



### **How inflation will affect your 2024 and 2025 tax bills**

Inflation can have a significant impact on federal tax breaks. While recent inflation has come down since its peak in 2022, some tax amounts will still increase for 2025. The IRS recently announced next year's inflation-adjusted amounts for several provisions.

Here are the highlights.

**Standard deduction.** What does an increased standard deduction mean for you? A larger standard deduction will shelter more income from federal income tax next year. For 2025, the standard deduction will increase to \$15,000 for single taxpayers, \$30,000 for married couples filing jointly and \$22,500 for heads of household. This is up from the 2024 amounts of \$14,600 for single taxpayers, \$29,200 for married couples filing jointly and \$21,900 for heads of household.

**The highest tax rate.** For 2025, the highest tax rate of 37% will affect single taxpayers and heads of households with income exceeding \$626,350 (\$751,600 for married taxpayers filing jointly). This is up from 2024, when the 37% rate affects single taxpayers and heads of households with income exceeding \$609,350 (\$731,200 for married couples filing jointly).

**Retirement plans.** Some retirement plan limits will increase for 2025. That means you may have an opportunity to save more for retirement if you have one of these plans and you contribute the maximum amount allowed. For example, in 2025, individuals can contribute up to \$23,500 to their 401(k) plans, 403(b) plans and most 457 plans. This is up from \$23,000 in 2024. The

general catch-up contribution limit for employees age 50 and over who participate in these plans will be \$7,500 in 2025 (unchanged from 2024).

However, under the SECURE 2.0 law, specific 401(k) participants can save more with catch-up contributions beginning in 2025. The new catch-up contribution amount for taxpayers who are age 60, 61, 62 or 63 will be \$11,250.

Therefore, participants in 401(k) plans who are 50 or older can contribute up to \$31,000 in 2025. Those who are age 60, 61, 62 or 63 can contribute up to \$34,750.

The annual contribution limit for those with IRA accounts will remain at \$7,000 for 2025. The IRA catch-up contribution for those age 50 and up also remains at \$1,000 because it isn't adjusted for inflation.

**Flexible Spending Accounts (FSAs).** These accounts allow owners to pay for qualified medical costs with pre-tax dollars. If you participate in an employer-sponsored FSA, you can contribute more in 2025. The annual contribution amount will rise to \$3,300 (up from \$3,200 in 2024). FSA funds must be used by year end unless an employer elects to allow a two-and-one-half-month carryover grace period. For 2025, the amount that can be carried over to the following year will rise to \$660 (up from \$640 for 2024).

**Taxable gifts.** You can make annual gifts up to the federal gift tax exclusion amount each year. Annual gifts help reduce the taxable value of your estate without reducing your unified federal estate and gift tax exemption. For 2025, the first \$19,000 of gifts to as many recipients as you'd like (other than gifts of future interests) aren't included in the total amount of taxable gifts. (This is up from \$18,000 in 2024.)

### **Thinking ahead**

While it will be quite a while before you'll have to file your 2025 tax return, it won't be long until the IRS begins accepting tax returns for 2024. When it comes to taxes, it's nice to know what's ahead so you can take advantage of all the tax breaks to which you're entitled.