tax bracket as well as projections for a growing number of inflation-sensitive tax figures, such as the personal exemption and the standard deduction.

Isaac M. O'Bannon • Sep. 18, 2014

Many taxpayers will get a little relief in 2015 when it comes to taxes, according to several tax analysts. This is due to the mandatory annual inflation adjustments provided under U.S. Tax Code.

The latest report from Wolters Kluwer, CCH offers estimated ranges for each 2015 tax

When there is inflation, indexing of brackets lowers tax bills by including more of people's incomes in lower brackets – in the existing 15-percent bracket, for example, rather than the existing 25-percent bracket. The formula used in indexing showed a slightly higher amount of inflation this year over last, representing a change of just under 1.58 percent. Nevertheless, so-called "rounding conventions" required under the Internal Revenue Code keep some tax amounts for 2015 the same as they are for 2014, such as the $14,000 gift tax annual exclusion and the $5,500 limit on IRA contributions, but most 2014 figures will move higher.

Most taxpayers will experience modest savings generated by indexing of the 2015 individual income tax rate brackets for taxpayers.

- Because of inflation adjustments, a married couple filing jointly with a total taxable income of $100,000 should pay $125.50 less income taxes in 2015 than they will on the same income for 2014 because of indexing of their tax bracket for 2015.
- A single filer with taxable income of $50,000 should owe $62.50 less next year due to the adjustments to the income tax rate brackets between 2014 and 2015.

Add to those savings the additional tax savings realized in most cases by slightly higher 2015 standard deduction and personal exemption amounts, as well as amounts that might be claimed from an increase in the income ceilings imposed on tax benefits such as education credits, individual retirement account (IRA) contributions and more. Combined, inflation-based tax savings for the 2015 tax year can become substantial.

Higher-income Taxpayers Also Benefit

The 2015 year represents the third year that the 39.6-tax bracket for higher-income taxpayers, enacted by the American Taxpayer Relief Act of 2012 (ATRA), will be imposed. For 2015, Wolters Kluwer, CCH projects that the minimum income amounts at which this top tax rate will kick in will rise to $464,850 (from $457,600) for

triggered when adjusted gross income exceeds: $250,000 (married joint filers and qualifying widowers), $200,000 (for heads of households and single filers), and $125,000 (for married single filers). The additional Medicare contributions tax is triggered when a taxpayer's wages, compensation, or self-employment income exceed these same threshold amounts. These amounts, however, are not adjusted for inflation and therefore remain the same for 2015.

Inflation Adjustments

Since the late 1980s, the U.S. Tax Code has required that federal income tax brackets be adjusted for inflation annually, and inflation adjustments have been inserted into the Internal Revenue Code in recent years with increasing frequency.

For example, the Code now requires over 50 other inflation-driven computations to determine deduction, exemption and exclusion amounts in addition to the 40 separate computations needed to inflation-adjust the tax bracket tables each year. In fact, the Patient Protection and Affordable Care Act added an even greater number of inflation adjustments to the tax code, including figures affecting the Code Sec. 36B premium assistance tax credit, the income level under which an individual may not be penalized for failure to comply with the individual mandate, and the amount of salary reductions that can be made through a flexible spending arrangement. Some of these health-related inflation adjustments, however, have been delayed for tax years after 2014 or beyond.

Notable as one of the provisions that ATRA now requires to be permanently adjusted for annual inflation is the estate and gift tax applicable exemption. Set at a $5 million level for 2011, the amount has been adjusted for inflation by Congress to $5,120,000 for 2012, $5,250,000 for 2013, $5,340,000 for 2014, and now projected at $5,430,000 for 2015. A spousal portability election can now effectively protect double that amount against estate and gift tax ($10,860,000 for 2015).

Most adjustments are based on Consumer Price Index for all urban consumers'

Jones observed that ATRA provided for annual inflation adjustments to the exemptions from the alternative minimum tax (AMT). Previously, Congress was required to explicitly increase the amounts by statute every time the so-called "AMT patch" was set to expire.

Before ATRA, Congress relied on one- or two-year AMT patches to account for inflation from the initially set amounts of $33,750 and $45,000, respectively. However, the new law now provides for base exemption amounts of $78,750 for married joint filers and surviving spouses, $50,600 for single taxpayers, and $56,000 for heads of households.

Wolters Kluwer, CCH projects that for 2015, the AMT exemption for married joint filers and surviving spouses will be adjusted upward to $83,400, up from $82,100 for 2014. For unmarried single filers and heads of households, the 2015 exemption will be $53,600, up from $52,800 for 2014. For married single filers, the exemption will increase to $41,700, up from $41,050 in 2014.

Standard Deduction, Personal Exemption Rise

The standard deduction and personal exemption amounts are also subject to indexing. Projections for 2015 indicate that the trend will continue, with increases across the board. The standard deduction for single taxpayers, heads of households and married couples filing jointly will all show increases for 2015, by $100, $150 and $200, respectively.

The standard deduction for joint filers, for example, would rise from $12,400 to $12,600 in 2015. Any increase in the standard deduction, of course, can produce lower taxes by decreasing the taxpayer's taxable income.

The additional standard deduction for those 65-years-old and older or who are blind will increase to $1,250 for 2015, up from $1,200 in 2014 for married individuals and surviving spouses, but the $1,550 additional amount for single aged 65 or older or

ranges, which represented increases from their pre-2010 levels, even before inflation adjustments.

The 2014 phase-out range for personal exemptions under ATRA begins at $309,900 for joint filers and $258,250 for single filers. The phase out is complete once these levels reach, respectively, $432,400 and $380,750. The same income ranges apply to the phase out of itemized deductions.

For a complete look at how income ranges for each tax bracket are projected to shift next, see the Wolters Kluwer, CCH tables below.

"Kiddie" Deduction, Gift Tax Exemption

In general, inflation adjustments are rounded to the next-lower multiple of $50, so if the adjustment produces an increase of less than $50, no increase is made. The "kiddie" deduction, used on the returns of children claimed as dependents on their parents' returns, increased only six times in the years 2001 through 2014 because of rounding. It last rose for the 2013 tax year. For 2015 the deduction will increase again, to $1,050.

The Code only allows the gift tax exemption to rise when the inflation adjustment would produce an increase of $1,000 or more. The last increase occurred in 2013, when it rose to $14,000. It remains unchanged for 2015.

Wolters Kluwer, CCH 2014 Tax Projections

Wolters Kluwer, CCH's projections for other indexed amounts are based on the relevant inflation data released September 17, 2014, by the U.S. Department of Labor. The IRS usually releases official numbers by December each year.

Wolters Kluwer, CCH tax bracket projections are provided for illustrative purposes

25%	$74,900 – $151,200	$73,800 – $148,850
28%	$151,200 – $230,450	$148,850 – $226,850
33%	$230,450 – $411,500	$226,850 – $405,100
35%	$411,500 – $464,850	$405,100 – $457,600
39.6%	$464,850+	$457,600+

Unmarried Individuals (Other Than Surviving Spouses and Heads of Households)

Tax Rate	2015 Taxable Income	2014 Taxable Income
10%	$0 – $9,225	$0 – $9,075
15%	$9,225 – $37,450	$9,075 – $36,900
25%	$37,450 – $90,750	$36,900 – $89,350
28%	$90,750 – $189,300	$89,350 – $186,350
33%	$189,300 – $411,500	$186,350 – $405,100
35%	$411,500 – $413,200	$405,100 – $406,750
39.6%	$413,200+	$406,750+

Head of Household

33%	$209,850 – $411,500	$206,600 – $405,100
35%	$411,500 – $439,000	$405,100 – $432,200
39.6%	$439,000+	$432,200+

Married Individuals Filing Separate Returns

Tax Rate	2015 Taxable Income	2014 Taxable Income
10%	$0 – $9,225	$0 – $9,075
15%	$9,225 – $37,450	$9,075 – $36,900
25%	$37,450 – $75,600	$36,900 – $74,425
28%	$75,600 – $115,225	$74,425 – $113,425
33%	$115,225 – $205,750	$113,425 – $202,550
35%	$205,750 – $232,425	$202,550 – $228,800
39.6%	$232,425+	$228,800

Standard Deduction Amounts

Filing Status	2015	2014	Increase

Married Filing	$12,600	$12,400	$200
Head of Household	$9,250	$9,100	$150

Standard Deduction for Dependents ("Kiddie" Standard Deduction)

2015	2014	Increase
$1,050	$1,000	$50

Personal Exemption Amounts

2015	2014	Increase
$4,000	$3,950	$50

Gift Tax Exclusion

2015	2014	Increase
$14,000	$14,000	$0

* These numbers are projected for the 2015 tax year and have not been confirmed by the Internal Revenue Service (www.irs.org).