

IRS Issues Tax Inflation Adjustments for Tax Year 2024

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Nobody likes paying *more* for something, but inflation does have its perks. For instance, you get to pay off debt with inflated dollars. And if you're retired, you get annual cost of living adjustments (COLAs) reflected in your monthly Social Security payments. In addition, the Internal Revenue Service (IRS) helps to soothe the sting by making annual inflation adjustments.



These adjustments include changes to:

- Standard deduction amounts
- Marginal rates
- Personal exemptions
- Flexible Spending Accounts (FSAs)
- Medical Savings Accounts (MSAs)
- And more

The purpose of these adjustments is to help you avoid being pushed into a higher tax bracket or experience a reduction in the value of credits and deductions due to inflation.

Recently, the IRS announced its annual inflation adjustments for more than 60 tax provisions for tax year 2024, including the tax rate schedules and other tax changes. In this SWC singlette, we highlight key changes that are likely to impact most taxpayers. (*For more details, please see the IRS's [Revenue Procedure 2023-34](#).*)

The tax year 2024 adjustments described below generally apply to income tax returns filed in 2025.

Standard Deduction

The standard deduction for tax year 2024 rises to:

- \$29,200 for married couples filing jointly, an increase of \$1,500 from tax year 2023
- \$14,600 for single taxpayers and married individuals filing separately, an increase of \$750 from 2023
- \$21,900 for heads of households, an increase of \$1,100 from the amount for tax year 2023

Marginal Rates

For tax year 2024, marginal rates are as follows:

- 37 percent for individual single taxpayers with incomes greater than \$609,350 (\$731,200 for married couples filing jointly)
- 35 percent for incomes over \$243,725 (\$487,450 for married couples filing jointly)
- 32 percent for incomes over \$191,950 (\$383,900 for married couples filing jointly)
- 24 percent for incomes over \$100,525 (\$201,050 for married couples filing jointly)
- 22 percent for incomes over \$47,150 (\$94,300 for married couples filing jointly)
- 12 percent for incomes over \$11,600 (\$23,200 for married couples filing jointly)
- 10 percent for incomes of \$11,600 or less (\$23,200 or less for married couples filing jointly)

Alternative Minimum Tax (AMT)

The exemption amount for the Alternative Minimum Tax in the 2024 tax year is \$85,700. The phase-out starts at \$609,350 (or \$133,300 for married couples filing jointly, where the phase-out begins at \$1,218,700). To provide a point of reference, the exemption amount for the year 2023 was \$81,300 and initiated the phase-out process at \$578,150 (or \$126,500 for married couples filing jointly, with the exemption beginning to phase out at \$1,156,300).

Earned Income Tax Credit

The tax year 2024 maximum Earned Income Tax Credit amount is \$7,830 for qualifying taxpayers who have three or more qualifying children, an increase of \$400 from tax year 2023. The maximum credit for two qualifying children is \$6,960, the maximum for one qualifying child is \$4,213, and the maximum for no qualifying children is \$632.

Qualified Transportation Fringe Benefit

For the 2024 tax year, the monthly cap for the qualified transportation fringe benefit and the monthly limit for qualified parking rises to \$315, marking a \$15 increase from the 2023 limit.

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Flexible Spending Accounts (FSAs)

Flexible Spending Accounts (FSAs) — a savings account that you may be able to set up through your employer — are also being updated for the 2024 tax year. The dollar cap for employee salary reductions for contributions to health flexible spending arrangements (FSAs) rises to \$3,200. For cafeteria plans that allow the carryover of unused amounts, the maximum carryover amount in 2024 will be \$640, reflecting a \$30 increase from taxable years that began in 2023.

Medical Savings Accounts (MSAs)

Unfamiliar with MSAs? In simple terms, a Medical Savings Account is a special savings account that you can use to set aside money for personal medical expenses. Sometimes paired with a high-deductible health insurance plan, the money you put into an MSA is not taxed, and you can use those funds to pay for qualified medical costs, such as doctor visits or prescription medications.

For 2024, the following changes apply to MSAs:

- **Self-only coverage:** For tax year 2024, the plan must have an annual deductible that is not less than \$2,800, an increase of \$150 from tax year 2023, but not more than \$4,150, an increase of \$200 from tax year 2023. The maximum out-of-pocket expense amount is \$5,550, an increase of \$250 from 2023.
- **Family coverage:** For tax year 2024, the annual deductible is not less than \$5,550, an increase of \$200 from tax year 2023; however, the deductible cannot be more than \$8,350, an increase of \$450 versus the limit for tax year 2023. The out-of-pocket expense limit is \$10,200 for tax year 2024, an increase of \$550 from tax year 2023.

Foreign Earned Income Exclusion

For tax year 2024, the foreign earned income exclusion is \$126,500, increased from \$120,000 for tax year 2023.

Unified Credit Against Estate Tax

The estate of anyone who dies during 2024 has a basic exclusion amount of \$13,610,000, increased from \$12,920,000 for the estate of a person who died in 2023.

Annual Exclusion for Gifts

In the calendar year 2024, the annual exclusion for gifts rises to \$18,000, up from \$17,000 in the calendar year 2023.

Adoption Tax Credit

The maximum credit allowed for adoptions for tax year 2024 is the amount of qualified adoption expenses up to \$16,810, increased from \$15,950 for 2023.

Items Not Affected by Indexing for Inflation

By federal statute, certain items that the IRS previously indexed for inflation are no longer being adjusted, including these:

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- The personal exemption for the tax year 2024 stays at 0, consistent with the status in 2023. The removal of the personal exemption was a provision outlined in the Tax Cuts and Jobs Act.
- For 2024, as in 2018–2023, there is no limitation on itemized deductions, because that limitation was eliminated by the Tax Cuts and Jobs Act.
- The modified adjusted gross income (AGI) amount utilized by taxpayers to calculate the reduction in the Lifetime Learning Credit remains unchanged for taxable years starting after Dec. 31, 2020. The phase-out of the Lifetime Learning Credit applies to taxpayers with modified adjusted gross income surpassing \$80,000 (\$160,000 for joint returns).

Keep in mind that reducing your tax obligation doesn't have to be just about saving money on taxes — it can be, and it should be an integral part of a long-term approach to tax-savings and wealth-building, and we can help. Here at SWC, we work closely with our clients to develop personalized financial strategies that enable them to achieve their dreams and provide for their loved ones over the course of their entire lives and beyond.

If you're still uncertain about how to document your charitable giving, or how to claim your deductions on your personal or corporate tax returns, we can help.

[Contact us to schedule](#) your next (or first) tax-planning and net worth-building consultation.

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Keep in touch.

W. Bernardo Drive, Suite.
San Diego, CA
Phone: (858) | **Fax:** (858)
Website: www.SteesWalker.com
Blog: blog.SteesWalker.com

Laura A. Stees, CPA
Partner & Business Strategist
Laura@steeswalker.com
Marni L. Walker, CPA
Partner
Marni@steeswalker.com