

Looking Ahead to 2023

TRUSTS & ESTATES | TAX

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November 1, 2022

As the end of the year draws near, we also have our eye on certain adjusted numbers for the coming year. The IRS has increased (Revenue Procedure 2022-38) the estate tax basic exclusion and gift tax annual exclusion, as well as the income tax marginal brackets, standard deduction, and Alternative Minimum Tax (AMT) exemption for 2023. These changes generally apply to tax returns filed in 2024.

Increases for 2023

Estate and Gift

The basic exclusion for determining the amount of the unified credit against estate tax under IRC Section 2010 will be \$12,920,000 for decedents who die in 2023, an \$860,000 increase from 2022.

The annual gift tax exclusion increases to \$17,000 for 2023, up \$1,000. Also for the calendar year 2023, the first \$175,000 of gifts to a spouse who is not a US citizen (other than gifts of future interests in property) will not be included in the annual total of taxable gifts under IRC Sections 2503 and 2523(i)(2).

Income

The marginal income tax brackets have increased by approximately 7% for each type of taxpayer. The standard deduction for couples filing jointly will be \$27,700, up \$1,800; for single taxpayers, the 2023 standard deduction is \$13,850, up \$900; and heads of household may claim a \$20,800 standard deduction, \$1,400 more than for 2022. The AMT exemption for 2023 is \$81,300 and begins phasing out at \$578,150 (\$126,500 for married couples filing jointly, phasing out beginning at \$1,156,300). For 2022, the AMT exemption was \$75,900, phasing out beginning at \$539,900 (\$118,100 for married couples filing jointly, phasing out beginning at \$1,079,800). The foreign earned income exclusion for 2023 is \$120,000, up \$8,000 from 2022.

Implications

The increase in the gift annual exclusion and the basic exclusion will allow taxpayers to give more of their estates away without incurring a gift tax, thereby ultimately reducing any estate tax that may be due at death. For planning purposes, the increase in

the basic exclusion over last year amounts to \$860,000 and allows for additional estate planning possibilities. The increase of the annual exclusion combined five-year prepay would allow a taxpayer to contribute \$85,000 to an IRC 529 plan. A married couple could contribute \$170,000.

The increase in the income tax marginal brackets, standard deductions, and AMT exemption will mean more money in taxpayers' paychecks but they will still need to wait until 2023 for that extra money.

For more information or assistance, please contact:

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