

IRS Announces 2023 Increases to Estate and Gift Tax Exclusions

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The Internal Revenue Service recently announced the 2023 cost of living adjustments for the estate and gift tax exclusion amounts.

Gift Tax Exclusion Amount:

The annual gift tax exclusion is the amount ("Gift Tax Exclusion Amount") an individual may gift to any number of persons without incurring a gift tax or reporting obligation. The Gift Tax Exclusion Amount will increase from \$16,000 to \$17,000 in 2023 (a combined \$34,000 for married couples). The Gift Tax Exclusion Amount renews annually, so an individual who gifted \$16,000 to someone in 2022 may gift \$17,000 to that same person in 2023, without any reporting obligation. However, for any gift above the \$17,000 in 2023, the individual making the gift must report it to the IRS.

Example A: A single person gives her two children \$17,000 each in 2023. Each gift falls within the Gift Tax Exclusion Amount so the gifting individual will not have to pay any gift tax or notify the IRS. A married couple could give \$34,000 to each child, with the same effect.

Example B: Compare a single person who wants to give her only child \$20,000 in 2023. The person who gave the gift must notify the IRS of the \$3,000 gift because it exceeds the \$17,000 Gift Tax Exclusion Amount.

Estate Tax Exclusion Amount:

The estate tax exclusion is the amount ("Estate Tax Exclusion Amount") an individual can transfer estate tax-free upon his or her death. The Estate Tax Exclusion Amount will increase from \$12,060,000 to \$12,920,000 in 2023 (a combined \$25,840,000 for married couples).

Example A: A single person with two children passes away in 2023 owning \$12,920,000 in assets. The deceased person's two children will inherit the full \$12,920,000 as no estate tax is owed.

Example B: A single person with two children passes away in 2023 owning \$20,000,000 in assets. The decedent's estate will owe tax on the assets owned that exceeded the \$12,920,000 Estate Tax Exclusion Amount ($\$20,000,000 - \$12,920,000 = \$7,080,000$). The current estate tax rate is approximately 40% which means the decedent's estate will owe estate taxes in the amount of \$2,832,000 ($\$7,080,000 \times 40\%$).

Please contact a Miller Canfield estate planning attorney to discuss how these increased exclusion amounts will impact your estate plan and family wealth transfer goals.