Mining the 1040

Getting to know your clients through taxes

The IRS Form 1040 isn't just a tax document—it's a window into your clients' financial lives and priorities. By analyzing key sections of the 1040, you can uncover opportunities to discuss their insurance needs, whether it's life, long-term care or disability. This brochure will guide you in using the 1040 as a conversation starter, helping you build trust and deliver tailored insurance solutions that protect what matters most to your clients.

A detailed review of a tax return can lead to important and powerful conversations about income replacement, retirement savings, estate and legacy planning, intergenerational wealth and business planning needs. Additionally, comparing last year's return to this year's return can shed light on planning opportunities due to major life changes. Let's explore how to turn numbers into meaningful, client-focused discussions.

Ameritas
fulfilling life

The Basics

What family composition can tell you

Filing status

The first section of the 1040 asks the filer to identify their filing status as either single, married filing jointly (MFJ), married filing separately (MFS), Head of Household or a Qualifying Surviving Spouse. Filing status is one of the major drivers of planning changes. If someone's filing status has changed, you should carefully review the corresponding changes in their planning needs.

Filing Status Check only one box.	☐ Single ☐ Married filing jointly (even if only one had income) ☐ Married filing separately (MFS)	☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

- **Is your client "Single"?**
  - The 1040 provides valuable information, but it's just the beginning. As a financial professional, it's your role to dig deeper and uncover the story behind the numbers. For instance, a client filing as single might be in a committed nonmarital relationship, divorced or could be a recent widower. What unique challenges do these situations present? Understanding these nuances opens the door to meaningful conversations about how life insurance can help provide financial security for their loved ones.
- **Did your client recently get married?**
  - Marriage creates financial interdependence. Newlyweds may require additional life insurance to replace their new spouse's income or to cover a debt they might share such as a mortgage.
  - Is this a second marriage? Blended families often use life insurance as the great equalizer in transferring wealth to the next generation. This helps ensure equitable treatment for the children from each side.
- **Did your client recently get divorced?**
  - Some separation agreements require life insurance to meet alimony obligations. To determine whether alimony is being paid or received, review Schedule 1.
- **Is your client listed as Head of Household?**
  - These individuals have dependents who rely on them. What would happen to those dependents if the filer was no longer around? Life insurance can help provide protection in that event.
- **Is your client a Qualifying Surviving Spouse?**
  - These clients' have a recently deceased spouse (within the prior two years) and have dependents that rely on them. Because of this recent life-altering event, these clients will likely have changes in their financial planning and life insurance needs. It is important to reassess and revise to make sure their planning goals are met.

Dependents

The second section of the 1040 asks the filer to identify their dependents. Dependents can drastically change how someone thinks about their financial preparedness and planning.

- **Dependent Children**
  - Birth or adoption are the most common changes to dependents. Having children generally requires discussions about saving for college and income replacement. Ask your client whether they have enough life insurance to protect their loved ones – the younger the dependents are, the more insurance they may need. Alternatively, a marriage with existing dependents may also necessitate a review of one's estate plan and possible equalization strategies.
- **Other Dependents**
  - A filer may have other individuals they claim as dependents. For example, a disabled adult child or an elderly parent who can no longer care for themselves. If you see dependents such as these on a 1040, consider discussing long-term care coverage. The emotional strain of caring for a disabled loved one coupled with the cost of care may cause clients to reconsider how well they have planned to protect themselves and their own family members.
  - Finally, consider asking your client how these dependents will be provided for should something happen to the client. Disability income insurance and life insurance may be of interest to them.

Dependents (see instructions):			**(2)** Social security number	**(3)** Relationship to you	**(4)** Check the box if qualifies for (see instructions):	
	(1) First name	Last name			Child tax credit	Credit for other dependents
If more than four dependents, see instructions and check here . . ☐					☐	☐
					☐	☐
					☐	☐
					☐	☐

Income

How the source of income can start a conversation

Line 1: Wages, salaries, tips

Earned income, whether from W-2 or 1099 sources, ceases immediately upon the unexpected loss of a family member. This makes insurance not just important but essential to safeguard a family's financial stability. Both working spouses and stay-at-home parents contribute significantly to a household, whether through income or caregiving, and the absence of either can leave families vulnerable to financial strain.

Insurance ensures that lost income is replaced and critical expenses, such as childcare and household support, are covered. Don't underestimate the value of insuring stay-at-home parents, whose contributions are often overlooked but vital to the family's well-being. Having the right coverage in place can provide financial security when it's needed most.

High-income clients may face additional taxes and seek ways to defer them. Their company savings plans might also fall short of meeting retirement needs, making retirement income planning a key concern. For those who have maximized workplace savings but still wish to save more for retirement, tax-deferred options like personal permanent life insurance can be appealing. Such policies not only provide financial protection for families in case of premature death but also offer tax-advantaged access to cash value to help supplement retirement income.

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2	1b	
	c	Tip income not reported on line 1a (see instructions)	1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
	e	Taxable dependent care benefits from Form 2441, line 26	1e	
If you did not get a Form W-2, see instructions.	f	Employer-provided adoption benefits from Form 8839, line 29	1f	
	g	Wages from Form 8919, line 6	1g	
	h	Other earned income (see instructions)	1h	
	i	Nontaxable combat pay election (see instructions) 1i		
	z	Add lines 1a through 1h	1z	

Line 2a: Tax-exempt interest

Clients with significant investments in tax-advantaged vehicles like municipal bonds can be excellent candidates for discussing permanent life insurance. This can serve as an alternative or complementary tax-advantaged investment. The tax-exempt income from these investments could be leveraged to fund a life insurance policy, offering tax-free growth potential and additional financial benefits.

Line 2b: Taxable interest

Assets generating taxable interest, such as certificates of deposit, savings accounts and bond income, are typically low risk but yield correspondingly low returns. Clients seeking better growth potential without sacrificing security might consider using these assets to purchase life insurance. This approach can offer a higher internal rate of return, tax-free growth opportunities and valuable death benefit protection, enhancing their financial strategy.

Line 3a-b: Ordinary and qualified dividends

Dividend income offers a valuable opportunity to address critical insurance needs. Reinvested dividends can fund policies, while their source can reveal additional planning opportunities. For example, dividends from a closely held business may indicate the need for succession or key person insurance. Similarly, income from concentrated stock positions highlights the importance of insurance to protect and diversify wealth, helping to ensure long-term financial security. Prioritizing insurance planning ensures families and businesses are prepared for any future challenges.

Attach Sch. B if required.	2a	Tax-exempt interest . . .	2a		b Taxable interest	2b	
	3a	Qualified dividends . . .	3a		b Ordinary dividends	3b	

Line 4a-6c: IRAs, pensions, annuities & Social Security benefits

Retirees relying on income from IRAs, annuities, Social Security or pensions often face three major risks: longevity, long-term care costs and sequence of returns. Life insurance can address these challenges by serving as a financial backstop, providing supplemental retirement income to help prevent outliving other assets.

Additionally, life insurance can offer long-term care protection, easing the burden of potential healthcare expenses. Any unused policy value can be passed to the next generation income tax-free, creating a lasting legacy. Unneeded Social Security income can also be redirected to fund life insurance, further securing a financial legacy for children and grandchildren. This strategic use of life insurance helps ensure financial stability throughout retirement and beyond.

4a	IRA distributions	4a		b Taxable amount	4b	
5a	Pensions and annuities . .	5a		b Taxable amount	5b	
6a	Social security benefits . .	6a		b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) . . . . . . ☐					

Line 7: Capital gain (or loss)

High-income earners with passive income may face an additional 3.8% surcharge tax. These clients might benefit from exploring more tax-efficient options, such as life insurance. For instance, clients holding investments they do not intend to rely on for current or future lifestyle needs could optimize their financial strategy by converting these investments into a more tax-efficient legacy asset like permanent life insurance.

7	Capital gain or (loss). Attach Schedule D if required. If not required, check here . . . . . . ☐	7	

Schedule 1

Adjustments to income

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2024

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . .

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I **Additional Income**

Line 3: Business income or (loss)

Clients who own businesses may have various life insurance needs, including:

- Succession planning and funding Buy-Sell Agreements with life insurance
- Addressing personal needs such as creditor protection, retirement planning or covering long-term care expenses
- Recruiting, retaining and rewarding key employees through non-qualified deferred compensation arrangements, such as executive bonuses, supplemental retirement plans or deferrals that can be informally funded by life insurance.
- Safeguarding the business against the loss of a key employee through the use of key person insurance.

When attempting to identify these planning opportunities, we recommend utilizing Ameritas' Business Fact Finder. The Business Fact Finder is designed to facilitate an open-ended conversation about a business owner's current estate plan and financial goals.

Line 5: Rental real estate, royalties, partnerships, S Corporations, trusts, etc.

Clients with rental income may benefit from life insurance in multiple ways:

- Income-producing properties may have mortgages on them. In the event of the owner's passing, life insurance proceeds may be used to repay any outstanding balance.
- Many real estate owners manage their properties themselves. If something were to happen to them, a management company would need to be contracted which can take away funds from other operations or the heirs. Instead of allocating funds earmarked for other ventures, life insurance proceeds may be used to procure these services.
- Real estate is a difficult asset to divide amongst beneficiaries. Some beneficiaries may wish to keep the property while others would prefer the cash from its' sale. Life insurance proceeds can solve this issue by acting as the great equalizer. For instance, assume one beneficiary wishes to inherit the property outright while the other wishes to sell. Life insurance proceeds can be used to equalize their inheritance by allowing one to keep the property while paying the other an equivalent value in cash.

Schedule A

Itemized deductions

SCHEDULE A (Form 1040) Department of the Treasury Internal Revenue Service	**Itemized Deductions** **Attach to Form 1040 or 1040-SR.** **Go to *www.irs.gov/ScheduleA* for instructions and the latest information.** **Caution:** If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.	OMB No. 1545-0074 2024 Attachment Sequence No. **07**
Name(s) shown on Form 1040 or 1040-SR		**Your social security number**

Lines 11-14: Gifts to charity

Clients who are charitably inclined may be interested in other planning options that can help them maximize their charitable contributions or serve as a wealth replacement vehicle. A great option would be the utilization of life insurance.

Life insurance can be used to increase one's charitable capacity. For instance, a client can purchase a life insurance policy and name a charity as the beneficiary. By doing this, they may be able to donate more in the form of the death benefit than they would otherwise be able to out of their own assets. Moreover, if they make the charity an irrevocable beneficiary of the policy, then they can also enjoy the benefits of the charitable deduction during their lifetime by offsetting their current income.

Alternatively, life insurance can be used as a wealth replacement vehicle. If a client would like to donate a portion of their estate to charity, it would leave their other beneficiaries with a relatively smaller inheritance. Instead of leaving their beneficiaries with less, a client can procure a life insurance policy to substitute what would have been their beneficiaries' inheritance with the death benefit proceeds.

Have questions or need to discuss a case?

Please contact the Ameritas advanced planning team at advancedplanning@ameritas.com or call at 800-319-6903 opt. 2.

Ameritas®
fulfilling life®