Transamerica℠

Advanced Markets

IRS form 1040 review guide

Your guide to identifying tax return opportunities

Securities may lose value and are not insured by the FDIC or any federal government agency. They are not a deposit of or guaranteed by any bank, bank affiliate, or credit union.

Identify your opportunities

Transamerica is committed to providing you with the tools and information you need to make the right financial decisions.

IRS Form 1040 is one of the most useful sources of financial information. Consider the information it provides:

- Family structure
- Financial holdings
- Tax status
- Sources of income
- Retirement accounts

A 1040 review can help your financial professional provide you with the guidance and personalized strategies designed to help meet your objectives.

A comprehensive approach

By providing your financial professional with the information from Form 1040, he or she will be in a better position to help you:

1. Position assets in investments that are tax-efficient and consistent with your risk tolerance and investment objectives
2. Maximize the use of retirement savings opportunities
3. Understand the implications of recent tax law changes

An in-depth look at IRS form 1040

Personal information, filing status, and dependents

While this section of the 1040 may seem self-explanatory, it provides an important and concise summary of your family situation. Providing this information to your financial professional can help him or her better understand your family structure, potentially leading to conversations about topics such as college savings, beneficiary designations, and estate planning.

Sources of income

Line 1a and Form W2 – wages, salaries, tips, etc.

IRS Form W-2, which accompanies the 1040, will generally show the amount deferred from wages to an employer-sponsored retirement plan (see box 12). This is an easy way for your financial professional to confirm you are taking full advantage of available contributions. Also, most individuals age 50 or older can take advantage of catch-up contributions.

Whenever you are contributing to an employer-sponsored retirement plan, provide your financial professional with a copy of the Summary Plan Description. This will contain information about investment options, availability of a Roth contribution option, distributions, and in-service withdrawal options.

401(k) deferral limits	2025
Under age 50	$23,500
Age 50 and up (with catch-up)	$31,000

Simple IRA deferral limits	2025
Under age 50	$16,500
Age 50 and up (with catch-up)	$20,000

Consider this: An in-service withdrawal rolled over to an IRA may provide you with expanded investment options. Before conducting a rollover, be sure to discuss with your financial professional whether keeping assets in a qualified plan may offer advantages to you, such as lower cost or exceptions to the 10% additional federal tax on withdrawals prior to age 59½. Rollovers may be subject to differences in features and expenses. You should consult with a tax professional regarding your particular situation.

Line 2 and Schedule B – tax-exempt and taxable interest

2a – Tax-exempt interest:

When your financial professional understands your tax situation, it helps to determine whether taxable or tax-free income offers the best tax-adjusted return. Individuals in a low tax bracket may get a better after-tax return from a taxable investment.

2b – Taxable interest:

If an amount is indicated on line 2b, a Schedule B may be required to be completed. Schedule B can be helpful in identifying your financial accounts, as each source of interest is listed on the form.

Keep in mind that interest income reported on line 2b is often from savings or money market accounts. While these accounts can offer safety of principal, they can also present inflation risk. Review your investment objectives and talk with your financial professional about alternative low-risk investments that might offer a higher after-tax return.

On the other hand, if you are receiving more taxable interest than is needed or desired, you may want to consider diversifying those assets from a taxable account to a tax-deferred account, or to an investment that offers greater tax efficiency.

Consider this: Conduct a fixed income review with your financial professional to make sure you are keeping up with inflation and getting an appropriate level of after-tax income based on your investment objectives and risk profile.

Line 3 – Qualified and ordinary dividends

3a – Qualified dividends: Dividends are taxed at long-term capital gains rates.

To calculate the after-tax return of these dividends, you need to determine your long-term capital gains tax rate.

This can be 0%, 15%, or 20% depending on your taxable income (see chart for Line 7: Schedule D).

3b – Ordinary dividends: Ordinary dividends are taxed as ordinary income.

Consider this: Qualified dividends can be a tax-efficient source of income, depending on your long-term capital gains tax rate and if consistent with your investment objectives and risk tolerance.

If you don't need dividend income, consider an investment that does not generate significant current income, such as a growth mutual fund or a tax-deferred investment.

Point to note: Many individuals rely on dividend-paying stocks for retirement income. If this is the case, make sure you are well-diversified and receiving a dividend yield that justifies your investment risk. Diversification is a technique to help reduce risk but does not guarantee against loss.

Line 4 — IRAs, pensions, and annuities

4a – Gross IRA distributions, 4b – Taxable amount:

If distributions are fully taxable, boxes 4a and 4b will contain the same number. If they do not, the reason could be one or more of the following:

- All or a portion of the distribution was rolled over to another retirement account.

  Note: "Rollover" should be written next to box 4b.

- A distribution was made from an IRA (other than a Roth IRA) that contained nondeductible contributions.

  Note: Form 8606 should accompany the 1040. The taxpayer is responsible for tracking nondeductible IRA contributions, and the resulting nontaxable distributions, on IRS Form 8606. Providing this to your financial professional can assist him or her in determining the aggregate amount of nondeductible contributions in your Traditional, SEP, and SIMPLE IRAs.

- A qualified distribution was made from a Roth IRA account.

  Note: Distribution code Q should be shown on the 1099-R from that custodian.

- All or a portion of the distribution from an IRA was sent directly to an organization eligible to receive tax-deductible contributions and treated as a Qualified Charitable Distribution (QCD).

  Note: "QCD" should be written next to box 4b.

- All or part of the distribution was a Health Savings Account (HSA) funding distribution (HFD). A nontaxable transfer of funds from an IRA to an HSA is allowed once per lifetime, with limitations.

  Note: "HFD" should be written next to box 4b.

Tips: If you are taking IRA distributions, consider whether the rate of withdrawals is sustainable. Even required minimum distributions (RMDs) exceed 5% of the account value at 81 years of age. If you have concerns about the withdrawal rate on your IRA, discuss alternative options with your financial professional.

5a – Gross pension and annuity distributions, 5b – Taxable amount:

If distributions are fully taxable, boxes 5a and 5b will contain the same number. If they do not, it could mean that all or a portion of the distribution was made from a nonqualified annuity that is a nontaxable return of investment. This could be the result of annuitization of an annuity contract or the absence of taxable gains in a deferred annuity.

Note: The 1099-R should indicate what portion of the distribution is nontaxable. In some cases, additional forms may be required to determine the taxable amount of a distribution in the event the taxable amount has not been determined by the payer.

Consider this: A high ratio of nontaxable return of investment to taxable returns from a nonqualified annuity may indicate poor investment performance. Conduct an annuity review with your financial professional.

Note: In some cases, additional forms may be required to determine the taxable amount of a distribution in the event the taxable amount has not been determined by the payer.

Providing your financial professional with copies of your IRS Form 1099-Rs, which are used by financial companies to report retirement plan distributions, can help identify qualified plans, retirement accounts, and annuities.

Line 7 and Schedule D – Capital gain or loss

If this line shows a loss, you can deduct up to $3,000 against ordinary income and carry the remainder forward. Be sure to keep a record of unused losses for future tax years.

Short-term capital gains (for assets held not more than one year) are taxed as ordinary income. Long-term capital gains (for assets held more than one year and qualified dividends) are taxed as follows:

Long-term capital gains tax rates 2025

Married and surviving spouses filing joint return		**Single filer**	
Taxable income:		**Taxable income:**	
$0–$96,700	0%	$0–$48,350	0%
Over $96,700 but not over $600,050	15%	Over $48,350 but not over $533,400	15%
Over $600,050	20%	Over $533,400	20%

There are a number of strategies available to reduce capital gains, if necessary. Discuss the following with your tax advisor and financial professional:

- Using a buy-and-hold strategy
- Implementing a tax-loss harvesting strategy
- Using carryforward losses, if available
- Repositioning assets into tax-deferred investments[1]
- Leveraging a low turnover mutual fund or other professionally managed, tax-advantaged strategies

Line 8 – Other income from Schedule 1

Schedule 1 is where additional income sources, such as business, rental, partnership, S corporation, and trust income are reported.

Schedule 1: Line 3 and Schedule C – Business income

A profit or loss from a business is reported on line 3 of Schedule 1 and on Schedule C. If you are reporting a large amount of business income, check line 19 of Schedule C to see if the business made a pension or profit-sharing plan contribution; such a contribution will generally reduce the income that passes through to your 1040.

Consider this: *Transamerica Advanced Markets Group's Guide to Small Business Retirement Plans* can help you and your financial professional conduct a retirement goals review to determine your options and whether or not your current approach still meets your needs.

If a business loss is reported on Schedule C, discuss with your tax advisor and financial professional whether a Roth conversion may make sense. Income from a Roth conversion is reported on line 4 of the 1040. To the extent a loss on Schedule C offsets the Roth conversion income on line 4 of the 1040, it can reduce the out-of-pocket tax cost of the Roth conversion.

[1] Taxable distributions from nonqualified annuities and Traditional IRAs are always taxed as ordinary income.

Individuals with net investment income will pay an added 3.8% tax on the lesser of net investment income or modified adjusted gross income (MAGI) above certain thresholds. ($200,000 for single filers/$250,000 for married filing a joint return).

Line 8 – Other income from Schedule 1 (cont.)

Schedule 1: line 5 and Schedule E – Rental real estate, royalties, partnerships, S corporations, trusts, etc.

Line 5 is used to report several different types of income. Schedule E to Form 1040 will show the source of the income. If the source of the income is a trust, one issue to consider is whether the beneficiary receiving the income wants or needs that income. The tax structure of irrevocable, non-grantor trusts creates a significant incentive for the trustee to pay income to beneficiaries. In some situations, however, the primary objective of the trust may be to grow assets for remainder beneficiaries.

Consider this: An annuity can provide the trustee with control over income in the trust. In some instances, this can give the trustee flexibility in how they manage trust assets.

Income retained in a non-grantor trust is subject to trust tax rates. In 2025, the top income tax rate of 37% starts when retained income exceeds $15,650. The top capital gains rate of 20% applies to trusts when retained income exceeds $15,900. The 3.8% net investment income tax (NIIT) also applies to trusts when retained income exceeds $15,650. When managing trust assets, tax efficiency is very important.

If you are receiving a large amount of partnership or S Corporation income, discuss with your financial professional whether the business could implement a retirement plan, or upgrade an existing plan.

A SEP, profit-sharing plan, or defined benefit plan can be an effective way for a partnership or S Corporation to reduce pass-through income.

Line 9 – Total income

Now you add up lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This gives you total income from all sources.

Line 10 – Adjustments to income from Schedule 1

Schedule 1: Line 16 – Self-employed SEP, simple, and qualified plans

An entry on this line means you are contributing to one of these accounts. Evaluate the investments in the account to determine if they are meeting your needs. Also, if you are a high-income earner, you may want to make sure you are maxing out contributions.

Consider this: If line 16 is blank, discuss with your financial professional whether you would benefit from a small business retirement plan. If there is an entry on this line, evaluate the existing plan to determine whether it is consistent with your retirement savings goals.

Schedule 1: Line 20 – IRA deduction

All individuals with earned income are free to contribute $7,000 ($8,000 if 50 or older) to an IRA. The deductibility of the contribution depends on your filing status, income, and whether you or your spouse are covered by a qualified retirement plan at work (see *IRS Publication 590-A* for deductibility information). If the number on this line exceeds the individual deduction limit, it likely indicates both you and your spouse have made deductible contributions.

Note: Starting in 2020, individuals over the age of 70½ who have earned income can make a traditional IRA contribution. Speak to your tax professional if this pertains to you.

Even if line 20 is blank, there may still be an IRA opportunity. Individuals who cannot deduct an IRA contribution may still be eligible to contribute to Roth IRAs (subject to income restrictions – see *IRS Publication 590-A)*.

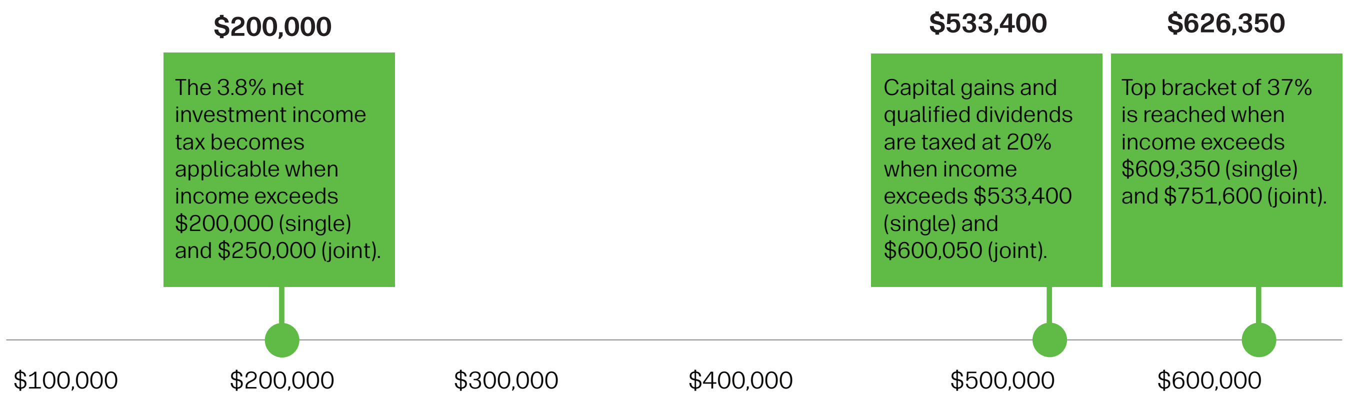
Spousal contributions are also available, even for spouses without earned income. Individuals who choose to make nondeductible IRA contributions must track these contributions by filing Form 8606.

Consider this: Getting IRAs set up and established now, even with relatively small contributions, can make the rollover process easier in the future. Ask your financial professional about using asset allocation funds to get full diversification and professional management in small accounts.

Line 11 – Adjusted gross income (AGI)

AGI is calculated by reducing total income (as shown on line 9) by the total adjustments shown on line 10. AGI is used to determine eligibility for certain credits, deductions, and contributions. It is also key to understanding the application of additional taxes, such as the 3.8% tax on net investment income.

Impact of adjusted gross income and taxable income 2025



Deductions

Line 12 – Standard and itemized deductions

Certain items can only be deducted from income if you itemize deductions. Itemized deductions are listed on Schedule A to Form 1040. These include unreimbursed medical expenses, state income, state and local taxes, mortgage interest, and charitable gifts. Determine whether deductions are likely to recur (such as mortgage interest) or represent a one-time event (such as medical expenses). If you anticipate large deductions or a tax credit in the current tax year, you may want to consider converting a portion of your retirement assets to a Roth IRA, as the deductions can offset conversion income that would otherwise be taxable.

Point to note: A Roth conversion can increase AGI and may impact the availability of certain tax credits. Contributions are subject to taxes that were previously deducted, including any accumulated earnings. Please keep in mind the tax costs can be significant with a Roth IRA conversion. Individuals may also be pushed into a higher tax bracket, especially if converting a large amount of money.

Line 13 – Qualified business income deduction (QBID)

This deduction allows businesses other than corporations to take a deduction if they have qualified business income. The amount of the deduction is based on the type of business and the amount of taxable income.

Consider this: If you are a business owner with pass-through income, ask your financial professional if you are able to take full advantage of this deduction. If you are not, discuss ways to potentially increase your deduction, such as funding an employer-sponsored retirement plan.

Taxes

Line 15 – Taxable income

Taxable income determines your "tax bracket." Knowing your tax bracket is very important for decisions such as whether to invest in taxable or tax-free bonds and whether to contribute to a pretax, tax-deferred traditional retirement account, or an after-tax, potentially tax-free Roth retirement account.

Line 23 – Other taxes from Schedule 2

Schedule 2: Line 8 – Additional tax on IRAs and qualified plans

Reporting a tax on this line likely means you took a distribution from a retirement plan prior to age 59½, triggering a 10% additional federal tax. Check with your tax professional to see if you qualify for an exception under IRC Section 72(t), such as a qualified first-time homebuyer or qualified higher education expense. Coronavirus-related distributions are also exempt from the additional tax. If you don't qualify for an exception and have a continued income need, ask your financial professional about setting up a series of substantially equal periodic payments in order to avoid the 10% additional federal tax going forward.

Schedule 2: Line 12 – Taxes from form 8960 (net investment income tax)

If you have an entry on line 12, you are paying the 3.8% net investment income tax (NIIT). This means that you have income from rents, royalties, capital gains, dividends, taxable bond income, or interest in excess of the applicable thresholds (MAGI of $200,000 for single filers or $250,000 for married couples filing jointly).

Consider this: If you have exposure to the NIIT, you may want to discuss the following strategies with your tax advisor and financial professional:

- Take steps to reduce your MAGI. The higher your underlying MAGI, the more your investment income may exceed the applicable thresholds. One example would be to maximize your qualified retirement plan contributions.
- Reduce Traditional IRA distributions if possible. Traditional IRA distributions are excluded from the tax, but are added to MAGI, potentially creating exposure.
- Consider meeting income needs from a Roth IRA, if available. Tax-free distributions from a Roth IRA are not included when determining whether your income is above the applicable thresholds.
- Use municipal bonds for income when possible. Municipal bond income is excluded from both AGI and the NIIT.
- While annuity income is subject to tax, tax deferral can delay recognition of income into years where taxable income may be lower.
- Consider taking capital losses when available.

Line 24 – Total tax

To find your total tax bill for the year, take your taxable income and subtract or add any tax credits or additional taxes.

Notes

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