Finding Life Insurance Opportunities Using Form 1040
2022 Edition

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Introduction

A careful review of a client's tax returns can provide insight into their insurance and financial planning needs. A review of the lines on a tax return can lead to conversations about:

- Basic needs analysis and college funding
- Retirement and extended care planning
- Legacy & charitable planning
- Business planning

Additionally, comparing last year's tax return to this year's tax return can shed light on planning opportunities due to major changes in the client's life.

Form 1040 was redesigned in 2018. Now, everyone will use Form 1040* and Forms 1040A and 1040EZ will no longer be used. Originally, the new Form 1040 was shorter, but has increased over the past couple of years. In addition to the Form 1040, individuals may need to file schedules.

Tax planning remains an essential aspect in any work with clients at all income levels. A review of your client's tax return should allow you an opportunity to assist them in addressing decisions that can impact their overall income tax, accumulation, and retirement planning. Life insurance provides features that can help clients particularly in a changing tax environment.

This guide focuses on Form 1040, and Schedule A. The guide is designed to help you review and uncover opportunities within your client's income tax return. In addition to paying attention to what is disclosed in the client's tax return, note what is missing. This may also result in opportunities.

*Starting with tax years 2020, seniors may use Form 1040-SR.

Overview of Primary Planning Opportunities

Form 1040 and its schedules can uncover many different planning opportunities.
The opportunities fall into the four categories described below:

Opportunity	Basic Needs Analysis & College Funding	Retirement & Extended Care Planning
Description	Addressing a family's life insurance needs in the event of a premature death is challenging because each family's goals are unique. A needs analysis will generally look at replacing the income of the deceased person, covering debts/ mortgage, and for families with young children planning for college education. There may be additional needs for insurance if this is a client's second marriage or if there is a dependent with special needs.	For many clients age 50+, retirement and extended care planning will typically be a top concern. A great way to start the conversation is by offering to conduct a retirement readiness analysis. Even if a client is already retired, there may be planning needs such as protecting against long-term care/ chronic care or planning for the tax efficient distributions of qualified retirement accounts.
Life Insurance Product	The type of product will depend on the client's discretionary income, duration of the insurance needs, and risk tolerance. Typically, a combination of term and permanent life insurance is used to cover the needs. **To help you determine the amount and type of coverage, consider using DBS's needs analysis and product selector tool.**	A permanent life insurance policy is typically used for clients who need death benefit protection and extended care benefits. A permanent policy can provide an income-tax free source of retirement income while the extended care rider can protect a family from the financial burdens created when care is needed for an extended period of time. **To help identify the form of extended care policy, use DBS's needs analysis and product selector tool.**

Opportunities	Legacy & Charitable Planning	Business Planning
Description	Clients that are older and have a high net worth often think about the legacy they want to leave especially in 2023 because of the proposals to reduce the amount sheltered from tax from $12.92 million to $5 million starting 1/1/2026. Life insurance may be used to provide for a favored charity or replace wealth lost to final expenses or taxes.	Business owners have a multitude of planning needs including, but not limited to, succession planning, retaining key employees, and protecting the business from the loss of a key employee.
Life Insurance Product	Permanent products, single life, and survivorship are usually used for legacy/ charitable planning. The policy's death benefit can provide liquidity of final expenses, equalization with heirs, and enhance the total amount left as a legacy.	A combination of term and permanent insurance is typically used to address the needs of a business owner. Term insurance can provide a low-cost solution for short-term needs. Permanent products are often used to fund employee retention benefits.

Form 1040 Entries

This section of the guide will break down the lines on Form 1040 and identify key planning opportunities. There are two pages of the Form 1040. The first page of Form 1040 includes basic personal information like name, address, Social Security number, filing status, dependents, and most common income sources.

Filing Status *(Figure 1)*

A client's filing status is one of the principal drivers of planning. With each filing status there is a story. Perhaps they were recently married, divorced, or widowed. If the filing status has changed, you should review their planning needs. Considerations might include:

- **Single:** Did the client recently get divorced? Some divorce agreements require life insurance to meet financial obligations. See Schedule 1 to determine if alimony is being paid or received.
- **Married:** Did the client recently get married? Is this a second marriage? Marriage often creates financial interdependence. Married couples might find that they need life insurance to replace a spouse's earnings or cover debt such as a mortgage. If it is a second marriage, insurance can be used to equalize estate between children of each marriage, or between the new spouse and children of a prior marriage.
- **Head of household:** A client who files as head of household will be single but have dependents that rely on them. Life insurance on the client can help provide for the dependents if the client is no longer alive.
- **Qualifying widow(er):** A client who files as a qualifying widow(er) will be single because a spouse has died in the last two years and have dependents that rely on them. Because of the recent marital status change, this client will typically have many planning and life insurance needs.

Home Address *(Figure 1)*

A client's home address may indicate opportunities. If there has been a recent change in address, there may be a need for insurance to cover a mortgage. In addition, slightly less than half of the states still have an estate or inheritance tax. If the client's address recently changed to a state with such taxes, estate documents and plans may need to be revised.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2022 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)
If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial	Last name	**Your social security number**
If joint return, spouse's first name and middle initial	Last name	**Spouse's social security number**

Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.	**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ **You** ☐ **Spouse**
City, town, or post office. If you have a foreign address, also complete spaces below.		State	ZIP code	
Foreign country name	Foreign province/state/county		Foreign postal code	

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ **Yes** ☐ **No**

Figure 1

Additional Deductions *(Figure 2)*

The personal exemption amount for the client, spouse, and dependents was suspended in 2018. However, taxpayers born before January 2, 1958, those who are blind at the end of 2022, and those who can be claimed as a dependent on someone else's return continue to be entitled to an increased standard deduction. A client who checks the box "born before January 2, 1958" for the first time may be approaching retirement. They might have many retirement planning concerns including retirement plan rollovers and long-term care coverage.

Dependents & Child/Other Dependents Tax Credit *(Figure 2)*

Many clients, especially younger and middle-aged, will have dependents. The addition of a dependent can change how a client thinks about their own financial preparedness. When a client has dependents, the financial advisor will want to examine whether there is sufficient life insurance to support the family, provide for college funding or other special needs. The birth or adoption of a child is the most common change in dependents. But other changes, such as a care of an elderly parent or remarriage may change dependents.

Having children typically requires a client to assess life insurance needs and a review of estate plans. Does the client have enough life insurance to protect loved ones in the event of a premature death? Do any of the dependents have special needs? Should a college fund be established or is the client on track to meet their college funding goal? If the dependent is an elderly parent, the client may want to reconsider their own extended care needs.

If the client does not have any dependents, files a joint return, or the return indicates a spouse, you will want to talk to the client to see if s/he has sufficiently planned for a surviving spouse that may be dependent on him/her. Information contained in the balance of the tax return will help to reveal how much each spouse is dependent on each other. This could include items such as income, or the reduction of expenses like a home mortgage.

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1958 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1958 ☐ Is blind

Dependents (see instructions):

If more than four dependents, see instructions and check here . . ☐

(1) First name	Last name	**(2)** Social security number	**(3)** Relationship to you	**(4)** Check the box if qualifies for (see instructions): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

Figure 2

Line 1 – Wages, Salary, Tips *(Figure 3 next page)*

Line 1 was greatly expanded from last year; requesting more detail on specific sources of income. Earned income is another primary driver of planning. It's important to understand the details behind this number. For example, if the client is married, it's important to know the amount each spouse earns. This is important to consider when determining how much life insurance is necessary to replace lost income in the event of a premature death.

While checking the life insurance needs, don't forget to consider the needs of any stay-at-home spouse. Stay-at-home spouses are often underinsured or not insured. Several carriers will cover the stay-at-home spouse for the same face amount as the income-earning spouse, with amounts up to $1 million.

If the client is a high-income earner, s/he could be subject to additional tax and may be looking for ways to defer tax. Also, the amount s/he may be able to save in company plans may not be adequate to meet their retirement needs. Retirement income planning is often a concern for high-income clients. Clients who have maximized their work saving opportunities, yet still have assets they want to save for retirement, may be interested in other tax-deferred opportunities. This may lead into a conversation concerning how personal permanent life insurance policy can be used. It can help protect the family in the event of a premature death, while the cash value can be access on a tax-favored basis to help supplement retirement.

Insurance Face Amount Guidelines for Income Replacement

Ages	Income		Factor		Ins. Amount
Under 40	$	X	30	=	$
40 - 45	$	X	25	=	$
46 - 55	$	X	20	=	$
56 - 60	$	X	15	=	$
61 - 70	$	X	10	=	$
71 - 80	$	X	5	=	$
Over 80	$	X	?	=	Individual Basis

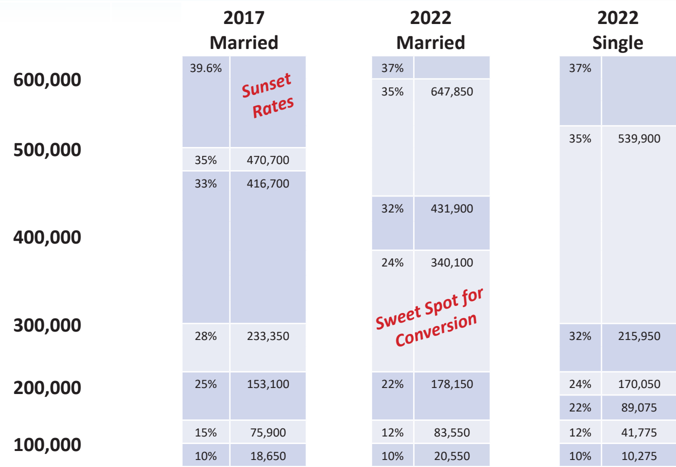
This chart represents a composite of what several carriers will typically permit as the face amount of coverage for income replacement.

Lines 2 and 3 – Interest & Dividends *(Figure 3 next page)*

Lines 2a/b (interest) and 3a/b (dividends) can open many discussions with clients. For example, if the client's return reflects mostly taxable interest or dividend income, perhaps the client would be open to a conversation about diversifying some of their taxable assets into tax-free or tax-deferred assets. If the dividend income comes from a concentrated position in a single stock life insurance, it can help protect the family in the event of a down-turn in the market.

Taxable Equivalent Yields Starting in 2018		
Tax Brackets	Tax-Free Yield of:	
	3%	5%
	Provides an Equivalent Taxable Yield of:	
24%	3.95%	6.58%
32%	4.41%	7.35%
35%	4.62%	7.69%
37%	4.76%	7.94%

Alternatively, if the client has substantial investments in tax-advantaged assets such as municipal bonds, s/he may be a good candidate to discuss the benefits of permanent life insurance. You might ask the client, "What are you earning on the bonds? What is the money for?" An alternative to low-risk low return assets is to use these assets to purchase life insurance that can be structured to provide an extended care benefit.



Lines 4a, 4b, 5a and 5b – IRA, qualified plans, and annuity distributions *(Figure 3)*

If this line is blank, it simply means that the client has not taken distributions from a retirement account or annuity. If the client is still working, you might ask about his/her retirement plans and the amount in qualified accounts. Clients with significant amounts in pre-tax retirement accounts might be better off doing a Roth conversion while the tax brackets are low, due to the 2017 Tax Cuts & Jobs Act, which is set to sunset the end of 2025. However, clients who do a Roth conversion should be informed that because taxes will need to be paid, after the conversion they will be in a worse position for a period of time. A client's family can be made whole by purchasing life insurance to cover the risk of an early death during this time period.

Alternatively, some clients who are taking retirement plan distributions are doing so only because they are required as RMDs, which changed this year to age 73. Clients who do not need the earnings for living expenses might be interested in purchasing insurance to leave an income tax-free benefit to their heirs. Carriers will often permit an amount equal to 40% of the retirement plan value based on the premise that this is approximately the amount lost to income tax. Now that legislation has eliminated stretch distributions for most beneficiaries, this strategy may become more popular.

Lines 6a and 6b – Social Security *(Figure 3)*

Clients taking Social Security are typically retired. Retired clients face multiple risks with longevity, health care, and sequence of returns. These individuals can use life insurance cash value to supplement retirement income in later years, help cover long-term care expenses, and protect/provide a legacy to heirs or a favored charity.

Line 7 – Capital Gain or Loss from Schedule D *(Figure 3)*

Clients with a significant amount of capital gain income who are high income earners may be interested in more tax efficient assets. Life insurance may serve as such an asset.

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**	
If you did not get a Form W-2, see instructions.	**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**	
	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**	
Attach Sch. B if required.	**2a**	Tax-exempt interest **2a** — **b** Taxable interest	**2b**	
	3a	Qualified dividends **3a** — **b** Ordinary dividends	**3b**	
	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) ☐		
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐	**7**	

Figure 3

Lines 8 & 9– Calculating Total *(Figure 4)*

A number of less common income items such as alimony received, farm income, etc. were removed and now appear on Schedule 1. Line 10 reflects the taxpayer(s) total income and includes the total of lines 1-7 from Form 1040 and line 10 from Schedule 1.

Lines 10 - 11 – Calculating Adjusted Gross Income *(Figure 4)*

Once the total income is calculated, it's necessary to make what are called "above the line deductions" to get to adjusted gross income. Previously, Form 1040 included a section that took taxpayers through a number of the above the line deductions. The less common adjustments were removed and are now included in Schedule 1 line 26.

Line 12 – Itemized or Standard Deduction *(Figure 4)*

The standard deduction significantly increased in 2018, while itemized deductions were eliminated or curtailed. As a result, many taxpayers will claim the standard deduction and not need to file an itemized Schedule A. For 2022, the standard deduction is $25,900 married filing joint/surviving spouse, $12,950 single/married filing separate, and $19,400 for head of household.

Line 13 – Qualified Business Income Deduction (199A) *(Figure 4)*

Owners of pass-through business entities (sole proprietorships, S corporations, partnerships/LLCs may be entitled to a deduction of up to 20% of their "qualified business income (QBI)." For QBI deduction purposes, a married business owner who files a joint return with less than $340,100 (2022 indexed) of total household taxable income, or an individual with taxable income of less than $170,050 (2022 indexed), will be able to take the full deduction. Once taxable income is over this limit, the deduction is limited. Consequently, implementing strategies to optimize this deduction will be a critical aspect of tax planning for business owners going forward.

Pass-through business owners who do not receive a deduction will be looking for ways to qualify for the deduction. Those who qualify for a deduction may have funds that can be used to meet their insurance and financial needs. Business owners have many needs for life insurance including: purchasing life insurance to cover debt, to protect against the loss of a key person, funding of a buy-sell arrangement, and providing non-qualified compensation benefits for key employees.

Standard Deduction for—
- Single or Married filing separately, $12,950
- Married filing jointly or Qualifying surviving spouse, $25,900
- Head of household, $19,400
- If you checked any box under *Standard Deduction*, see instructions.

8	Other income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	
12	**Standard deduction or itemized deductions** (from Schedule A)	12	
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	

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Figure 4

Page 2 Form 1040 – Calculation of Tax Owed or to be Refunded

The second page of Form 1040 takes you through the steps to determine the amount of tax the client must pay, amount withheld, and whether the client owes tax or is entitled to a refund. Line 24 is the total amount of taxes a client must pay. You may be able to help your clients reduce their tax by encouraging them to take advantage of strategies that bunch deductions or defer income.

Schedule A Entries – Itemized Deductions

One of the key changes in the 2017 tax legislation was the increase in the standard deduction and the elimination or cap on many itemized deductions. Because of these changes, many people will forgo taking itemized deductions and use the new higher standard deduction amounts.

Line 1 – Medical & Dental Expenses *(Figure 5)*

Even prior to the 2017 legislation, the medical and dental itemized deduction was significantly limited. Consequently, most taxpayers do not qualify for this deduction. That being said, this deduction can lead into a discussion on disability income or long-term care coverage. For example, the client could be asked if they understand that medical insurance does not cover extended care/long-term care expenses.

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)		**1**		
	2	Enter amount from Form 1040 or 1040-SR, line 11	**2**			
	3	Multiply line 2 by 7.5% (0.075)		**3**		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-				**4**

Figure 5

Lines 5 & 6 – Taxes You Paid – State/Local Income & Property Taxes *(Figure 6)*

Due to the 2017 tax legislation, this itemized deduction is limited to $10,000. Many taxpayers in high tax states are limited by this deduction.

Taxes You Paid	**5** State and local taxes.			
	a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box . . . . ☐	**5a**		
	b State and local real estate taxes (see instructions)	**5b**		
	c State and local personal property taxes	**5c**		
	d Add lines 5a through 5c	**5d**		
	e Enter the smaller of line 5d or $10,000 ($5,000 if married filing separately)	**5e**		
	6 Other taxes. List type and amount:	**6**		
	7 Add lines 5e and 6			**7**

Figure 6

Lines 8 & 9 – Interest Paid *(Figure 7)*

Life insurance is often purchased to cover debt such as a home mortgage. This is a good place to ask if the taxpayer has adequate life insurance coverage to pay off their debt.

Interest You Paid **Caution:** Your mortgage interest deduction may be limited. See instructions.	**8** Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box . . . . ☐			
	a Home mortgage interest and points reported to you on Form 1098. See instructions if limited	**8a**		
	b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	**8b**		
	c Points not reported to you on Form 1098. See instructions for special rules	**8c**		
	d Reserved for future use	**8d**		
	e Add lines 8a through 8c	**8e**		
	9 Investment interest. Attach Form 4952 if required. See instructions .	**9**		
	10 Add lines 8e and 9			**10**

Figure 7

Lines 11 & 12 – Gift to Charity *(Figure 8)*

Gifts to Charity **Caution:** If you made a gift and got a benefit for it, see instructions.	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11
	12	Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12
	13	Carryover from prior year	13
	14	Add lines 11 through 13	14
Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions	15
Other Itemized Deductions	16	Other—from list in instructions. List type and amount:	16
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12	17
	18	If you elect to itemize deductions even though they are less than your standard deduction, check this box . . . . ☐	

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Figure 8

Some individuals who are making charitable gifts may be interested in learning how they can potentially leverage the gift using life insurance. A way to uncover this opportunity is to ask the client if they plan on making large charitable gifts as part of their estate plan and what assets they plan to use.