

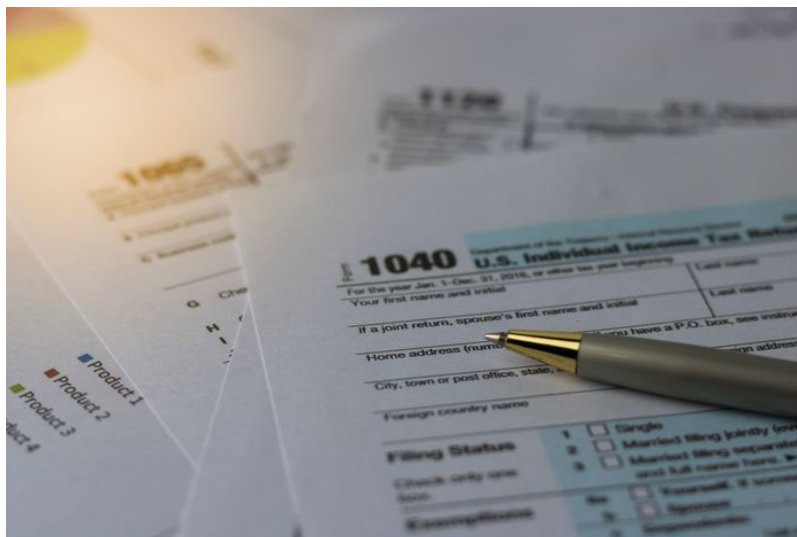
PERSONAL FINANCE | TAXES

Inflation Causes IRS to Raise Tax Brackets, Standard Deduction by 5.4%

Adjustments for key numbers for income, gift and estate taxes give taxpayers some planning opportunities

By [Ashlea Ebeling](#) [Follow](#)

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Your tax bill may be slightly lower next year due to inflation adjustments. PHOTO: ISTOCK

Here's an upside to persistent inflation: More of your income will be taxed at lower rates next year.

The Internal Revenue Service announced its annual inflation adjustments to federal income-tax brackets for 2024 Thursday, an increase that slightly outpaces the current inflation rate. This means some Americans will pay less in taxes, said Jim Young, an accounting professor at Northern Illinois University.

The adjustments, based on formulas set out in the tax code, are meant to keep inflation from hiking taxes. "It's kind of like a high tide lifts all boats," said Chris Oliva, a certified public accountant at UHY Advisors in New York City.

The standard deduction and the thresholds for each tax bracket are up 5.4%, the second largest adjustment in the last three decades after last year's 7.1% hike.

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The new tax brackets

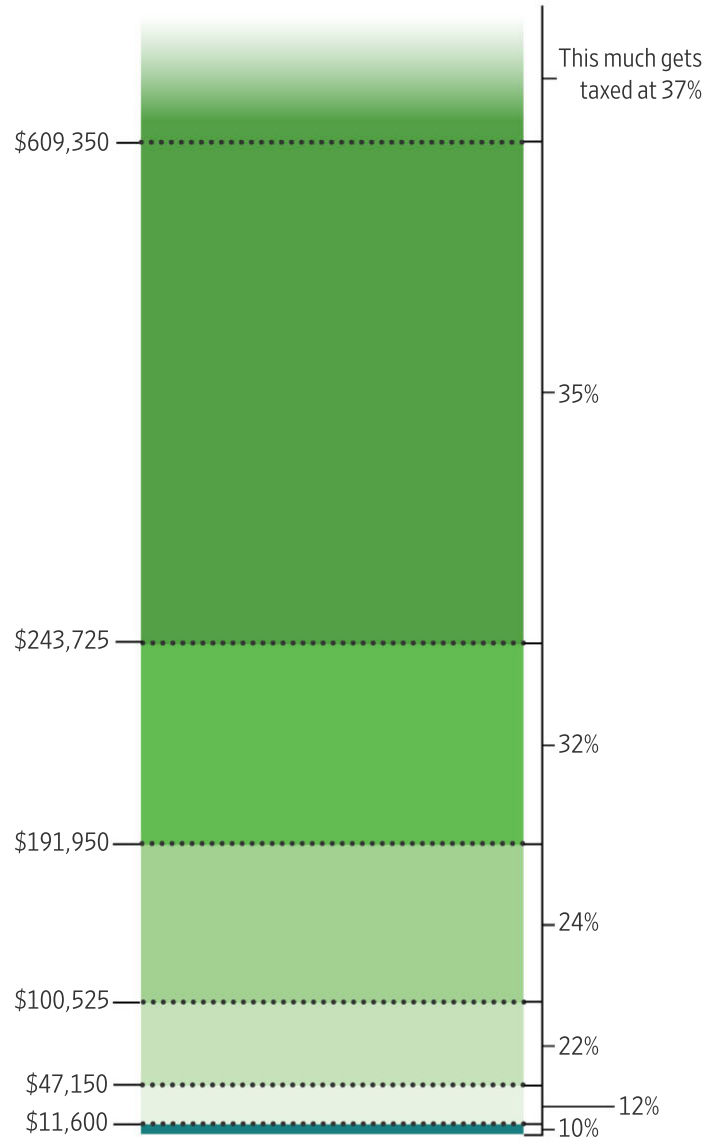
The threshold for the top federal income-tax bracket in 2024 will climb by nearly \$40,000 next year for a married couple. The 37% income-tax rate will apply to income above \$731,200. For individuals, that top tax bracket will start at \$609,350.

Your effective tax rate will be lower than your top rate. That is because the first slice of income is taxed at 10%, the next slice at 12%, and so on. Your effective tax rate is essentially a blended rate.

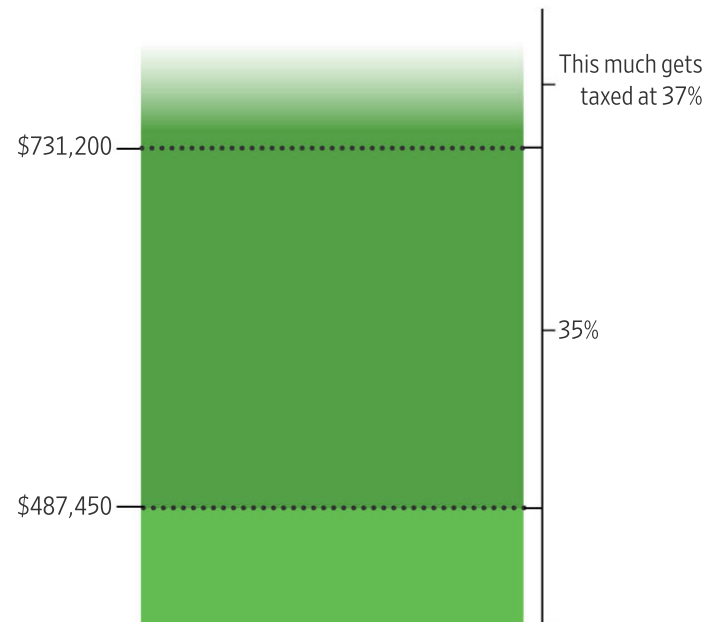
“Most people in their heads say, ‘I’m in the 24% bracket and that’s my tax rate.’ But when you’re in the 24% bracket, you’re not paying 24% on all of your income,” said Kelly Gillette, a CPA and tax partner at Armanino in Dallas.

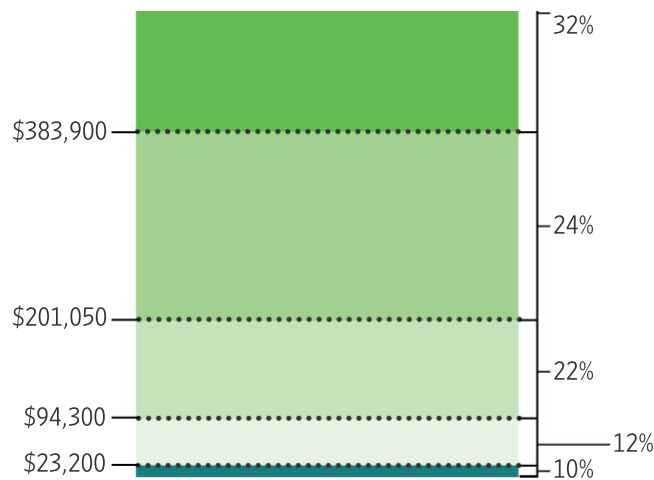
Knowing the brackets and your marginal tax rate can help with year-end planning. A married couple with \$300,000 of income, taking the standard deduction, would have a marginal tax rate of 24%. They would have more than \$100,000 left in that bracket before they jump to the 32% rate. So they might consider converting part of a traditional individual retirement account into a Roth IRA if they have little or no investment income, Gillette said, securing that 24% rate for the conversion.

Single



Married filing jointly





Source: Internal Revenue Service

Not all tax rates get inflation adjustments. The 3.8% tax on investments and wages that kicks in when income reaches \$200,000 for individuals and \$250,000 for married couples isn't adjusted for inflation, for example, so more taxpayers will be hit with that tax. Interest income being higher than it has been in a long time could lead to bigger tax bills for some taxpayers, Oliva said.

The \$10,000 cap for deducting state and local taxes, known as the SALT break, and the \$3,000 limit on capital losses that can be deducted from income are other individual items that aren't indexed for inflation.

Standard deduction

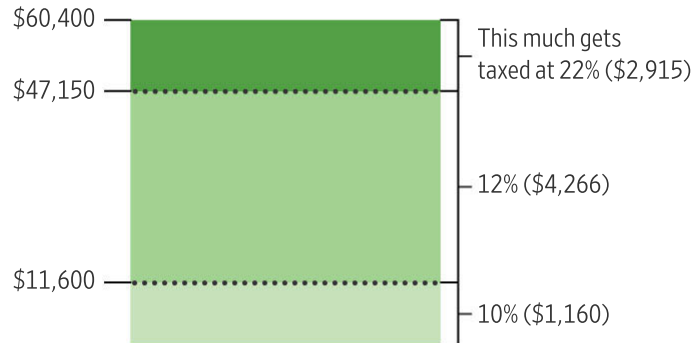
The standard deduction rises to \$14,600 for individuals in tax year 2024, up from \$13,850 for this year. For married couples, it is \$29,200 for 2024, up from \$27,700. The majority of filers save money by taking the standard deduction instead of itemizing deductions, including deductions for charitable donations and medical expenses.

Capital gains zero-percent rate

The income thresholds for paying capital-gains tax at various rates are also indexed for inflation. Some taxpayers might want to sell appreciated stock when they can snag a 0% capital-gains tax rate, said Gillette. For 2024, the 0% rate applies to single filers with taxable incomes up to \$47,025 and joint-filing couples with incomes up to \$94,050.

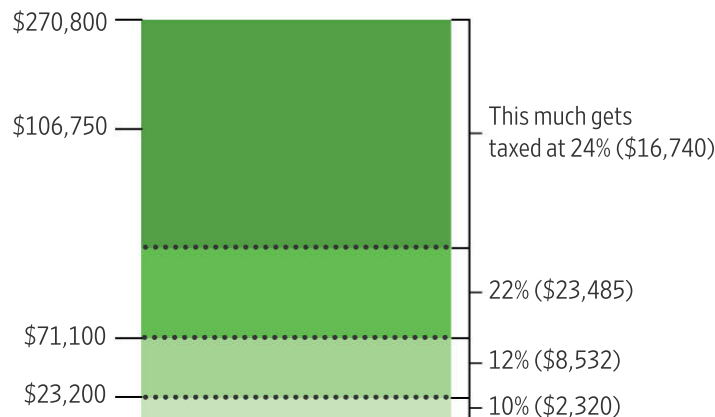
How the new federal income-tax brackets work Single (Tax Year 2024)

Adjusted gross income: \$75,000
Standard deduction: \$14,600
Taxable income: \$60,400
Marginal tax rate: 22%
Avg. (effective) tax rate: 13.81%
Total tax: \$8,341



Married filing jointly (tax year 2024)

Adjusted gross income: \$300,000
Standard deduction: \$29,200
Taxable income: \$270,800
Marginal tax rate: 24%
Avg. (effective) tax rate: 18.86%
Total tax: \$51,077



Source: Professor Jim Young/Northern Illinois University

Estate and gift-tax thresholds

The federal estate-tax exclusion amount, how much an individual can shelter from estate taxes, is \$13.61 million for 2024, up from \$12.92 million this year. Individuals can make lifetime gifts, outright or in irrevocable trusts, up to that

amount without incurring federal estate or gift tax. The giver owes tax only if the amount goes over the threshold.

A separate annual limit on tax-free gifts is \$18,000 for 2024, up from \$17,000 this year. These gifts don't count toward the lifetime maximum, and neither the gift giver nor receiver is taxed.

Wealthy individuals typically make annual gifts, and many are considering large gifts because the estate-tax exemption is set to drop to about \$7 million when the Trump tax cuts expire at year-end 2025, said Pam Lucina, chief fiduciary officer of Northern Trust.

“Some clients want to see what the political winds are before they pull the trigger,” she said. In any case, it is crucial to do financial modeling to make sure you can afford to make gifts, and pay any taxes due.

401(k) and IRA contribution limits

Inflation adjustments apply to retirement account limits, too, and the IRS announced those last week.

The 2024 contribution limit for 401(k)s and similar workplace plans is \$23,000, up \$500 from this year (plus \$7,500 for those 50 and older). The contribution limit for individual retirement accounts for 2024 is \$7,000, up from \$6,500 this year (plus \$1,000 for those 50 and older).

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