

## IRS Raises 2023 Tax Brackets due to Inflation

The Internal Revenue Service (IRS) controls the adjustments of tax brackets and standard deductions, and annually makes tax code adjustments based on the cost of living factors, congressional demands, and inflation. The adjustment for 2023, due to 40-year highs in inflation (with inflation currently sitting at 8.2%), was abnormally high.

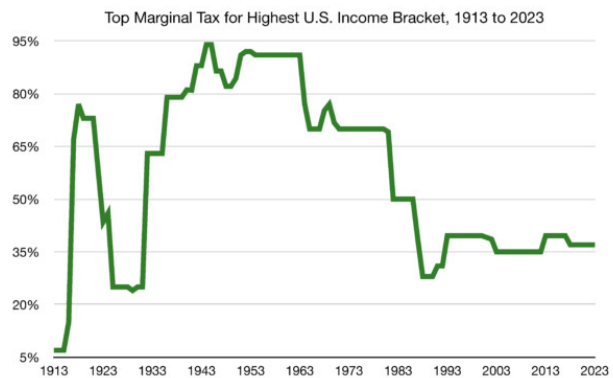
Thresholds for each tax bracket for the marginal tax rate will go up 7%, and the standard deduction will rise accordingly as well. Thus, marginal taxes will remain the same but will apply to incomes 7% higher rather than their current status in 2022. For example, the top marginal tax rate of 37% previously applied for individual income above \$539,900, yet in 2023 will apply to income above \$578,125. Individuals making under \$578,125 in 2023 will now not need to pay the top marginal tax rate, despite previously needing to in 2022. These rises in thresholds apply to all other income tax brackets, with all brackets rising by 7%. The reasoning behind this is to reduce the effects of high inflation and to save all tax-paying citizens money to some degree.

In addition to these changes making it so individuals can earn more money and still be taxed at a lower rate by the federal government, current taxes are much lower than historical averages. The top income tax rate, currently at 37%, is 20% lower than the average top income tax since its introduction in 1913. The top income bracket tax rate reached as high as 94% in the 1940s and its 100-year average is about 57%.

Also rising by 7% is the standard deduction, which now stands at \$27,700 for married couples and \$13,850 for individuals, thus allowing taxpayers to shield more of their income from taxes. The annual gift tax exclusion, which an individual can give as a gift to another individual without affecting the aforementioned lifetime limit, will increase by \$1,000 to reach \$17,000 in 2023.

These increases will all save taxpayers a significant amount of money that would previously go towards taxes. These changes all apply for 2023, and thus taxpayers will see them when filing taxes in early 2024.

Sources: Internal Revenue Service, Wall Street Journal, Tax Policy Center, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis.



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