

# United States: IRS Announces Remaining Inflation Adjustments For 2013

22 January 2013

Article by Grant Thornton's Washington National Tax Office

The IRS has announced the remaining annual cost-of-living and inflation adjustments for 2013 – including for the tax brackets, personal exemptions, and standard deduction.

The IRS had originally released only a partial list of inflation and cost-of-living adjustments for 2013 (IR-2012-77 and Rev. Proc. 2012-41), because of the pending tax legislation. The American Taxpayer Relief Act was finally signed into law on Jan. 2, and the IRS released the remaining inflation adjustments on Jan. 11, 2013 (Rev. Proc. 2013-15).

This Tax Flash lists the major inflation adjustments announced previously in IR-2012-77 and Rev. Proc. 2012-41, as well as the remaining adjustments announced in Rev. Proc. 2013-15.

## Key income tax adjustments

**Standard deductions** — The 2013 standard deductions available to taxpayers who do not itemize are as follows:

- \$12,200 (up \$300) for joint filers
- \$6,100 (up \$150) for single filers or married taxpayers filing separately
- \$8,950 (up \$250) for heads of household
- \$1,200 (up \$50) for the additional standard deduction for the aged/blind (\$1,500 for single or head of household)

**Personal exemption** — The 2013 personal exemption taxpayers may claim for themselves and dependents is increased to \$3,900 (up \$100).

**Tax brackets** — The income tax brackets were adjusted anywhere from a few hundred dollars at the lower brackets to several thousand dollars at the top.

Tax brackets for 2013				
Rate	Single filer	Head of household	Joint filer	Married filing separately
10%	\$0–\$8,925	\$0–\$12,750	\$0–\$17,850	\$0–\$8,925
15%	\$8,926–\$36,250	\$12,751–\$48,600	\$17,851–\$72,500	\$8,926–\$36,250
25%	\$36,251–\$87,850	\$48,601–\$125,450	\$72,501–\$146,400	\$36,251–\$73,200
28%	\$87,851–\$183,250	\$125,451–\$203,150	\$146,401–\$223,050	\$73,201–\$111,525

33%	\$183,251–\$398,350	\$203,151–\$398,350	\$223,051–\$398,350	\$111,526–\$199,175
35%	\$398,350–\$400,000	\$398,350–\$425,000	\$398,351–\$450,000	\$199,175–\$225,000
39.6%	More than \$400,000	More than \$425,000	More than \$450,000	More than \$225,000

**Kiddie tax** — The "kiddie" tax thresholds are increasing by \$50 in 2013. The kiddie tax in 2013 will generally apply the following tax treatment to unearned income of a child under 18 (24 if the child is a student):

- First \$1,000 not subject to tax
- Next \$1,000 taxed at child's rate
- \$2,000+ taxed at parent's marginal rate

**Transportation fringe benefit** — The 2013 income exclusions for employer-provided transportation benefits is \$245 (up \$5) for both parking and transit.

**PEP and Pease** — The "Pease" phaseout of itemized deductions and the personal exemption phaseout (PEP) return in 2013 and will begin at the following thresholds:

- \$150,000 for married filing separately
- \$250,000 for single filers
- \$275,000 for heads of household
- \$300,000 for joint filers

**Expatriation** — The average annual net income tax for determining whether a taxpayer is a covered expatriate in 2013 will increase by \$4,000, to \$155,000. The amount excludable from "gross income" for purposes of calculating the "exit tax" in 2013 will increase by \$17,000, to \$668,000.

**Foreign income exclusion** — The foreign earned income exclusion in 2013 is increased by \$2,500, to \$97,600.

## Key transfer tax adjustments

**Estate, gift and generation-skipping transfer tax exemption** — The unified credit rises from \$5.12 million in 2012 to \$5.25 million in 2013.

**Gift tax exclusion** — The annual gift tax exclusion will increase to \$14,000 in 2013 — the first increase since 2009.

## Key retirement plan adjustments

**Qualified retirement plans** — The 2013 elective contribution limits on Section 401(k) and Section 403(b) plans (and similar plans limited under Section 402(g)(1)) are:

- \$17,500 (up \$500), and
- \$5,500 (no change) for catch-up contributions for those 50 and older.

**Traditional IRA limits** — The 2013 phaseout ranges for the deductibility of IRA contributions are:

- \$59,000 to \$69,000 (up \$1,000) for single and head-of-household filers covered by workplace plans,
- \$95,000 to \$115,000 (up \$3,000) for joint filers when a contributing spouse is covered by a workplace plan, and
- \$178,000 to \$188,000 (up \$5,000) for joint filers when the contributor's spouse is covered by a work plan.

**Roth IRA income limits** — The phaseouts for contributing to a Roth IRA in 2013 are:

- \$178,000 to \$188,000 (up \$5,000) for joint filers, and
- \$112,000 to \$127,000 (up \$2,000) for single and head-of-household filers.

**Pension plans** — The 2013 annual benefit limit under a defined benefit plan under Section 415(b)(1)(A) will increase by \$5,000, to \$205,000. The limit for defined contribution plans under Section 415(c)(1)(A) will increase by \$1,000, to \$51,000.

## Health savings accounts

The IRS released the inflation adjustments for health savings accounts (HSAs) earlier in the year (Rev. Proc. 2012-26).

The 2013 limits on HSA contributions are:

- \$3,250 (up \$150) for self-only coverage,
- \$6,450 (up \$200) for family coverage.

The 2013 requirements for high-deductible health plans paired with HSAs are:

- \$1,250 (up \$50) minimum deductible for self-only coverage,
- \$2,500 (up \$100) minimum deductible for family coverage,
- \$6,250 (up \$200) limit on out-of-pocket expenses for self-only coverage, and
- \$12,500 (up \$400) limit on out-of-pocket expenses for family coverage.

*The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.*