
Minimum compensation for SEP coverage	\$650	\$650
Highly compensated employee threshold	\$135,000	\$150,000

Depending on your MAGI, your ability to take advantage of IRAs may be reduced or even eliminated. Fortunately, 2023 brings an increase to IRA-related MAGI phaseout range limits:

- **Traditional IRAs:** If a taxpayer (or his or her spouse) chooses to participate in an employer-sponsored retirement plan, MAGI phaseout ranges will apply to the deductibility of contributions as follows.

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For taxpayers who are married and filing jointly, the phaseout range is specific to each spouse and will take into account whether he or she is a participant in an employer-sponsored plan:

- ▶ For a spouse who participates, the 2023 phaseout range limits increase by \$7,000, to \$116,000-\$136,000.
- ▶ For a spouse who doesn't participate, the 2023 phaseout range limits increase by \$14,000, to \$218,000-\$228,000.
- ▶ For both single and head-of-household taxpayers who participate in an employer-sponsored plan, the 2023 phaseout range limits increase by \$5,000, to \$73,000-\$83,000.

Taxpayers with MAGIs within the applicable range can deduct a partial contribution; those with MAGIs exceeding the applicable range can't deduct any IRA contribution.

But a taxpayer whose deduction is reduced or eliminated can make nondeductible traditional IRA contributions. The \$6,500 contribution limit (plus \$1,000 catch-up if applicable and reduced by any Roth IRA contributions) still applies. If your MAGI is too high for you to make any sort of contribution (or to fully contribute) to a Roth IRA, contributions to a nondeductible traditional IRA may be advantageous.

— **Roth IRAs:** Whether you participate in an employer-sponsored plan doesn't affect your ability to contribute to a Roth IRA, but MAGI limits may reduce or eliminate your ability to contribute:

- ▶ For married taxpayers filing jointly, the phaseout range limits increase by \$14,000 for 2023, to \$218,000-\$228,000.
- ▶ For single and head-of-household taxpayers, the phaseout range limits increase by \$9,000 for 2023, to \$138,000-\$153,000.

If your MAGI falls within the applicable range, you can make a partial contribution. But be aware, should your MAGI exceed the top of the range, you will not be permitted to make a contribution. Keep in mind that if you are a married taxpayer filing separately, you are subject to much lower phaseout ranges for both traditional and Roth IRAs.

Planning for Impact

It's crucial to understand the effect that cost-of-living adjustments may have on your tax and financial situations. [A CRI advisor](#) is ready to help you understand the numbers and assist in developing a tax-saving strategy tailored to your unique situation.