

Thanks, Inflation! Cashing in on Inflation-Driven Tax Breaks

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But inflation isn't all bad. If you own a home, for example, inflation will eventually increase its value (in most cases). And if you have a mortgage on that home, you'll be paying it off with dollars that aren't worth nearly as much as the dollars you borrowed.

In addition, inflation can save you money on taxes. "How so?" you ask. In this SWC singlette, we reveal several ways where inflation has recently resulted in lowering taxes (for some people).

Inflation-Driven Tax-Relief Baked into the Tax Code

Most people assume that inflation will increase their tax burden. Since income taxes are based on income, and if your income increases, you'll pay more in taxes, right? You might

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even suffer a double whammy, paying more tax on higher income and getting boosted into a higher tax bracket.

While that's true to some extent, the tax code has some protections built in that prevent rising prices from automatically triggering higher taxes. In fact, the Internal Revenue Service (IRS) recently announced that thanks to inflation, taxpayers can expect the following relief in 2023 (*the following generally applies to tax returns filed in 2024*):

- **Income thresholds** will be increasing 7 percent for all tax brackets. For example, instead of paying the lowest tax rate of 10 percent tax on the first \$10,275 you earn, you'll pay 10 percent on the first \$11,000 you earn. If you're married filing jointly, instead of paying 10 percent on the first \$20,250 you earn, you'll pay 10 percent on the first \$22,000 you earn. In other words – assuming you earn the same amount in 2023 as you did in 2022 – you'll actually be paying *less* federal income tax.
- The **standard deduction** is increasing 7 percent from \$12,950 for individual filers in 2022 to \$13,850 in 2023, and from \$25,900 for married couples filing jointly in 2022 to \$27,700 in 2023. This represents the largest adjustment to deductions since 1985, when the IRS began annual automatic inflationary adjustments. You'll start to see the new figures reflected in your income tax withholding statements on paychecks beginning in January 2023, resulting in an increase in take-home pay.
- The maximum **Earned Income Tax Credit**, one of the federal government's main anti-poverty measures, will increase from \$6,935 in 2022 to \$7,430 in 2023.
- The **annual gift tax exclusion** (the maximum amount one person can give to another without incurring a tax penalty) will increase from \$16,000 in 2022 to \$17,000 in 2023.
- The **estate tax** threshold (often used by wealthy Americans to shield inherited assets from levies) will increase from \$12.1 million in 2022 to \$12.9 million in 2023.
- The amount of income adoptive parents can shield from taxes will increase from \$14,890 per child in 2022 to \$15,950 per child in 2023.

You May Now Qualify for the Premium Tax Credit

Thanks to the soaring costs of “affordable” health insurance premiums, you may now qualify for the Premium Tax Credit where in recent years, you fell short of the cutoff.

Starting next year, if your premium contribution toward your family's health insurance offered through your employer exceeds 9.12 percent of your household income in 2023, you may be eligible to receive a Premium Tax Credit to help cover a portion of the costs.

If you qualify for the Premium Tax Credit, you won't be required to contribute more than 8.5 percent of your household income toward your health insurance. If yours is a low- to moderate-income household, your contribution percentage may be even lower.

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Note that coverage must be obtained through a government exchange, such as the Covered California program. Many of the big health insurance companies offer plans through these government health exchanges, even if you're getting your health insurance through your employer.

It's important for you to know about this change now, since it may influence your choice of healthcare plan during your employer's open enrollment period.

Inflation isn't something to be celebrated, and we don't intend to downplay the negative impact it has on many people – especially low-income families and those living on fixed incomes. However, we do seek to raise awareness about the few aspects of inflation that help alleviate some of the real pain it can cause.

If you're a client of ours with concerns about inflation or taxes or the economy in general, we encourage you to bring up these concerns during our tax-planning sessions. As we review your finances and taxes in the ever-changing landscape of the economy, we can help you identify opportunities unique to your financial situation that address any concerns you may have. If you haven't done so already, we encourage you to [schedule an appointment](#).

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