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TaxNewsFlash

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Rev. Proc. 2026-35: Inflation adjustments for tax year 2027

The IRS today released Rev. Proc. 2026-35 providing the annual inflation adjustments for almost 70 tax provisions for tax year 2027. The adjustments generally apply to tax returns filed in 2028.

Tax rates for individual taxpayers, adjusted for inflation

With the inflation adjustment, Rev. Proc. 2026-35 provides that for tax year 2027:

- The top income tax rate remains 37% for individual single taxpayers with incomes greater than $661,375 ($793,650 for married couples filing jointly).
- The other income tax rates for single taxpayers will be:
  - 35% for incomes over $264,550 ($529,100 for married couples filing jointly)
  - 32% for incomes over $208,325 ($416,650 for married couples filing jointly)
  - 24% for incomes over $109,125 ($218,250 for married couples filing jointly)
  - 22% for incomes over $52,025 ($104,050 for married couples filing jointly)
  - 12% for incomes over $12,800 ($25,600 for married couples filing jointly)
- The lowest rate is 10% for incomes of single individuals of $12,800 or less ($25,600 for married couples filing jointly).

Standard deduction

The standard deduction amounts 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

The personal exemption for tax year 2027 remains at $0. The elimination of the personal exemption, originally a provision of the Tax Cuts and Jobs Act of 2017, was made permanent by the Working Families Tax Cuts (WFTC). The personal exemption does not include the senior deduction added by the WFTC.

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The limitation on itemized deductions was previously eliminated for tax years 2018-2025. The elimination of the limitation was made permanent by the WFTC, although it imposes a limitation on the tax benefit from itemized deductions for taxpayers in the highest tax bracket (37%).

Child tax credit

- The maximum child tax credit for 2027 is $2,300, an increase of $100 from 2026. The amount of the credit that may be refundable is $1,800, also up $100 from 2026.

International amounts

- The foreign earned income exclusion for 2027 is $137,300, up from $132,900 for 2026.

Other items

- The alternative minimum tax (AMT) exemption amount for unmarried individuals is $93,000 and begins to phase out at $515,950. For married couples filing jointly, the exemption is $144,700 and begins to phase out at $1,031,900.
- The maximum earned income tax credit (EITC) amount for 2027 is $8,496 for qualifying taxpayers who have three or more qualifying children, up from $8,231 for 2026.
- The monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking increase to $350, up $10 from 2026.
- The maximum credit allowed for adoptions for tax year 2027 is the amount of qualified adoption expenses up to $18,250, up from $17,670 for 2026. The amount of the credit that may be refundable is $5,280.
- The maximum amount of the employer-provided childcare tax credit increases to $515,943.67, up from $500,000 for 2026 ($619,132.40 if the employer is an eligible small business).
- For tax year 2027, taxpayers can expense up to $2,640,000 of section 179 property, up from $2,560,000 for 2026. The limit for sport utility vehicles is $33,100, up from $32,000 for 2026.

Estate tax exclusion

- Estates of decedents who die during 2027 have a basic exclusion amount of $15,480,000, up from $15,000,000 for estates of decedents who died in 2026.

Gift tax annual exclusion

- The annual exclusion for gifts increases to $20,000 for calendar year 2027, up from $19,000 for 2026.
- The annual exclusion for gifts to a spouse who is not a U.S. citizen increases to $201,000 for calendar year 2027, up from $194,000 for 2026.

Medical and health-related amounts

- The dollar limitation for voluntary employee salary reductions for contributions to health flexible spending arrangements (FSAs) for tax years beginning in 2027 increases to $3,500. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount increases to $700.
- For medical savings accounts (MSAs), for tax year 2027:
    - For self-only coverage, the annual deductible must be at least $3,000 but not more than $4,550. The maximum out-of-pocket expense amount is $6,050.
    - For family coverage, the annual deductible must be at least $6,050 but not more than $9,050. The out-of-pocket expense limit is $11,050.

Lifetime Learning Credit

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The modified adjusted gross income (MAGI) amounts used to phase out the Lifetime Learning Credit are not adjusted for inflation. The credit is phased out for taxpayers with MAGI between $80,000 and $90,000 ($160,000 and $180,000 for joint returns).

Read a related IRS release—IR-2026-133 (November 5, 2026).

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