

# Sneaky Ways Inflation Affects Your Money in 2023

Nerd Wallet

By now, you're probably familiar with the more obvious ways inflation affects your finances. Your money doesn't go as far at the grocery store, for example. Credit card and other variable-rate debt is getting more expensive as the Federal Reserve raises short-term interest rates to combat inflation. Rates are also rising, albeit more slowly, on savings accounts.

But other ways inflation helps or hurts have gotten less attention. Here are some of the major changes to watch for in 2023.

Big tax changes benefit most taxpayers

The IRS raised the standard deduction, which is taken by more than 90% of taxpayers, by \$1,800 for married couples filing jointly and by \$900 for single filers. The standard deduction amounts in 2023 will be \$27,700 for married couples and \$13,850 for singles.

In addition, the IRS adjusted federal tax brackets upward by about 7%. The larger deduction, higher brackets and other changes mean most taxpayers will pay less in 2023, especially if their incomes haven't kept pace with inflation.

"It's putting more money back into people's pockets," says Edward Karl, vice president of tax policy and advocacy for the American Institute of CPAs.

The IRS adjusted dozens of other tax provisions, raising the maximum earned income tax credits by \$495 to \$7,430 for a qualifying family with at least three children and boosting the maximum adoption credit by \$1,060 to \$15,950.

The annual exclusion for gifts — the amount you can give away to an individual before you're required to

file a gift tax return — goes up by \$1,000 to \$17,000. You won't owe gift taxes until the amount you give away above that annual limit exceeds the lifetime estate and gift exemption limit, which is now \$12,920,000, up a whopping \$860,000 from 2022.

Higher earners, however, may pay more FICA taxes in 2023. The maximum salary taxed by Social Security will rise by \$13,200 to \$160,200.

Consider using a tax refund calculator or consulting a tax pro to see how these changes are likely to affect you. Midyear is often a good time to run these numbers and make adjustments so you're withholding the appropriate amounts.

Retirement contributions can rise

The amount people can contribute to 401(k) plans, 403(b) plans and other workplace retirement plans will rise by \$2,000 to \$22,500 for those younger than 50. Catch-up contributions for people 50 and older rose by \$1,000 to \$7,500, which means older people can contribute \$30,000 in 2023.

The income limits also rose for contributing to Roth IRAs. The phaseout range for 2023 is \$138,000 to \$153,000 for singles and heads of household, compared with 2022's range of \$129,000 to \$144,000. For married couples filing jointly, the phaseout range is \$218,000 to \$228,000, up from \$204,000 to \$214,000. In addition, income limits increased for claiming the saver's credit and deducting a traditional IRA contribution if you have access to a workplace plan.

If you can, boost your retirement contributions to take advantage of these changes. In addition to the potential tax benefits, you'll be helping to make your future more comfortable.

Premiums rising, but you may need more coverage

Consider shopping for cheaper auto insurance. Auto insurance premiums rose as repairing and replacing cars got more expensive, but you may be able to find a better deal, especially if you've been with your current insurer for a while. Far from rewarding loyalty, insurers may count on your inertia to charge you more.

Premiums for homeowners insurance are rising as well, but a bigger concern may be inadequate coverage, says Amy Bach, executive director of United Policyholders, an insurance-focused consumer advocacy group. The cost of building materials has risen more than 35% since the beginning of the

pandemic, according to the National Association of Home Builders. Unfortunately, the software that insurers use often underestimates rebuilding costs which means many homeowners are underinsured, Bach says. She suggests talking to a local builder for a realistic, current estimate of what you could pay to replace your house. Compare that with your insurer's figure, and consider increasing your coverage.

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