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GMS Flash Alert

2026-299 | 18 November 2026

United States – Inflation Adjustments for Tax Year 2027

On November 5, 2026, the U.S. Internal Revenue Service (IRS) released the annual inflation adjustments to be used by individual taxpayers on their 2027 returns (that is, the returns that are generally filed in 2028).[1] Almost 70 tax provisions were updated, including tax rates and thresholds applicable to all taxpayers and certain provisions applicable to international assignees and expatriates.

Additionally, on November 12, 2026, the IRS released the annual inflation adjustments applicable to 401(k) plans, IRAs, and other retirement savings and pension vehicles.[2]

In addition to the IRS releases, the U.S. Social Security Administration (SSA) announced on October 14, 2026, that the maximum amount of wages subject to the Social Security tax will increase from $184,500 to $192,300.[3] This 4.2-percent increase is less than the 4.7-percent increase in the prior year. The press release was accompanied by a fact sheet outlining the inflation adjustments to other key social security thresholds and limitations.[4]

WHY THIS MATTERS

Employers may consider updating hypothetical tax withholding calculations and tax gross-up estimates to account for the updated income tax brackets and Social Security wage base. Additionally, employers seeking to estimate the tax cost of an assignment from the United States to a foreign location may need to update their tax calculations to account for the increase in the foreign earned income exclusion and housing cost limitations. Certain pension and Social Security limitations may be higher or lower due to assignment-related allowances and may also need to be taken into account in tax-equalization settlement calculations.

Tax Rates for Individual Taxpayers, Adjusted for Inflation

Rev. Proc. 2026-35 provides the following inflation-adjusted rates for tax year 2027:

- The top income tax rate remains 37% for individual single taxpayers with taxable incomes greater than $661,375 ($793,650 for married couples filing jointly).

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- The other income tax rates for single taxpayers will be:
  - 35% for taxable incomes over $264,550 ($529,100 for married couples filing jointly)
  - 32% for taxable incomes over $208,325 ($416,650 for married couples filing jointly)
  - 24% for taxable incomes over $109,125 ($218,250 for married couples filing jointly)
  - 22% for taxable incomes over $52,025 ($104,050 for married couples filing jointly)
  - 12% for taxable incomes over $12,800 ($25,600 for married couples filing jointly)
  - The lowest rate is 10% for taxable incomes for single individuals of $12,800 or less ($25,600 for married couples filing jointly).

Standard Deduction

The standard deduction amount for 2027 will be increased as follows:

- For married couples filing jointly, $33,200 (an increase of $1,000 from 2026)
- For single taxpayers and married individuals filing separately, $16,600
- For heads of households, $24,925

For 2027, the tax benefit of itemized deductions for taxpayers in the highest tax bracket (37%) is effectively limited to 35%.

Tax Provisions for International Assignees and Expatriates

- The maximum foreign earned income exclusion is increased to $137,300 for tax year 2027, up from $132,900 for tax year 2026.
  - Accordingly, the foreign housing base amount is increased to $21,968 for tax year 2027, while the maximum foreign housing expense amount is increased to $41,190 for tax year 2027.
- An expatriate is a “covered expatriate” if the individual’s average annual net income tax for the five tax years ending before the expatriation date exceeds $218,000 for tax year 2027, up from $211,000 for tax year 2026.
- The statutory exclusion amount for covered expatriates is increased to $940,000 for tax year 2027, up from $910,000 for tax year 2026.

Estate and Gift Exclusions

- The lifetime exemption amount for transfers is increased to $15,480,000 for tax year 2027, up from $15,000,000 for tax year 2026.
- The annual exclusion for gifts is increased to $20,000 for calendar 2027, up from $19,000 for calendar 2026.
- The first $201,000 of gifts made to a spouse who is not a citizen of the United States (other than gifts of future interest in property) are not included in the total amount of taxable gifts made during calendar 2027 (up from $194,000 in 2026).

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Medical and Health-Related Amounts

- The dollar limitation for employee salary reductions for contributions to health flexible spending arrangements (FSA) is $3,500 for tax year 2027 (up from $3,400). For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is $700 for tax year 2027 (up from $680).

- For medical savings accounts (MSAs), the annual deductible for participants with “self-only” coverage must be at least $3,000 for tax year 2027 (up from $2,900 in 2026), but no more than $4,550 (up from $4,400). The maximum out-of-pocket expense limit for “self-only” coverage is increased to $6,050 for tax year 2027 (up from $5,850).

- For participants with family coverage under an MSA, the annual deductible for tax year 2027 must be at least $6,050 (up from $5,850), but no more than $9,050 (up from $8,750). The maximum out-of-pocket expense limit for family coverage is increased to $11,050 for tax year 2027 (up from $10,700).

Other Items

The **alternative minimum tax (AMT) exemption** amount is increased for tax year 2027 to $93,000 and begins to phase out at $515,950 for single filers. For married couples filing jointly, the AMT exemption amount will be $144,700 and the exemption begins to phase out at $1,031,900. For 2026, the AMT exemption amount was $90,100 and began to phase out at $500,000 ($140,200 for married couples filing jointly and began to phase out at $1,000,000).

The maximum **earned income tax credit** amount for tax year 2027 is $8,496 (up from $8,231 for 2026) for qualifying taxpayers who have three or more qualifying children.

The **qualified transportation fringe benefit** for tax year 2027 will have a monthly limitation of $350 for certain commuter transportation, transit passes, and qualified parking (up from $340 for 2026).

The maximum **credit allowed for adoptions** is the amount of qualified adoption expenses up to $18,250 (up from $17,670 for 2026).

Pension Limitations

- The contribution limit for employees who participate in 401(k), 403(b), governmental 457 plans, and the federal government’s Thrift Savings Plan is increased to $25,500 (up from $24,500 in 2026). The catch-up contribution limit for employees aged 50 and over is increased to $8,500 for 2027 (up from $8,000 for 2026).

    - The higher catch-up contribution limit for employees who are aged 60, 61, 62, and 63 in 2027 is increased to $11,750 (up from $11,250 in 2026).

- The limit on annual contributions to an IRA remains $7,500 for 2027. Likewise, the IRA catch-up contribution limit for individuals aged 50 and over remains $1,100 for 2027.

- Taxpayers can make deductible contributions to traditional IRAs if they meet certain conditions. If during the year either the taxpayer or the taxpayer’s spouse was covered by a retirement plan at work, the deduction may be phased out, depending on the taxpayer’s filing status and adjusted gross income (AGI). (If neither the taxpayer nor the spouse is covered by a retirement plan at work, the phase-outs do not apply.)

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- The phase-out ranges for 2027 for deductible traditional IRA contributions are as follows:
  - For single taxpayers, the phase-out range is increased to between $83,000 and $93,000 (up from between $81,000 and $91,000) with the ability to make deductible contributions being entirely phased out at the higher amount;
  - For married couples filing jointly, if the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is increased to between $133,000 and $153,000 (up from between $129,000 and $149,000);
  - For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the phase-out range is increased to between $250,000 and $260,000 (up from between $242,000 and $252,000);
  - For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains between $0 and $10,000.
- To make contributions to a Roth IRA, a taxpayer's AGI must not exceed a certain level. The phase-out ranges for Roth IRA contributions are:
  - For single and head of household taxpayers, between $158,000 and $173,000 (up from between $153,000 and $168,000) with the ability to contribute to a Roth IRA being entirely phased out at the higher amount;
  - For married couples filing jointly, between $250,000 and $260,000 (up from between $242,000 and $252,000);
  - The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains between $0 and $10,000.

KPMG INSIGHTS

Inflation adjustments are largely routine. Nevertheless, these annual changes may affect the operation of payrolls and shadow payrolls, taxpayers' ability to make pension contributions, and the calculation of actual and hypothetical tax liabilities. In light of this, the changes should be communicated to relevant stakeholders as soon as possible to help ensure that processes and software can be updated in a timely manner. Pre-departure conversations with assignees should address applicable tax rates, thresholds, exemptions, and allowances, as well as their potential impact on the assignee.

Employers and employees concerned about the effect of the above-noted changes and how to budget for and otherwise plan the employee's assignment should contact their qualified tax professional or a member of KPMG's Global Mobility Services practice in the United States.

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ENDNOTES:

1 See IRS Information Release IR-2026-133 and IRS Rev. Proc. 2026-35. For coverage of last year's inflation adjustments, see *GMS Flash Alert 2025-226*, November 14, 2025.

2 See IRS Information Release IR-2026-136 and IRS Notice 2026-66.

3 See Social Security Administration press release, "Social Security Announces 3.6 Percent Benefit Increase for 2027."

4 See Social Security Administration Fact Sheet "2027 Social Security Changes."

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RELATED RESOURCE:

For a related report, see "Rev. Proc. 2026-35: Inflation adjustments for tax year 2027" in *TaxNewsFlash – United States* (November 5, 2026), a publication of KPMG LLP in the United States.

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