

# GMS Flash Alert

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## United States – Tax Inflation Adjustments for Tax Year 2023

On October 18, 2022, the U.S. Internal Revenue Service (IRS) released the annual inflation adjustments to be used by individual taxpayers on their 2023 returns (that is, the returns that are generally filed in 2024).<sup>1</sup> Over 60 tax provisions were updated, including tax rates and thresholds applicable to all taxpayers and certain provisions applicable to international assignees and expatriates.

In addition to the release by the IRS, the U.S. Social Security Administration (SSA) announced<sup>2</sup> on October 13, 2022, that the maximum amount of wages subject to Social Security will increase from \$147,000 to \$160,200 in 2023. The 9 percent increase in the Social Security wage base from 2022 to 2023 represents the largest percentage annual increase to the Social Security wage base since 1983.

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### WHY THIS MATTERS

Employers seeking to accurately estimate the tax cost of an assignment from the United States to a foreign location may need to update their tax calculations to account for the increase in the foreign earned income exclusion and housing cost limitations. Additionally, employers may consider updating tax gross-up estimates to account for the updated tax rate brackets.

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### Tax Rates for Individual Taxpayers, Adjusted for Inflation

With the inflation adjustment, Rev. Proc. 2022-38 provides that for tax year 2023:

- The top income tax rate remains 37% for individual single taxpayers with incomes greater than \$578,125, \$693,750 for married couples filing jointly.

- The other income tax rates for single taxpayers will be:
  - 35% for incomes over \$231,250 (\$462,500 for married couples filing jointly)
  - 32% for incomes over \$182,100 (\$364,200 for married couples filing jointly)
  - 24% for incomes over \$95,375 (\$190,750 for married couples filing jointly)
  - 22% for incomes over \$44,725 (\$89,450 for married couples filing jointly)
  - 12% for incomes over \$11,000 (\$22,000 for married couples filing jointly).
- The lowest rate is 10% of incomes for single individuals with incomes of \$11,000 or less (\$22,000 for married couples filing jointly).

## Standard Deduction

The standard deduction amounts for 2023 will be increased, as follows:

- For married couples filing jointly – \$27,700 (an increase of \$1,800 from the prior year);
- For single taxpayers and married individuals filing separately – \$13,850 (an increase of \$900);
- For heads of households – \$20,800 (an increase of \$1,400).

The personal exemption for tax year 2023 remains at \$0 (the personal exemption was suspended for tax years 2018 through 2025 by the U.S. tax law enacted in 2017 (Pub. L. No. 115-97, or the law that is often referred to as the “Tax Cuts and Jobs Act” (TCJA)).

For 2023, as in 2022, 2021, 2020, 2019, and 2018, there is no limitation on itemized deductions, because that limitation was also suspended by the TCJA for years 2018-2025.

## Tax Provisions for International Assignees and Expatriates

- The maximum foreign earned income exclusion is increased to \$120,000 for tax year 2023, up from \$112,000 for tax year 2022.
  - Accordingly, the foreign housing base amount is increased to \$19,200 for tax year 2023 while the maximum foreign housing expense amount is increased to \$36,000 for tax year 2023.
- An expatriate is a “covered expatriate” if the individual’s “average annual net income tax” for the five tax years ending before the expatriation date is more than \$190,000, up from \$178,000 for tax year 2022.
- The statutory exclusion amount for covered expatriates has been increased to \$821,000 for tax year 2023, up from \$767,000 for tax year 2022.

## Estate and Gift Exclusions

- The lifetime exemption amount for transfers during 2023 is \$12,920,000 (up from \$12,060,000 for transfers in 2022).

- The annual exclusion for gifts is \$17,000 for calendar year 2023 (up from \$16,000 for 2022).
- The first \$175,000 of gifts to a spouse who is not a citizen of the United States (other than gifts of future interests in property) are not included in the total amount of taxable gifts made during that year (up from \$164,000 in 2022).

## Medical and Health-Related Amounts

- The dollar limitation for employee salary reductions for contributions to health flexible spending arrangements (FSA) is \$3,050 (an increase of \$200 from 2022). For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$610 (up by \$40 from 2022).
- Concerning medical savings accounts (MSAs), for tax year 2023, participants who have “self-only” coverage in an MSA, the plan must have an annual deductible that is not less than \$2,650 (up by \$200 from tax year 2022), but not more than \$3,950 (up \$250 from 2022).
  - For self-only coverage, the maximum out-of-pocket expense amount is \$5,300 (up by \$350 from 2022);
  - Participants with family coverage for 2023, the annual deductible is not less than \$5,300 (up from \$4,950 for 2022 (however, the deductible cannot be more than \$7,900 (an increase of \$500 over the limit for 2022)));
  - For family coverage, the out-of-pocket expense limit is \$9,650 (up by \$600 from 2022).

## Other Items

- The **alternative minimum tax (AMT) exemption** amount is increased for tax year 2023 to \$81,300 and begins to phase out at \$578,150 – for married couples filing jointly, the AMT exemption amount will be \$126,500 and the exemption begins to phase out at \$1,156,300). For 2022, the AMT exemption amount was \$75,900 and began to phase out at \$539,900 (\$118,100 for married couples filing jointly and began to phase out at \$1,079,800).
- The maximum **earned income tax credit** amount for 2023 is \$7,430 (up from \$6,935 for 2022) for qualifying taxpayers who have three or more qualifying children.
- The **qualified transportation fringe benefit** for tax year 2023 will have a monthly limitation of \$300 for certain commuter transportation, transit passes, and qualified parking (up from \$280 for 2022).
- The modified adjusted gross income amount used by joint filers to determine the reduction in the **Lifetime Learning Credit** is not adjusted for inflation for tax years beginning after December 31, 2020. The Lifetime Learning Credit is phased out for taxpayers with modified adjusted gross income in excess of \$80,000 (\$160,000 for joint returns).
- The maximum **credit allowed for adoptions** is the amount of qualified adoption expenses up to \$15,950 (up from \$14,890 for 2022).

## FOOTNOTES:

1 See: [IRS Rev. Proc. 2022-38](#).

2 See Social Security Administration press release, “[Social Security Announces 8.7 Percent Benefit Increase for 2023](#).”

## Please Consider Participating in the KPMG Global Assignment Policies and Practices (GAPP) Survey

Participation in the [survey](#) allows you to benchmark your organization in relation to other survey participants on numerous aspects of a global mobility program including: assignee selection and assessment, assignment preparation and planning, automation and robotics, talent and performance management, assignment compensation and allowances, administration and outsourcing, immigration compliance, the use of data and analytics, assignment management technology as well as tax reimbursement approaches.

Key highlights of the [2022 KPMG Global Assignment Policies and Practices Survey](#) will be made available later in the year.

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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