



# GMS Flash Alert



2023-212 | November 14, 2023

## United States - Inflation Adjustments for Tax Year 2024

On November 9, 2023, the U.S. Internal Revenue Service (IRS) released the annual inflation adjustments to be used by individual taxpayers on their 2024 returns (that is, the returns that are generally filed in 2025).<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. Also, on November 1, 2023, the IRS released the annual inflation adjustments applicable to 401(k) plans, IRAs, and other retirement savings and pension vehicles.<sup>2</sup>

In addition to the release by the IRS, the U.S. Social Security Administration (SSA) announced<sup>3</sup> on October 12, 2023, that the maximum amount of wages subject to Social Security will increase from \$160,200 to \$168,600 in 2024. This 5.25-percent increase, while significant, is much smaller than the 9-percent increase of the prior year. The press release was accompanied by a fact sheet outlining the inflation adjustments to other key social security thresholds and limitations.<sup>4</sup>

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### WHY THIS MATTERS

Employers seeking to 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. Certain pension and social security limitations may be higher or lower due to assignment-related allowances, and this too may need to be taken into account in tax equalization settlement calculations.

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## Tax Rates for Individual Taxpayers, Adjusted for Inflation

With the inflation adjustment, Rev. Proc. 2023-34 provides that for tax year 2024:

- The top income tax rate remains 37% for individual single taxpayers with incomes greater than \$609,350, \$731,200 for married couples filing jointly.
- The other income tax rates for single taxpayers will be:
  - 35% for incomes over \$243,725 (\$487,450 for married couples filing jointly)
  - 32% for incomes over \$191,950 (\$383,900 for married couples filing jointly)
  - 24% for incomes over \$100,525 (\$201,050 for married couples filing jointly)
  - 22% for incomes over \$47,150 (\$94,300 for married couples filing jointly)
  - 12% for incomes over \$11,600 (\$23,200 for married couples filing jointly).
- The lowest rate is 10% of incomes for single individuals with incomes of \$11,600 or less (\$23,200 for married couples filing jointly).

## Standard Deduction

The standard deduction amounts for 2024 will be increased, as follows:

- For married couples filing jointly – \$29,200 (an increase of \$1,500 from the prior year);
- For single taxpayers and married individuals filing separately – \$14,600 (an increase of \$750);
- For heads of households – \$21,900 (an increase of \$1,100).

The personal exemption for tax year 2024 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 2024, as in 2018 through 2023, 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 \$126,500 for tax year 2024, up from \$120,000 for tax year 2023.
  - Accordingly, the foreign housing base amount is increased to \$20,240 for tax year 2023 while the maximum foreign housing expense amount is increased to \$37,950 for tax year 2024.
- 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 \$201,000, up from \$190,000 for tax year 2023.

- The statutory exclusion amount for covered expatriates has been increased to \$866,000 for tax year 2024, up from \$821,000 for tax year 2023.

## Estate and Gift Exclusions

- The lifetime exemption amount for transfers during 2024 is \$13,610,000 (up from \$12,920,000 for transfers in 2023).
- The annual exclusion for gifts is \$18,000 for calendar year 2024 (up from \$17,000 for 2023).
- The first \$185,000 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 \$175,000 in 2023).

## Medical and Health-Related Amounts

- The dollar limitation for employee salary reductions for contributions to health flexible spending arrangements (FSA) is \$3,200 (an increase of \$150 from 2023). For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$640 (up by \$30 from 2023).
- Concerning medical savings accounts (MSAs), for tax year 2024, participants who have “self-only” coverage in an MSA, the plan must have an annual deductible that is not less than \$2,800 (up by \$150 from tax year 2023), but not more than \$4,150 (up \$200 from 2023).
  - For self-only coverage, the maximum out-of-pocket expense amount is \$5,550 (up by \$250 from 2023);
  - Participants with family coverage for 2024, the annual deductible is not less than \$5,550 (up from \$5,350 for 2023). However, the deductible cannot be more than \$8,350 (an increase of \$450 over the limit for 2023);
  - For family coverage, the out-of-pocket expense limit is \$10,200 (up by \$550 from 2023).

## Other Items

- The **alternative minimum tax (AMT) exemption** amount is increased for tax year 2024 to \$85,700 and begins to phase out at \$609,350 – for married couples filing jointly, the AMT exemption amount will be \$133,300 and the exemption begins to phase out at \$1,218,700. For 2023, the AMT exemption amount was \$81,300 and began to phase out at \$578,150 (\$126,500 for married couples filing jointly and began to phase out at \$1,156,300).
- The maximum **earned income tax credit** amount for 2024 is \$7,830 (up from \$7,430 for 2023) for qualifying taxpayers who have three or more qualifying children.
- The **qualified transportation fringe benefit** for tax year 2024 will have a monthly limitation of \$315 for certain commuter transportation, transit passes, and qualified parking (up from \$300 for 2023).
- The maximum **credit allowed for adoptions** is the amount of qualified adoption expenses up to \$16,810 (up from \$15,950 for 2023).

## Pension Limitations

- The contribution limit for employees who participate in 401(k), 402(b), and most 457 plans, as well as the federal government's Thrift Savings Plan, is increased to \$23,000 (from \$22,500 in 2023). The catch-up contribution limit for employees aged 50 and over remains at \$7,500 for 2024.
- The limit on annual contributions to an IRA increased to \$7,000 (up from \$6,500). The IRA catch-up contribution limit for individuals aged 50 remains at \$1,000 for 2024.
- Taxpayers can make deductible contributions to IRAs if they meet certain conditions. If during the year either the taxpayer or the taxpayer's spouse was covered by a retirement plan at work, the deduction may be phased out, depending on the taxpayer's filing status and adjusted gross income (AGI). (If neither the taxpayer nor the spouse is covered by a retirement plan at work, the phase-outs do not apply.) The phase-out ranges for 2024 for those covered by workplace retirement plans are as follows:
  - For single taxpayers, the phase-out range is increased to between \$77,000 and \$87,000 (from \$73,000 and \$83,000; the ability to make deductible contributions being entirely phased out at the higher amount).
  - For married couples filing jointly, the phase-out range is increased to between \$123,000 and \$143,000 (from \$116,000 and \$136,000).
  - For a person who is not covered by a workplace retirement plan, but whose spouse is covered by such a plan, the phase-out range is increased to between \$230,000 and \$240,000 (from \$218,000 and \$228,000).
  - For a married individual filing a separate return, the phase-out range is not subject to inflation adjustments and remains to \$0 to \$10,000.
- To make contributions to a Roth IRA, a taxpayer's AGI must not exceed a certain level. The phase-out ranges for Roth IRA contributions are:
  - For single taxpayers, between \$146,000 and \$161,000 (up from \$138,000 and \$153,000; the ability to contribute to a Roth IRA being phased out at the higher amount).
  - For married couples filing jointly, \$230,000 and \$240,000 (up from \$218,000 and \$228,000),.
  - For a married individual filing separately, the phase-out range is not subject to inflation adjustments and remains at \$0 to \$10,000).

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## KPMG INSIGHTS

Inflation adjustments are largely routine. Nevertheless, these annual changes may have an impact on the operation of payrolls and shadow payrolls, as well as on taxpayers' ability to make pension contributions, and on the calculation of taxpayers' actual and hypothetical tax liabilities. In light of this, the changes should be communicated to relevant stakeholders as soon as possible, to help ensure that processes and software can be updated in a timely fashion. Pre-departure conversations with assignees should include mention of applicable tax rates, thresholds, exemptions, and allowances and the impact on the assignee.

## KPMG INSIGHTS (cont'd)

Employers and employees concerned about the effect of the above-noted changes and how to budget for and otherwise plan the employee's assignment, should contact their qualified tax professional or a member of KPMG's [Global Mobility Services practice](#) in the United States.

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### FOOTNOTES:

- 1 See: [IRS Information Release IR-2023-208](#) and [IRS Rev. Proc. 2023-34](#).
- 2 See: [IRS Information Release IR-2023-203](#) and [IRS Notice 2023-75](#).
- 3 See Social Security Administration press release, "[Social Security Announces 3.2 Percent Benefit Increase for 2024](#)."
- 4 See Social Security Administration Fact Sheet "[2024 Social Security Changes](#)."

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