Thomson Reuters Projects 2023 Inflation-Adjusted Transfer Tax Limits

On September 13th, 2022, Thomson Reuters released inflation-adjusted tax limits projected for 2023. The income tax brackets, standard deduction amounts, and many other tax items are adjusted annually for cost-of-living increases. These adjustments reflect the average chained Consumer Price Index (CPI) for all-urban customers (C-CPI-U) for the 12-month period ending the previous August 31. Because the Treasury's annual inflation adjustments are based on the August-to-August CPI metric, Thomson Reuters' forecast should closely align with the 2023 limit changes that will be announced by Treasury in an IRS Revenue Ruling later this fall.

Among the many items projected by Thomson Reuters were three of the essential tax figures used in estate planning: the estate, gift, and generation-skipping transfer taxes exemptions.

- **Federal estate and gift tax exclusion amount.** For gifts made and estates of decedents dying in 2023, Thomson Reuters projects the exclusion amount will be **$12,920,000** (an $860,000 increase from the $12,060,000 for gifts made and estates of decedents dying in 2022).

- **Generation-skipping transfer (GST) tax exemption.** The exemption from GST tax will be **$12,920,000** for transfers in 2023 ($12,060,000 for transfers in 2022).

- **Gift tax annual exclusion.** For gifts made in 2023, the gift tax annual exclusion will be **$17,000** (a $1,000 increase from the $16,000 exclusion in 2022).

Significance

Based on these projections, the estate, gift, and generation-skipping transfer tax exemptions could increase by over 7% from 2022, as compared with 3%, 1%, and 1.5% for 2021, 2020, and 2019, respectively. Given the well-publicized cost of living increases in 2022, the only surprise here is that the increase is not higher. Bear in mind, however, that the increase is based on chained CPI, not ordinary CPI, which is the one most often the subject of media reports.

When put in context of a married couple's power to gift, the result is a combined **$1.7 million increase** in potential tax-free wealth transfer, nearly equal to all the increases since 2017 **combined**. If inflation continues at this pace through 2024, the limits through 2026 could potentially look like this:

Year	Projected Exemption Amount	Increase from Prior Year	Per Married Couple
2023	$12,920,000	$860,000	$1,720,000
2024	$13,820,000	$900,000	$1,800,000
2025	$14,790,000	$970,000	$1,940,000
2026	$7,920,000[1]	-$6,870,000	-$13,740,000

Even without looking ahead to 2024 and 2025, next year's potential $1.7 million increase represents an incredible opportunity for affluent clients. Consider this:

- The investment potential of $1.7 million over a 30-year life expectancy at 5% annual compound growth is around $7.5 million.
- Alternatively, that same $1.7 million could be used to purchase a single-premium survivorship life insurance policy owned by an Irrevocable Life Insurance Trust. For a 60-year-old couple in good health, that life insurance policy could guarantee a $7.5 million death benefit for their heirs to receive income and estate tax free.[2]

Now is the time for you to talk to your clients about how the projected transfer tax limits could enable them to leave even more wealth to their loved ones. Prudential's Advanced Planning team is available to discuss the projected limits, as well as different wealth transfer strategies for clients to consider. We look forward to being of assistance, and can be reached at 800-800-2738, Option 4.

[1]The Tax Cuts and Jobs Act of 2017 effectively doubled the estate, gift, and GST exemption amounts, but these increases are planned to be temporary. Under current law, this change sunsets in 2026, at which time these exemption amounts will revert to $5 million, adjusted for inflation.

[2]This is a hypothetical example used for illustrative purposes only. Actual client results will vary. Hypothetical policy assumptions are for a married couple, male and female, both age 60, preferred non-tobacco, survivorship variable life insurance policy, 7% (net 6.20%) rate of return.