



First Quarter 2023

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## Inflation Brings IRS Changes to Tax Brackets and Much More

Effective 2023, the IRS has made automatic inflation adjustments to key tax code parameters in accordance with formulas set by Congress to prevent inflation from increasing taxes. While automatic inflation adjustments are set annually, the 2023 adjustments are the largest adjustments to take effect since many tax rates were originally indexed to inflation in 1985.

The adjustments apply to more than 60 tax provisions for tax year 2023. Changes are based on 6 - 7% inflation, depending upon the formula set by legislation. For the IRS' take on the changes, view Revenue Procedure 2022-38.

While many changes (such as higher income levels for various individual tax rate brackets and thresholds and capital gains tax adjustments) will not impact individuals until they file their 2023 tax returns, there are some important changes you can take advantage of now:

- Retirement account contribution limits have increased, as well as income levels for eligibility and deductibility – see page 3 for contribution changes.
- Individuals can make gifts up to \$17,000 in 2023 (up from \$16,000 for 2022) without incurring gift tax consequences or utilizing their lifetime gift tax exemption. There's no limit to the number of people to which you can make annual gifts.
- The federal estate tax exemption increases to \$12,920,000 in 2023, up from \$12,060,000 for 2022. This also increases the lifetime gift tax exemption.
- Contribution limits for Health Savings Accounts (HSAs) increase to self-only coverage \$3,850, and Family Coverage \$7,750.
- Annual deductibles and maximum out-of-pocket expenses increase for Medical Savings Accounts.
- There are even increases in monthly limitations for the qualified transportation fringe benefit and qualified parking.

*The preceding information should not be taken as individual tax planning advice. The rules for your personal situation may vary, as tax laws are highly situation-specific. Given the scope and impact of the changes, consult your accountant or financial advisor before making any plans.*

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