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IRS Announces Increased Gift Tax Annual Exclusion and Gift, Estate and GST Tax Exemption for 2023

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The Internal Revenue Service recently released the annual inflation adjustments for tax year 2023, which include welcome increases for wealth transfer tax planning.

The gift tax annual exclusion will increase for the second year in a row, rising to \$17,000 per recipient in 2023 (up from \$16,000 in 2022). This means that, beginning on January 1, 2023, an individual may make gifts in an amount up to \$17,000, in total, on an annual basis to any recipient without making a taxable gift, and married couples who elect to gift-split may annually gift a combined \$34,000 per recipient without making a taxable gift. For example, an individual with four (4) children may give each child a total of \$17,000 in 2023 on a non-taxable basis, and a married couple with four (4) children may give each child a total of \$34,000 in 2023 on a non-taxable basis.

In addition, the combined gift and estate tax exemption available to each individual taxpayer will increase substantially: from \$12.06 million in 2022 to \$12.92 million in 2023. The combined gift and estate tax exemption represents the total amount of gifts an individual may make during their lifetime, together with transfers made at death, before incurring gift or estate tax. Thus, beginning on January 1, 2023, a married couple can transfer a combined \$25.84 million of wealth, free of gift and estate tax.

For individuals who have used their entire combined exemption at the end of tax year 2022, such individuals may transfer, as gifts, an additional \$860,000 tax-free as of January 1, 2023. A married couple with no exemption remaining as of the end of 2022 may make additional gifts of \$1.72 million without gift (or estate) tax liability.

The generation-skipping transfer ("GST") tax exemption will also increase to \$12.92 million. An individual may place assets having a value up to the exemption amount into a trust during lifetime and/or at death and allocate their GST tax exemption to such trust. In doing so, the assets could remain in the trust for generations without any gift, estate or GST tax due on the trust distributions or upon the trust's

termination.

The increased exemption amounts are based on an increased \$10,000,000 exemption, as adjusted for inflation. However, under current law, the exemption amounts are scheduled to revert to \$5,000,000, as adjusted for inflation, on January 1, 2026. Thus, in 2026, it is anticipated that the exemption amounts will revert to approximately \$7,000,000. However, there are a variety of planning strategies available to "lock in" the higher exemption amounts before they are reduced.

If you have questions regarding how you can benefit from the increased gift tax annual exclusion and the increased gift, estate and GST tax exemptions or how you can "lock-in" the \$12.92 exemption amounts before they are reduced in 2026, contact your Vorys estate planning attorney.