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# Tax Savings TOOL courtesy of Brian Peter McNamara, MST, Inc *dba -- MST: Tax Reduction Plan for Small Business*

## DISCOVER Tax Reduction Strategies hidden in plain sight on your prior year 1040 / 540 (CA)

## Use this guide to Analyze your prior year's 1040; you may discover an abundance of tax savings!

This guide is designed as a checklist with authoritative references noted. A "Yes" answer may indicate an area of need for TAX PLANNING services.

### a NOTE from Brian McNamara:

No one should use this tool to execute changes to your method of tax reporting **without professional assistance**. However, there's no harm in starting an evaluation yourself with the idea that you'll deliver your findings to your **Tax Professional2.**

- *2We can act in that capacity if you or your spouse own a business enterprise reported on 1040 Schedule C or E (e.g. a sole proprietorship or rental property income) _OR_ a separate business that reports (i.e. files its own tax return) using any of these forms 1120S (for S-Corporations), 1065 (for Partnerships) or LLCs filing as Partnerships or S-Corps (LLC must be reporting as a multi-member partnership or operating as an S-Corporation and not considered a disregarded entity)*

**Caution:** The planning techniques discussed in this appendix are based on law as currently in effect as of the date of publication (May 2023). Practitioners and Clients should be alert for future developments.

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Did you know that the Wheaten Terrier originally hails from …… the rolling green hills of Ireland -and- that our mascot (for The IRISH Team) is an age-16 Wheaton named Bear?
England – the oppressor of the day some 250 years ago, did not allow Irish to own Hounds; the Irish surpassed and have the last laugh -- the Wheaton is one of the oldest living dog breeds -- so what happened to the hound? – last heard of in a Disney cartoon

MST | Tax Reduction Plan for Small Business

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: 1

| | | |
|---|---|---|
| Your first name and middle initial | Last name 2 | **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**

**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 2

**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 |
|---|---|---|---|---|
| | | | ☐ | ☐ |
| | | | ☐ | ☐ 3 |
| | | | ☐ | ☐ |
| | | | ☐ | ☐ |

## Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a Form W-2, see instructions.

| | | | |
|---|---|---|---|
| 1a | Total amount from Form(s) W-2, box 1 (see instructions) | 1a | |
| 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 | |
| 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 | 4A |
| 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 | |

**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.

| | | | |
|---|---|---|---|
| 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 | |
| 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 6 | 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 | |

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 11320B Form **1040** (2022)

Tramy Hoang, Operations Contact: 949-474-2092 X102
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Form 1040 (2022) Page **2**

| | | | | | |
|---|---|---|---|---|---|
| **Tax and Credits** | 16 | **Tax** (see instructions). Check if any from Form(s): **1** ☐ 8814 **2** ☐ 4972 **3** ☐ ______ 7 | | 16 | |
| | 17 | Amount from Schedule 2, line 3 | | 17 | |
| | 18 | Add lines 16 and 17 | | 18 | |
| | 19 | Child tax credit or credit for other dependents from Schedule 8812 | | 19 | |
| | 20 | Amount from Schedule 3, line 8 | | 20 | |
| | 21 | Add lines 19 and 20 | | 21 | |
| | 22 | Subtract line 21 from line 18. If zero or less, enter -0- | | 22 | |
| | 23 | Other taxes, including self-employment tax, from Schedule 2, line 21 | | 23 | |
| | 24 | Add lines 22 and 23. This is your **total tax** | | 24 | |
| **Payments** | 25 | Federal income tax withheld from: | | | |
| | a | Form(s) W-2 | 25a | | |
| | b | Form(s) 1099 | 25b | | |
| | c | Other forms (see instructions) | 25c | | 9 |
| | d | Add lines 25a through 25c | | 25d | |
| If you have a qualifying child, attach Sch. EIC. | 26 | 2022 estimated tax payments and amount applied from 2021 return | | 26 | |
| | 27 | Earned income credit (EIC) | 27 | | |
| | 28 | Additional child tax credit from Schedule 8812 | 28 | | |
| | 29 | American opportunity credit from Form 8863, line 8 | 29 | | |
| | 30 | Reserved for future use | 30 | | |
| | 31 | Amount from Schedule 3, line 15 | 31 | | |
| | 32 | Add lines 27, 28, 29, and 31. These are your **total other payments and refundable credits** | | 32 | |
| | 33 | Add lines 25d, 26, and 32. These are your **total payments** | | 33 | |
| **Refund** | 34 | If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid** | | 34 | |
| | 35a | Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here ☐ | | 35a | |
| Direct deposit? See instructions. | b | Routing number **c** Type: ☐ Checking ☐ Savings | | | |
| | d | Account number | | | |
| | 36 | Amount of line 34 you want **applied to your 2023 estimated tax** | 36 | | |
| **Amount You Owe** | 37 | Subtract line 33 from line 24. This is the **amount you owe**. For details on how to pay, go to *www.irs.gov/Payments* or see instructions | | 37 | |
| | 38 | Estimated tax penalty (see instructions) | 38 | | |

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS? See instructions ☐ **Yes.** Complete below. ☐ **No**

Designee's name | Phone no. | Personal identification number (PIN)

**Sign Here**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

| Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.) |
|---|---|---|---|
| Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) |
| Phone no. | Email address | | |

**Paid Preparer Use Only**

| Preparer's name | Preparer's signature | Date | PTIN | Check if: ☐ Self-employed |
|---|---|---|---|---|
| Firm's name | | | | Phone no. |
| Firm's address | | | | Firm's EIN |

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2022)

**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
2022
Attachment Sequence No. **01**

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

## Part I Additional Income

4B

| | | | | | |
|---|---|---|---|---|---|
| 1 | Taxable refunds, credits, or offsets of state and local income taxes | | | 1 | |
| 2a | Alimony received | | | 2a | |
| b | Date of original divorce or separation agreement (see instructions): ______ | | | | |
| 3 | Business income or (loss). Attach Schedule C | | | 3 | |
| 4 | Other gains or (losses). Attach Form 4797 | | | 4 | |
| 5 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | | | 5 | |
| 6 | Farm income or (loss). Attach Schedule F | | | 6 | |
| 7 | Unemployment compensation | | | 7 | |
| 8 | Other income: | | | | |
| a | Net operating loss | 8a | ( ) | | |
| b | Gambling | 8b | | | |
| c | Cancellation of debt | 8c | | | |
| d | Foreign earned income exclusion from Form 2555 | 8d | ( ) | | |
| e | Income from Form 8853 | 8e | | | |
| f | Income from Form 8889 | 8f | | | |
| g | Alaska Permanent Fund dividends | 8g | | | |
| h | Jury duty pay | 8h | | | |
| i | Prizes and awards | 8i | | | |
| j | Activity not engaged in for profit income | 8j | | | |
| k | Stock options | 8k | | | |
| l | Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property | 8l | | | |
| m | Olympic and Paralympic medals and USOC prize money (see instructions) | 8m | | | |
| n | Section 951(a) inclusion (see instructions) | 8n | | | |
| o | Section 951A(a) inclusion (see instructions) | 8o | | | |
| p | Section 461(l) excess business loss adjustment | 8p | | | |
| q | Taxable distributions from an ABLE account (see instructions) | 8q | | | |
| r | Scholarship and fellowship grants not reported on Form W-2 | 8r | | | |
| s | Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d | 8s | ( ) | | |
| t | Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan | 8t | | | |
| u | Wages earned while incarcerated | 8u | | | |
| z | Other income. List type and amount: ______ | 8z | | | |
| 9 | Total other income. Add lines 8a through 8z | | | 9 | |
| 10 | Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 | | | 10 | |

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## Part II Adjustments to Income

5

| | | | | | |
|---|---|---|---|---|---|
| 11 | Educator expenses | | | 11 | |
| 12 | Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 | | | 12 | |
| 13 | Health savings account deduction. Attach Form 8889 | | | 13 | |
| 14 | Moving expenses for members of the Armed Forces. Attach Form 3903 | | | 14 | |
| 15 | Deductible part of self-employment tax. Attach Schedule SE | | | 15 | |
| 16 | Self-employed SEP, SIMPLE, and qualified plans | | | 16 | |
| 17 | Self-employed health insurance deduction | | | 17 | |
| 18 | Penalty on early withdrawal of savings | | | 18 | |
| 19a | Alimony paid | | | 19a | |
| b | Recipient's SSN | | | | |
| c | Date of original divorce or separation agreement (see instructions): | | | | |
| 20 | IRA deduction | | | 20 | |
| 21 | Student loan interest deduction | | | 21 | |
| 22 | Reserved for future use | | | 22 | |
| 23 | Archer MSA deduction | | | 23 | |
| 24 | Other adjustments: | | | | |
| a | Jury duty pay (see instructions) | 24a | | | |
| b | Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit | 24b | | | |
| c | Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m | 24c | | | |
| d | Reforestation amortization and expenses | 24d | | | |
| e | Repayment of supplemental unemployment benefits under the Trade Act of 1974 | 24e | | | |
| f | Contributions to section 501(c)(18)(D) pension plans | 24f | | | |
| g | Contributions by certain chaplains to section 403(b) plans | 24g | | | |
| h | Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions) | 24h | | | |
| i | Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations | 24i | | | |
| j | Housing deduction from Form 2555 | 24j | | | |
| k | Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041) | 24k | | | |
| z | Other adjustments. List type and amount: | 24z | | | |
| 25 | Total other adjustments. Add lines 24a through 24z | | | 25 | |
| 26 | Add lines 11 through 23 and 25. These are your **adjustments to income**. Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a | | | 26 | |

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**SCHEDULE 2 (Form 1040)**
Department of the Treasury Internal Revenue Service

# Additional Taxes

**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
2022
Attachment Sequence No. **02**

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

## Part I Tax

| | | | |
|---|---|---|---|
| **1** | Alternative minimum tax. Attach Form 6251 | **1** | |
| **2** | Excess advance premium tax credit repayment. Attach Form 8962 | **2** | |
| **3** | Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17 | **3** | |

## Part II Other Taxes

| | | | | | |
|---|---|---|---|---|---|
| **4** | Self-employment tax. Attach Schedule SE | | | **4** | |
| **5** | Social security and Medicare tax on unreported tip income. Attach Form 4137 | **5** | | | |
| **6** | Uncollected social security and Medicare tax on wages. Attach Form 8919 | **6** | | | 7 |
| **7** | Total additional social security and Medicare tax. Add lines 5 and 6 | | | **7** | |
| **8** | Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here ☐ | | | **8** | |
| **9** | Household employment taxes. Attach Schedule H | | | **9** | |
| **10** | Repayment of first-time homebuyer credit. Attach Form 5405 if required | | | **10** | |
| **11** | Additional Medicare Tax. Attach Form 8959 | | | **11** | |
| **12** | Net investment income tax. Attach Form 8960 | | | **12** | |
| **13** | Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12 | | | **13** | |
| **14** | Interest on tax due on installment income from the sale of certain residential lots and timeshares | | | **14** | |
| **15** | Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000 | | | **15** | |
| **16** | Recapture of low-income housing credit. Attach Form 8611 | | | **16** | |

*(continued on page 2)*

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## Part II Other Taxes *(continued)* 7

| | | | | | |
|---|---|---|---|---|---|
| **17** | Other additional taxes: | | | | |
| **a** | Recapture of other credits. List type, form number, and amount: | **17a** | | | |
| **b** | Recapture of federal mortgage subsidy, if you sold your home see instructions | **17b** | | | |
| **c** | Additional tax on HSA distributions. Attach Form 8889 | **17c** | | | |
| **d** | Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889 | **17d** | | | |
| **e** | Additional tax on Archer MSA distributions. Attach Form 8853 | **17e** | | | |
| **f** | Additional tax on Medicare Advantage MSA distributions. Attach Form 8853 | **17f** | | | |
| **g** | Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property | **17g** | | | |
| **h** | Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A | **17h** | | | |
| **i** | Compensation you received from a nonqualified deferred compensation plan described in section 457A | **17i** | | | |
| **j** | Section 72(m)(5) excess benefits tax | **17j** | | | |
| **k** | Golden parachute payments | **17k** | | | |
| **l** | Tax on accumulation distribution of trusts | **17l** | | | |
| **m** | Excise tax on insider stock compensation from an expatriated corporation | **17m** | | | |
| **n** | Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866 | **17n** | | | |
| **o** | Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR | **17o** | | | |
| **p** | Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund | **17p** | | | |
| **q** | Any interest from Form 8621, line 24 | **17q** | | | |
| **z** | Any other taxes. List type and amount: | **17z** | | | |
| **18** | Total additional taxes. Add lines 17a through 17z | | | **18** | |
| **19** | Reserved for future use | | | **19** | |
| **20** | Section 965 net tax liability installment from Form 965-A | **20** | | | |
| **21** | Add lines 4, 7 through 16, and 18. These are your **total other taxes**. Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b | | | **21** | |

**Schedule 2 (Form 1040) 2022**

**SCHEDULE 3 (Form 1040)**

Department of the Treasury Internal Revenue Service

# Additional Credits and Payments

**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

**2022**

Attachment Sequence No. **03**

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

## Part I Nonrefundable Credits

8

| | | | | | |
|---|---|---|---|---|---|
| **1** | Foreign tax credit. Attach Form 1116 if required | | | **1** | |
| **2** | Credit for child and dependent care expenses from Form 2441, line 11. Attach Form 2441 | | | **2** | |
| **3** | Education credits from Form 8863, line 19 | | | **3** | |
| **4** | Retirement savings contributions credit. Attach Form 8880 | | | **4** | |
| **5** | Residential energy credits. Attach Form 5695 | | | **5** | |
| **6** | Other nonrefundable credits: | | | | |
| **a** | General business credit. Attach Form 3800 | **6a** | | | |
| **b** | Credit for prior year minimum tax. Attach Form 8801 | **6b** | | | |
| **c** | Adoption credit. Attach Form 8839 | **6c** | | | |
| **d** | Credit for the elderly or disabled. Attach Schedule R | **6d** | | | |
| **e** | Alternative motor vehicle credit. Attach Form 8910 | **6e** | | | |
| **f** | Qualified plug-in motor vehicle credit. Attach Form 8936 | **6f** | | | |
| **g** | Mortgage interest credit. Attach Form 8396 | **6g** | | | |
| **h** | District of Columbia first-time homebuyer credit. Attach Form 8859 | **6h** | | | |
| **i** | Qualified electric vehicle credit. Attach Form 8834 | **6i** | | | |
| **j** | Alternative fuel vehicle refueling property credit. Attach Form 8911 | **6j** | | | |
| **k** | Credit to holders of tax credit bonds. Attach Form 8912 | **6k** | | | |
| **l** | Amount on Form 8978, line 14. See instructions | **6l** | | | |
| **z** | Other nonrefundable credits. List type and amount: | **6z** | | | |
| **7** | Total other nonrefundable credits. Add lines 6a through 6z | | | **7** | |
| **8** | Add lines 1 through 5 and 7. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 20 | | | **8** | |

*(continued on page 2)*

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## Part II Other Payments and Refundable Credits

9

| | | | | |
|---|---|---|---|---|
| 9 | Net premium tax credit. Attach Form 8962 | | 9 | |
| 10 | Amount paid with request for extension to file (see instructions) | | 10 | |
| 11 | Excess social security and tier 1 RRTA tax withheld | | 11 | |
| 12 | Credit for federal tax on fuels. Attach Form 4136 | | 12 | |
| 13 | Other payments or refundable credits: | | | |
| a | Form 2439 | 13a | | |
| b | Credit for qualified sick and family leave wages paid in 2022 from Schedule(s) H for leave taken before April 1, 2021 | 13b | | |
| c | Reserved for future use | 13c | | |
| d | Credit for repayment of amounts included in income from earlier years | 13d | | |
| e | Reserved for future use | 13e | | |
| f | Deferred amount of net 965 tax liability (see instructions) | 13f | | |
| g | Reserved for future use | 13g | | |
| h | Credit for qualified sick and family leave wages paid in 2022 from Schedule(s) H for leave taken after March 31, 2021, and before October 1, 2021 | 13h | | |
| z | Other payments or refundable credits. List type and amount: | 13z | | |
| 14 | Total other payments or refundable credits. Add lines 13a through 13z | | 14 | |
| 15 | Add lines 9 through 12 and 14. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 31 | | 15 | |

Schedule 3 (Form 1040) 2022

**SCHEDULE A (Form 1040)**

Department of the Treasury Internal Revenue Service

# Itemized Deductions

(10)

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

**Attach to Form 1040 or 1040-SR.**

**Caution:** If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074

2022

Attachment Sequence No. **07**

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

| | | | | |
|---|---|---|---|---|
| **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 |
| **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 |
| **Interest You Paid** <br> **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 |
| **Gifts to Charity** <br> **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 ☐ | | |

**For Paperwork Reduction Act Notice, see the Instructions for Form 1040.** Cat. No. 17145C **Schedule A (Form 1040) 2022**

**SCHEDULE C (Form 1040)**

Department of the Treasury Internal Revenue Service

# Profit or Loss From Business

(Sole Proprietorship)

(11)

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

Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

2022

Attachment Sequence No. 09

Name of proprietor | **Social security number (SSN)**

A Principal business or profession, including product or service (see instructions) | **B Enter code from instructions**

C Business name. If no separate business name, leave blank. | **D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses . ☐ Yes ☐ No

H If you started or acquired this business during 2022, check here . ☐

I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions . ☐ Yes ☐ No

J If "Yes," did you or will you file required Form(s) 1099? . ☐ Yes ☐ No

## Part I Income

| | | | |
|---|---|---|---|
| 1 | Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . ☐ | 1 | |
| 2 | Returns and allowances | 2 | |
| 3 | Subtract line 2 from line 1 | 3 | |
| 4 | Cost of goods sold (from line 42) | 4 | |
| 5 | **Gross profit.** Subtract line 4 from line 3 | 5 | |
| 6 | Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) | 6 | |
| 7 | **Gross income.** Add lines 5 and 6 | 7 | |

## Part II Expenses. Enter expenses for business use of your home only on line 30.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 8 | Advertising | 8 | | 18 | Office expense (see instructions) | 18 | |
| 9 | Car and truck expenses (see instructions) | 9 | | 19 | Pension and profit-sharing plans | 19 | |
| | | | | 20 | Rent or lease (see instructions): | | |
| 10 | Commissions and fees | 10 | | a | Vehicles, machinery, and equipment | 20a | |
| 11 | Contract labor (see instructions) | 11 | | b | Other business property | 20b | |
| 12 | Depletion | 12 | | 21 | Repairs and maintenance | 21 | |
| 13 | Depreciation and section 179 expense deduction (not included in Part III) (see instructions) | 13 | | 22 | Supplies (not included in Part III) | 22 | |
| | | | | 23 | Taxes and licenses | 23 | |
| | | | | 24 | Travel and meals: | | |
| 14 | Employee benefit programs (other than on line 19) | 14 | | a | Travel | 24a | |
| 15 | Insurance (other than health) | 15 | | b | Deductible meals (see instructions) | 24b | |
| 16 | Interest (see instructions): | | | 25 | Utilities | 25 | |
| a | Mortgage (paid to banks, etc.) | 16a | | 26 | Wages (less employment credits) | 26 | |
| b | Other | 16b | | 27a | Other expenses (from line 48) | 27a | |
| 17 | Legal and professional services | 17 | | b | **Reserved for future use** | 27b | |

| | | | |
|---|---|---|---|
| 28 | **Total expenses** before expenses for business use of home. Add lines 8 through 27a | 28 | |
| 29 | Tentative profit or (loss). Subtract line 28 from line 7 | 29 | |
| 30 | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. **Simplified method filers only:** Enter the total square footage of (a) your home: ____ and (b) the part of your home used for business: ____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 | 30 | |
| 31 | **Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32. | 31 | |

32 If you have a loss, check the box that describes your investment in this activity. See instructions.

• If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on **Form 1041, line 3.**

• If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

**For Paperwork Reduction Act Notice, see the separate instructions.** Cat. No. 11334P **Schedule C (Form 1040) 2022**

**Note:** Circled numbers on these forms refer to the sections of this work program where relevant planning strategies are discussed.

**SECTION 1 FILING STATUS**

Filing status is usually a function of the client's marital status on December 31 of the tax year. Choosing the appropriate one can result in significant differences in tax on the same amount of income. In addition, discussing the client's options with respect to filing status and exemptions may give the planner additional insight into the client's future plans (e.g., marriage, divorce, children) and family background.

# **Single.** Is a single taxpayer eligible for a more favorable filing status? Head of household should be considered if the taxpayer provides a home for children, regardless of whether they can be claimed as dependents, and dependent parents residing in their home, a nursing home, or a home for the aged.

# If Single Status was checked, inquire about children and dependent parents. Unmarried persons, particularly those without children, may want to leave their estate to charity. Charitable remainder trusts (CRTs) may be used to retain the income from property that will pass to charity after a term of years or at the death of the donor. (See "Charitable Remainder Trusts" beginning at **section 400 in the Tax Planning and Advisory *Charitable Giving* topic** for more on CRTs and other charitable giving techniques.)

# **Qualifying Surviving Spouse.** A surviving spouse with a dependent child can optimize tax savings by using the appropriate filing status [e.g., qualifying surviving spouse]. (See **section 401 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

# If Qualifying Surviving Spouse status was checked on the return, determine if any postmortem tax planning, as described in "Postmortem Estate

Planning" beginning at **section 1400 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** , would be effective. Also, ask to review the surviving spouse's will. (See "Reviewing Wills, Trusts, and Other Documents" beginning at **section 1500 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Getting Married.** For clients contemplating marriage, it may be beneficial to project the couple's overall income tax situation to capitalize on any strategies to minimize taxes (e.g., strategies involving personal residences-see "Personal Residence Issues" beginning at **section 600 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** ; postponing year-end marriages to the following year-see **section 402 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** ).

#

**Married Filing Joint (MFJ).** In certain situations (e.g., noncommunity property states when the spouse with lower income incurs a disproportionate amount of itemized deductions), married filing separate (MFS) status may be more favorable than MFJ.

#

**Married or Getting Married.** If the client is married or getting married, does each spouse carry sufficient life insurance to provide for the surviving spouse? Consider the needs of children through expected year of college graduation. (See section **603** .)

#

**Married Filing Separate (MFS).** MFS status in noncommunity property states may be beneficial for clients who have significant adjusted gross income (AGI) sensitive deductions. For example, a spouse with limited income and significant medical expenses not covered by insurance may be allowed a larger tax deduction (because the 7.5% AGI floor will be lower) than if both spouses' incomes are combined when applying the 7.5% AGI floor. (See **section 402 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .) However, filing separate returns may affect other tax benefits such as the credit for child and dependent care expenses, the earned income credit, and various education deductions and credits.

MFS status will sometimes indicate that a taxpayer is going through a divorce. If so, ensure that the taxpayer is considering the tax and estate planning ramifications related to the divorce, including property settlements, alimony and child support issues, retirement plan allocations, and filing issues. Note that alimony is no longer deductible by the payor spouse nor included in gross income by the recipient spouse for divorces that are finalized after 2018. Beneficiary designations on retirement plan accounts and life insurance policies need to be reviewed. Also, review level of life insurance coverage to ensure that children or other dependents are sufficiently provided for. (See section **605** .) See also the **Tax Planning and Advisory *Divorce*topic** .

#

**Spouses Living Apart.** A taxpayer who lives apart from his or her spouse during the last six months of the tax year and provides a home for a child may be eligible for head of household filing status rather than MFS. Also, the tax effect of MFS status on the various education deductions and credits should be considered. (See discussion beginning at **section 700 in the Tax Planning and Advisory *Divorce* topic** .)

#

**Wealth Protection Planning.** Wealth protection planning is particularly useful where only one spouse

#

has a high risk of exposure to creditors' claims. Consider retitling and rebalancing property so that the high-risk spouse's assets are primarily exempt, and placing nonexempt assets in the low-risk spouse's name. [Transfers between spouses should be documented by a written marital agreement (i.e., simply making a gift is not enough). Also, they should take advantage of state laws that exempt certain assets from creditors' claims.] (See **section 805 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

**SECTION 2 NAME AND ADDRESS**

Although it may seem relatively insignificant, the name and address section of a taxpayer's return can raise some tax issues that the planner may need to address with the client. Current year changes to this section of the return can alert the planner to potential tax planning opportunities.

# **State of Residence.** If the clients are new to the state, make sure they understand how state laws may affect their federal and state income tax liability. For example, married couples residing in community property states generally realize no tax savings from filing separate returns.

# State laws may affect estate tax liability (e.g., community property and joint tenancies). Also, probate and attorney fees can range from very expensive to moderate depending on the state. If the client is a resident in (or owns property in) a state with high probate costs (e.g., California), consider alternatives to probate, such as revocable trusts. (See **"A Systems Approach to Estate Planning" in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

# **Change of Address.** A change of address often indicates that the client sold (or will be selling) a residence. If a sale was made (or will be made),

make sure the client takes advantage of the gain exclusion rules. If a sale was not made, is the home now a rental or investment property? Was the move necessitated by a federally declared disaster for which numerous tax breaks and incentives are available? Is there now a possibility of a qualified home office? (See "Residences and Vacation Homes" beginning at **section 300 in the Tax Planning and Advisory *Individual Tax Planning* topic** and "Personal Residence Issues" beginning at **section 600 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .) Did the client incur certain energy efficient expenditures fixing up the new home that would qualify for the energy credit? (See section 307 in the Tax Planning and Advisory*Individual Tax Planning* topic.)

# 

**New Spouse.** For a recently married client, filing status issues may become important. (See section 1.) Taxpayers may need to consider the tax effects of a second income and should be aware of planning strategies for excluding gain from selling one or both spouses' residences. Taxpayers should also consider the necessity of changing the beneficiary on any life insurance policy, retirement plan, or IRA. (See section **300** and **section 103 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .) Healthcare implications should also be considered (compare costs and coverage of each spouse's health plan or eligibility for advance premium tax credit).

# 

**Divorce.** Recently divorced clients should be familiar with the innocent spouse rules to minimize tax exposure from previously filed joint returns. Are tax carryforwards properly allocated and utilized? Taxpayers should also consider the necessity of changing the beneficiary on any life insurance policy, retirement plan, or IRA. (See **section 700 in the Tax Planning and Advisory *Divorce* topic** .)

#

**Death of Taxpayer.** A surviving spouse can optimize tax savings by using the appropriate filing status. There are also significant tax planning strategies to consider on the decedent's final return. (See **section 806 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Nonresident Alien.** In general, married taxpayers may not file a joint return if either spouse is a nonresident alien at any time during the year. Therefore, for the 3.8% net investment income tax (3.8% NIIT), the resident spouse is restricted to the married filing separately status and the $125,000 MAGI threshold. However, a nonresident alien married to a citizen or resident of the U.S. can elect to be taxed as a citizen for the 3.8% NIIT. The effect of making this election is to include the worldwide income of the nonresident spouse in taxable income and in the calculation of the 3.8% NIIT and subject that income to the higher $250,000 MAGI threshold for married taxpayers filing jointly. (See section **1116** .)

#

**Age 65 or Older.** If the client is age 65 or older, planning strategies to maximize Medicare and social security benefits and to minimize Medicare premiums and taxes on social security benefits should be considered. If the client is close to age 73, planning strategies for dealing with the minimum required distribution (MRD) rules for retirement plans should be considered. (See "Retirement and Financial Independence Planning" beginning at section **800** .)

## SECTION 3 DEPENDENTS

Claiming a child or other relative as a dependent may indicate the need for several tax planning strategies. Filing status could be impacted by claiming other relatives as dependents.

#

**Minor Children.** If the clients' children are minors, have they considered the need for a guardian in the case of an untimely death? (See **section 1503 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Shifting Income to Children.** Taking advantage of strategies that shift income from the parents to the children can reduce a family's overall tax burden. Hiring a child to work in the family business could be a viable option. Gifts under the UGMA/UTMA and transfers in trust are effective means of shifting income. The impact of the kiddie tax and college financial aid implications must be considered. (See section **1113** .)

#

**Kiddie Tax Planning.** Are the client's children subject to the kiddie tax? If so, consider strategies that minimize the impact of the kiddie tax by deferring the child's income to years when the kiddie tax no longer applies. If not, discuss income shifting strategies (including transfers in trust) to benefit from the children's lower tax rates (for child's taxable unearned income less than $2,500 for 2023). (See section **1113** .) However, high income families subject to the 3.8% NIIT should consider shifting income to their children to take advantage of the child's $200,000 MAGI exemption from the 3.8% NIIT.

#

**Alternative Minimum Tax.** Taxpayers claiming numerous exemptions need to watch out (and possibly plan) for the AMT since the exemption deduction is not allowed for AMT purposes. However, due to the 2017 Tax Cuts and Jobs Act (TCJA), this provision will not apply from 2018 through 2025, as the amount of personal exemption for these years will be -0-. (See **section 804 in the**

**Tax Planning and Advisory** ***Individual Tax Planning*** **topic** .)

**Education Expenses.** Do the clients presently incur or anticipate incurring private school or college expenses for their children? If so, are they maximizing the tax benefits of the various education-related tax breaks? If the clients anticipate incurring college expenses for their children, has a college savings program been implemented? (See section **705** .)

#

Consider the client's eligibility for the various education tax credits. If the parents' AGI exceeds the limitations, consider not claiming the child as a dependent on the parents' return so that the credit may be claimed on the child's return. If a taxpayer has multiple dependents eligible for the lifetime learning credit, consider making some of them independent to maximize the availability of the credit . (See section **704** .)

#

Consider financial aid when developing education planning recommendations. For example, income shifting can have either a positive or a negative effect on a family's ability to obtain financial aid. Careful planning is required to qualify for aid. (See section **711** .)

#

If the client anticipates paying college expenses for children (or grandchildren), explain that payments for certain educational expenses may be exempt from the gift tax. (See section **710** .)

#

Tax-advantaged borrowing (such as borrowing from qualified retirement plans) may be preferable to traditional education loans. (See section **703** .)

#

Interest on student loans may be deductible, but

# there are AGI limitations on deductibility. For this reason, in some cases the student should be the borrower (not the parents). (See section **703** .)

# Forgiven student loans may be excluded from taxation in 2021-2025. (See section **712** .)

# **Life Insurance.** Does the client carry sufficient life insurance to provide for children's needs through the expected year of college graduation? (See section **605** .)

# **Disability Insurance.** Does the client carry sufficient disability insurance to provide for children's needs through the expected year of college graduation? (See section **612** .)

# **Dependent Care Expenses.** If children or parents are claimed as dependents, are the clients incurring care expenses that would entitle them to the child and dependent care credit? (See section **1111** .) Also, if the client's employer offers a flexible spending account for child care expenses, is the client taking advantage of it?

# **IRAs for Children.** If the client's child has earned income, it is generally advantageous to fund an IRA for the child to get an early start on accumulating funds for the child's future retirement and, in some cases, to reduce taxes. (See **section 802 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Supporting Relatives.** Is the client aware that supporting a parent or other relative may entitle the client to claim him or her as a dependent? (See **section 404 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

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This may indicate that the dependent relatives have insufficient personal assets to fund long-term care (LTC). If this is the case, has the client investigated the possibility of LTC policies for dependent relatives? (See "Long-term Care Insurance" beginning at **section 1001 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

#

If the client is supporting an elderly parent, does the parent have an estate plan? If so, how long has it been since it was reviewed to determine if it meets the current needs of the parent? (See "Estate Planning" beginning at section **900** .)

#

**Gifting Program.** Is the client aware of the potential estate tax savings that can be generated by regular annual exclusion gifts to dependents? (See section **922** .)

#

If the client is making gifts to family members, has the type of asset (cash versus property) and transfer (e.g., direct, in trust, custodial account) resulted in the combination of greatest income tax savings and cash flow? (See discussion starting with **section 200 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Generation-skipping Transfers.** If the client is considering gifts to grandchildren, either directly or in trust, is he or she aware of the potential generation-skipping transfer tax and the lifetime exemption for gifts? (See section **921** .)

#

**Adopted Child.** If the taxpayer has an adopted child, has the adoption credit been claimed for qualifying expenses? (See **section 801 in the Tax Planning and Advisory *Individual Tax Planning* topic** .) Alternatively, has a penalty-free (although

#

not tax free) distribution from a retirement plan of up to $5,000 per parent been considered?

#

**Disabled Dependent.** Does the client have a disabled dependent? Consider establishing an Achieving a Better Life Experience (ABLE) account to accumulate and distribute funds tax-free for payment of disability expenses. (See **section 807 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**SECTION 4A INCOME (Form 1040, Lines 1-7)**

Identifying a client's sources of income provides planners with some direction for exploring tax saving strategies. Reducing or deferring income may give rise to multiple tax benefits because of several AGI-sensitive deductions and credits (items that are subject to AGI phase-outs).

**Wages, Salaries, Tips, etc.-Line 1**

#

**Employer-provided Benefits.** Is the client taking full advantage of employer-provided benefits such as group-term life insurance, adoption assistance, flexible spending accounts, and educational assistance? (See discussion starting at **section 700 in the Tax Planning and Advisory *Compensation and Benefits* topic** .)

#

**Deferred Compensation.** Is the client maximizing participation in employer deferred compensation plans, including 401(k) plans? Not only is the income tax deferred on the compensation, earnings on the funds accumulate tax-deferred until distributions are made from the account. (See section **804** .)

#

If the Pension Plan box on Form W-2 was checked, is the client aware of the required beginning date for retirement plan distributions? Is the client aware of the impact of beneficiary designations and the election to recalculate life expectancies on the amount and taxation of distributions? (See "Retirement and Financial Independence Planning" beginning at section **800** .)

#

**Income in Respect of a Decedent (IRD).** If the Pension Plan or Deferred Compensation box on Form W-2 was checked, does the client understand that IRD is subject to both income and estate tax? Does the decedent's former employer owe the decedent for salary or bonuses earned but unpaid at the time of death? Is there other IRD owed at the date of death? Is the client aware of planning possibilities with IRD? (See "Retirement Plan Distributions" beginning at **section 1000 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Employer Fringe Benefits.** Is the client taxed on fringe benefits (e.g., club dues, life insurance, company car) or business expense reimbursements? Is the client's employer aware of strategies to provide certain fringe benefits to its employees tax-free?

#

**Bonus Payments.** Is the client able to control the timing of bonus payments? Consider deferring future bonuses if the client is subject to itemized deduction limitations or will be in a lower marginal income tax bracket in subsequent tax years.

#

**Employer Stock Options.** Does the client receive stock options as part of a compensation package? The income tax and financial impact of exercising the options and selling the stock should be considered in determining when to exercise. (See **section 504 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**Restricted Stock.** If the client received restricted stock as part of a compensation package, a Section 83(b) election to recognize income upon receipt should be considered if the stock is subject to a substantial risk of forfeiture. (See **section 501 in the Tax Planning and Advisory *Individual Tax Planning* topic** .) Alternatively, when the stock vests and would normally become taxable, has a Section 83(i) election been considered to delay inclusion in income until the earliest of when (1) the stock becomes transferable, (2) the employee first becomes an excluded employee, (3) the issuing corporation's stock becomes readily tradable on an established securities market, (4) five years after the first date the employee's rights in the stock are transferable or are not subject to a substantial risk of forfeiture, or (5) the date on which the employee revokes the election [ **IRC Sec. 83(i)** ]? (See **section 503 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Employee Stock Purchase Plan (ESPP).** Is the client taking advantage of an available employer provided ESPP? (See **section 507 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Dual Working Spouses.** If both spouses work and one draws a relatively small salary, has the after-tax benefit of the income been determined? In some cases, the additional taxes and the nondeductible expenses incurred because of the second income significantly reduce its net economic benefit.

#

**Wages Subject to Income Tax Withholding.** Clients with wages subject to income tax withholding can sometimes avoid tax underpayment penalties by adjusting their withholding, even if it is a one-time adjustment at the end of the tax year.

#

(See **section 803 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Salary from a Closely Held Company.** Has the client considered whether to increase or decrease salary from a closely held company depending on whether it is an S or C corporation, provided the salary remains reasonable. (See **section 403 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

Does the Form W-2 indicate that the client is employed by a corporation owned by the client? If so, has the client considered business succession planning? Does the corporation have a comprehensive buy/sell agreement in place, and if so, is it funded with life and/or disability insurance? (See "Planning for the Closely Held Business" beginning at section **2000** .)

#

Is the client a corporate officer or director, a managing general partner, or an LLC manager? If so, is appropriate liability insurance in place to protect the client from liability for breaches of his fiduciary duties? Are the policy limitations and exclusions appropriate?

#

Is the client an owner of a professional practice? If yes, does the client carry appropriate amounts of professional liability coverage (E&O and/or malpractice insurance)? Are the policy limitations and exclusions appropriate? (See section **615** .)

#

**Life Insurance.** Does Form W-2 indicate the client received employer-provided life insurance coverage? If so, is the client aware of planning ideas with life insurance? Does the client know how to keep the value of life insurance out of an estate? (See "Risk Management and Insurance" beginning at section **600** .)

# 

**Additional 0.9% Medicare Tax on Earned Income.** Has the client employed strategies to minimize the impact of the additional 0.9% Medicare tax? Have appropriate adjustments been made to estimated tax payments and withholding amounts to cover any additional tax liability? (See sections **410 in the Tax Planning and Advisory *Individual Tax Planning* topic** and **510 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**Interest Income-Line 2**

Clients should consider the overall financial versus tax impact of their decisions in structuring their investment portfolio. Tax consequences may be considered when choosing among investment options, but should not be the controlling factor in developing an investment strategy. However, high income clients should consider the impact of the 3.8% NIIT.

# 

**Taxable and Tax-exempt Interest Income.** Review the sources of clients' taxable and tax-exempt interest income and compute after-tax returns. Could they increase their investment return by changing their portfolio to include more or less tax-exempt investments or save state taxes by investing in U.S. Government instruments? Tax-exempt investments (e.g., municipal bonds) are inappropriate for tax-free and tax-deferred accounts, but may be attractive for taxable accounts, especially for investors in high income tax brackets. Alternatively, are the clients' tax-exempt investments excessive, such that sufficient taxable income is not being generated to benefit from their tax deductions?

# 

Does the amount of interest income indicate under- or over-weighting of the client's investment portfolio in nonequity investments?

**Treasury Bills and CDs.** Is the client aware that

# short-term Treasury bills and certificates of deposit (CDs) can be effective means of deferring interest income from one year to the next? (See section **1008** .)

# **Bond Swaps.** If the client holds bonds that have decreased in value, has a bond swap been considered to recognize the loss without reducing cash flow? (See **section 302 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

# **Inflation-indexed Bonds.** If the client holds inflation-indexed bonds, is he or she aware of how these bonds are taxed? In some cases, these bonds are more suitable for tax-deferred, retirement accounts.

# **Annuity Investments.** Has the client considered fixed or variable annuities as alternative long-term investments? Since the earnings are tax-deferred until withdrawn, annuities are well suited to providing retirement income for some clients. (See section **1012** .)

# **U.S. Savings Bonds.** Planners should ask whether the client owns savings bonds because they provide many tax-saving opportunities. These opportunities include using the bonds in connection with college expenses [including proceeds used to invest in Education Savings Accounts and qualified tuition programs (QTPs); see section **703** ] as well as opportunities to accelerate income by electing to report the income as it accrues. For a deceased client, electing to accrue savings bond interest on the final return may reduce the overall tax (income and estate) burden.

# **Below-market Loans.** Has the client loaned or borrowed funds either interest-free or at below-market rates? Is the client aware that interest

may need to be imputed and recognized (as income or expense) in calculating income tax? Can the client restructure the loan to meet either the *de minimis* or net investment income exception to the imputed interest requirement? (See **section 612 in the Tax Planning and Advisory *Individual Tax Planning* topic** .) Would the client consider forgiving the applicable annual exclusion amount of the principal each year to save estate tax? (See **section 502 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

**Emergency Fund.** All clients should maintain an emergency fund to meet emergency needs (e.g., temporary unemployment or disability). A general rule is to have between three and six months of current living expenses in a liquid position. (See section **604** .)

#

**Early Retirement.** Estimate the client's retirement income needs and determine whether changes need to be made to their goals or existing investment asset allocation and strategies to achieve their retirement goals. (See "Retirement and Financial Independence Planning" beginning at section **800** .)

#

**Gifts to Family Members.** Clients with significant investment income may want to consider transferring assets to their children to benefit from the children's generally lower income tax rate brackets (if they are not subject to the kiddie tax) or transfer assets to heirs using various gifting techniques to save transfer taxes. (See **300** , **400** , and "Wealth Transfer Planning without Trusts" beginning at **section 500 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Fixed-income Investments.** Do any of the clients' investments consistently generate income or appreciate in value in an amount greater than the interest rates published by the IRS? Are the clients aware that they could retain an annuity interest from these investments while gifting the remainder to their children and achieve substantial estate tax savings via a GRAT or GRUT or a charitable remainder trust? (See sections **404 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** and 704 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic.)

#

**3.8 Net Investment Income Tax (3.8% NIIT).** Has the client considered strategies to minimize the impact of the 3.8% NIIT on interest income? This would include an emphasis on tax-free municipal securities. (See section **1116** .)

#

**Dividend Income-Line 3**

**Securities Investments.** Do the client's securities investments include unrealized gains or losses that would be tax-beneficial for the client to recognize?

#

Does the amount of dividend income indicate a disproportionate investment allocation to equities? Is the client aware that equities are preferable for investors with long time horizons because their higher volatility is more than offset by higher annual returns relative to other asset classes? Excessive dividend income may indicate a need for rebalancing the client's portfolio.

#

**Closely Held Stock.** Does the client receive dividends from closely held stock? If so, valuation and marketability may be issues to consider for future stock transfers or sales. (See "Transfers of Business Interests" beginning at **section 600 in the Tax Planning and Advisory *Estate and Wealth***

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***Transfer Planning* topic** and "Valuation Issues" beginning at **section 700 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** for discussions regarding succession planning and family property transfer strategies.) In addition, there may be ways the client can use or operate the closely held business that will reduce overall taxes (e.g., leasing property or S corporation election).

# **Mutual Funds.** If income (dividends and capital gains) from mutual funds is being reinvested in additional shares, is the client (or the mutual fund sponsor) maintaining adequate records to track the tax basis in the mutual fund shares? Additionally, is the timing of when a mutual fund distributes earnings to shareholders being considered in purchase or sale decisions? (See **section 607 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# Are the costs associated with each fund in line with industry norms, or are there less expensive funds with similar risk/return characteristics available to the client? Has the client considered a passive investment strategy (such as investing in index mutual funds), which in most cases reduces fund expenses and provides superior diversification?

# Are the client's mutual funds managed to minimize adverse tax implications, including the 3.8% NIIT? (See **section 612 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# Has the client considered placing a portion of his or her portfolio with a money manager, rather than using mutual funds? (In some cases, money managers are preferable because they can invest assets with the client's unique expectations, risk capacity, and tax situation in mind.)

**Estate Planning.** If any of the client's investments are titled as a Joint Tenancy with Right of Survivorship (JTWROS) (which are often recognizable by looking at the Forms 1099), is the client aware that the disposition of those assets at death will not be controlled by the client's will (which could thwart otherwise effective estate planning)? (See **section 504 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**3.8 Net Investment Income Tax (3.8% NIIT).** Has the client considered strategies to minimize the impact of the 3.8% NIIT on dividend income? This would include an emphasis on growth stocks with minimal dividends.

#

**IRAs-Line 4a**

**Early Distribution Penalty.** Is the client subject to the 10% early distribution penalty (generally for distributions prior to age 59$^{1}$ #$_{2}$ )? If so, can the substantially equal payment exception be used to avoid the penalty on subsequent distributions? (See section **806** .)

**Law Change Alert:** The SECURE 2.0 Act of 2022 (SECURE 2.0) has added several new exceptions to the early penalty distribution that will be added over 2023-2026.

#

**Penalty-free IRA Withdrawals.** Is the client aware of the special rules allowing IRA funds to be used for education expenses, first-time homebuyer expenses, adoption expenses, or medical expenses without incurring the 10% premature distribution penalty? (See section **806** .)

# #

**Minimum Required Distributions (MRDs).** Is the client aware that IRA distributions (other than from Roth IRAs) must begin by April 1 of the year after reaching age 73 to avoid a tax equal to 25% (10% in certain circumstances) of the MRD? Planners can assist with calculating the applicable MRD amount, and provide planning strategies to minimize the tax effect of this requirement. See section **806** .

#

**State Tax Planning Tip:** Some states do not tax pension and IRA distributions.

#

Is the client aware of the impact of the beneficiary designation, what extended timeframe is available, and the election to recalculate life expectancies for eligible designated beneficiaries on the MRD amount? (See section **806** .)

#

**IRA Rollovers.** The planner should ensure that the client is aware of the rollover provisions for IRAs, including nonspouse rollovers and special longer rollover periods (e.g. certain disaster victims or due to the COVID-19 pandemic), to prevent current taxation of certain distributions from IRAs or employer retirement plans. (See **section 107 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

#

**Spousal Rollover.** If a distribution is made to a surviving spouse, should the balance be rolled over to achieve extended tax deferral? (See **section 107 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

#

**Timing Distributions.** Is the client aware of how the timing of distributions during the year can affect estimated tax payment requirements? Income taxes on IRA distributions should be considered when preparing a cash flow analysis.

**Nondeductible IRAs.** Does the client have any tax basis in IRA distributions due to nondeductible contributions in earlier years? (See **paragraph 203.29 in the Tax Planning and Advisory *Individual Retirement Accounts* topic** .)

#

**Roth IRAs.** Does it make sense for the client to convert his traditional IRA, including nonspouse rollovers, to a Roth IRA? Factors to consider include the amount and source of funds for paying the resulting income tax liability, how long the client intends to leave the funds in the Roth IRA, and the client's net worth and estate planning goals. (See **section 306 in the Tax Planning and Advisory *Individual Retirement Accounts* topic** .)

#

**Investment Planning.** Does the client need assistance with investment planning and asset allocation strategies relative to retirement plan assets? Clients often need assistance after they get distributions from employer retirement plans that are rolled over into self-directed IRAs.

#

**Estate Planning.** Are the client's personal, financial, and legal records well organized and readily available to designated persons in the event of the client's death or incapacity? Organizing these records has the added benefit of alerting the client to actions that need to be taken, such as updating wills or beneficiary designations. It can also alert the planner to possible planning engagements.

#

**Distributing IRA Assets to Charity.** Individuals age 70$^1$ #$_2$ and older (on the specific transfer date) can distribute otherwise taxable traditional and Roth IRA amounts directly to certain tax-exempt charities. These distributions, called qualified charitable distributions, are federal income tax-free to the donor and help meet the MRD requirement for taxpayers age 73 and older. No charitable deduction is allowed on Form 1040, but qualified charitable

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distributions can have tax-saving advantages. (See paragraph **1110.66** .)

**3.8% Net Investment Income Tax (3.8% NIIT).** Is the client aware that distributions from traditional and Roth IRAs are exempt from the 3.8% NIIT? The 3.8% NIIT makes Roth IRAs a more attractive alternative. Qualified distributions from Roth IRAs are tax free and will neither be subject to the 3.8% NIIT nor be included in MAGI for purposes of that tax. Distributions from regular IRAs (except to the extent of after-tax contributions) will be included in MAGI, although they will not be subject to the 3.8% NIIT. (See **section 612 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Pensions and Annuities-Line 5a**

**Beneficiary Selection.** Has the client carefully selected a pension plan beneficiary to minimize taxes on postdeath distributions? (See **section 103 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

#

**Beneficiary Designation Review.** Has the client recently reviewed the designated beneficiary listings for his or her retirement accounts? Changes in beneficiaries may need to be made if there have been family changes (e.g., divorce or death of current designated beneficiary). Has the client considered if it would be beneficial to name a nonspouse beneficiary for his or her qualified retirement plan? (See **section 103 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

#

**Divorce.** If there are pension plan assets included in a divorce property settlement, has the division of plan assets been made pursuant to a Qualified Domestic Relations Order (QDRO)? (See **section**

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**600 in the Tax Planning and Advisory *Divorce* topic** .)

**<u>Distribution Options.</u>** Is the client aware of the distribution options available for his qualified plan account (i.e., various types of annuities versus lump sum)? (See **section 102 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .) Would the client consider using life insurance to maximize an annuity distribution?

#

**<u>Lump-sum Distribution (LSD).</u>** Older participants receiving an LSD from a qualified plan may be eligible for favorable tax treatment. (See **section 106 in the Tax Planning and Advisory *Retirement Plans for Self-Employed* topic** .)

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If the client received a lump sum distribution from a qualified plan account, would rolling the distribution over into an IRA to maintain the tax-deferred status result in greater tax savings [if still within the 60-day (or special longer period for certain disaster victims) rollover period]? If the distribution included highly appreciated employer stock, was consideration given to not rolling the stock over into an IRA? (See **section 107 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

**<u>Cash Flow.</u>** If the client is receiving retirement benefits, has a retirement sufficiency analysis been prepared? Is the client satisfied that he or she has sufficient resources to fund his or her retirement needs? (See section **802** .)

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**<u>Age 73.</u>** Is the client aware that retirement plan distributions (other than from Roth IRAs and Roth 401(k)s) must begin by April 1 of the year after reaching age 73 (or in some cases, retires) (72 if reached age 72 prior to January 1, 2023), to avoid a penalty tax equal to 25% (10% in certain

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circumstances) of the minimum required distribution (MRD)? Adequate planning can minimize the tax effect of these rules. (See section **806** .)

**Qualified Plan Rollovers.** Has the client considered the long-term advantages of transferring a qualified plan distribution to a Roth IRA? Eligible distributions from qualified plans can be rolled over directly to Roth IRAs. A qualified plan must also allow rollovers for nonspouse beneficiaries. A qualified retirement plan account inherited by a nonspouse beneficiary can be transferred directly to and is treated as an inherited IRA of the nonspouse beneficiary. (See **section 107 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

#

**3.8% Net Investment Income Tax (3.8% NIIT).** Is the client aware that distributions from qualified pension, profit-sharing, stock bonus plans; 403(a) annuity plans and 403(b) annuities for employees of tax-exempt organizations or public schools; and 457(b) deferred compensation plans of state and local governments and tax-exempt organizations are exempt from the 3.8% NIIT? (See **section 612 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Social Security Benefits-Line 6**

**Retroactive Benefits.** Did the client fail to file a timely application to receive social security benefits? If so, and if the client will have reached full retirement age when benefits begin, benefits can be paid retroactively for up to six months. (See **section 508 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

#

**Benefit Starting Date.** Has the client considered the income tax and financial impact of receiving

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social security benefits at age 62 versus the full retirement age or later? (See section **811** .)

# **Earned Income Limitations.** Does the client have earned income in excess of the annual amount allowed for years before the beneficiary reaches the full retirement age, requiring a reduction in social security benefits? (See section **811** .)

# **Lump Sum Payments.** Did the client receive a lump sum social security payment in the current year that relates to a prior year? If so, could the income tax liability related to this payment be reduced by applying last year's tax rates to the distribution?

# **Spouse's Benefits.** Have the spouse's social security payments been maximized? Eligible spouses receive their retirement benefit based on their own primary insurance amount (PIA) or 50% of the spouse's PIA, whichever is greater. (See **section 503 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

**Capital Gain or (Loss)-Line 7**

# **Investment Activity.** If the client has a substantial number of capital gain (or capital loss) transactions, this may be an indication of market timing, account churning, or both. Examine brokerage statements to ensure that the client's portfolio is being managed appropriately.

# **Maximum Long-term Capital Gain Rate.** Has the client disposed of (or considered disposing of) capital gain property? Does he or she consider the holding period when he or she sells stock or when selecting the shares sold when less than the entire holdings are sold? Is income tax planning part of his

investment strategy, particularly when selling securities so the tax on capital gains is minimized?

#

**Wash Sale Rules.** Is the client selling securities at a loss and repurchasing them within 30 days of the sale? If so, the wash sale rules apply and any loss realized cannot be recognized until the replacement security is disposed of. (See **section 301 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

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**Ordinary Loss on Stock.** If the client disposed of small business stock at a loss, is it possible the stock qualified for Section 1244 ordinary loss treatment? (See **section 301 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

#

**Qualified Small Business Stock (QSBS).** Has the client considered disposing of closely held C corporate stock at a gain? If so, does the stock meet the requirements of **IRC Sec. 1202** for QSBS so that 100% (50% for stock acquired before February 18, 2000; 75% for stock acquired after February 17, 2009, and before September 28, 2010) of the gain will be excluded from gross income or the gain can be rolled over by purchasing another QSBS? (See section **2003** .)

#

**Publicly Traded Options.** If the client invests in publicly traded stock options, are gains and losses being recognized at the proper times? Would the client benefit by entering into closing transactions before year-end to accelerate the gain or loss related to an option? (See **section 303 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

#

**Gifting or Donating Appreciated Stock.** Does the client have appreciated stock that can be gifted or donated in lieu of cash? If so, the client does not recognize gain on the gift, and the gift may result in other tax benefits (e.g., charitable deduction equal to FMV, shifting gain to a child or other lower tax bracket family members). (See section **1904** .)

#

**Mutual Fund Capital Gain Distributions.** If the client has a significant amount of capital gain distributions from mutual funds, is he or she aware that some equity mutual funds are more income tax efficient than others? Also, lack of control over recognition of capital gains is a disadvantage to owning mutual funds, when compared to owning individual stocks.

#

**Investment Real Estate Activities.** Is the client currently transacting in investment real estate activities that may be a trade or business? If so, net income is subject to self-employment (SE) tax, and favorable capital gain rates are not available for property sales (e.g., real estate dealer). Real estate activities should be closely monitored to avoid or minimize the impact of real estate dealer status. If the taxpayer is classified as a dealer, he or she may be able to claim the qualified business income deduction. (See **section 702 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

Does the client carry adequate amounts of property and liability insurance for each real estate interest? Rental properties and undeveloped land are notorious sources of liability, which can be offset with adequate insurance. (See sections **616** and **617** .)

#

**Residential Home Sale Nonqualified Use Period.** For residential home sales, any period of nonqualified use must be considered when computing the residential home sale gain exclusion ($250,000 or $500,000 if married filing jointly). Any gain attributable to the nonqualified use period is ineligible for the residential home sale gain exclusion and must be reported as a taxable capital gain in the year of sale. Any gain in excess of the exclusion amount is included in net investment income (NII) for the computation of the 3.8% NIIT. Practitioners should be alert for related state income tax considerations. (See **section 306 in the Tax Planning and Advisory *Individual Tax Planning* topic** .

#

**Installment Sales.** If the client is selling real estate at a gain, has the installment method for reporting gain been considered to defer the payment of income tax, including the 3.8% NIIT? (See **section 203 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

#

**Involuntary Conversions.** Has the taxpayer recognized gain from an involuntary conversion that qualifies for gain deferral, including deferral of the 3.8% NIIT? (See **section 401 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

#

**Like-kind Exchanges.** Has the client considered using a like-kind exchange to defer gain on the disposal of investment real estate or real estate used in a trade or business but not held primarily for sale? Like-kind exchanges will be allowed only for real estate not held primarily for sale [ **IRC Sec. 1031(a)(1)** ]. (See discussion beginning at **section 204 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

#

**Qualified Opportunity Funds (QOF)** Has the client considered investing capital gains in a QOF? This will allow at least a temporary deferral of the gain, with the potential of permanent exclusion of the gain in certain situations.(See **section 306 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

#

**Passive Activity Gains.** Are there any passive activity gain items reported on Schedule D that can also be included on Form 8582 to increase passive activity losses allowed? Does the client have passive investments that can be sold (at a gain) to offset passive losses?

#

**Sale of Residence Used for Business.** Have the clients used their residence for business or do they own rental property that they previously used as a principal residence? If so, do they understand the appropriate gain exclusion rules? (See section **1109** .)

#

**Sale of Residence during Divorce.** Is a divorcing client aware of the income tax implications of a residence sale, including the principal residence requirement to qualify for gain exclusion under **IRC Sec. 121** ? (See **section 500 in the Tax Planning and Advisory *Divorce* topic** .)

#

**Worthless Loans.** Has the client loaned funds (including to family members) where the debt is now worthless? If so, a bad debt deduction can normally be claimed for the worthless debt. Nonbusiness bad debts are treated as short-term capital losses while business loans are treated as ordinary losses. These losses should generally be claimed in the earliest tax year possible (i.e., at the first evidence of worthlessness). (See sections **406 in the Tax Planning and Advisory *Individual Tax Planning* topic** and **805 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Intrafamily Sales.** Has an installment sale been considered for transferring assets between family members with little or no initial cash outlay? (See **section 502 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

# **Private Annuity.** Would the client like to transfer assets to other family members but is in need of the income generated by the assets? If so, has the client considered a private annuity to transfer the assets while retaining an income stream? (See section **903** .)

# **Sale/Gift-leaseback.** Does the client own assets that are anticipated to appreciate in value? Would the client consider structuring a sale/gift-leaseback to shift income and appreciation from these assets to other family members? (See section **919** .)

# **Qualified Personal Residence Trust.** Has the client considered using a residence to fund a qualified personal residence trust (QPRT) to transfer the residence out of his estate while being able to retain use of it? (See section **918** .)

# **Trader vs. Investor.** A taxpayer with a large volume of stock transactions may be a stock trader rather than a stock investor. If so, is the trading activity being properly reported on the return and are strategies being considered to minimize taxes [e.g., a Section 475(f) election]? (See **section 606 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Worthless Securities.** Does the client own stocks or securities that are wholly worthless? If so, a loss may be allowed. (See **section 301 in the Tax Planning and Advisory *Sales and Exchanges* topic** .)

# **Periodic Review of Securities Portfolio.** A client's portfolio should be reviewed periodically to see if it includes unrealized gains or losses that would be tax-beneficial to recognize. Periodic reviews are

necessary to take advantage of the holding period rules, which treat sales as either long-term or short-term depending on the time held. (See section **1006** .)

#

**3.8% Net Investment Income Tax (3.8% NIIT).** Has the client considered strategies to minimize the impact of the 3.8% NIIT on capital gains? See section **1116** .

**SECTION 4B INCOME (Schedule 1, Lines 1-8)**

**Alimony Received-Schedule 1, Line 2**

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**Alimony Income.** Should the taxpayer consider modifying a pre-2019 divorce agreement expressly providing that the amendments made by the TCJA will apply to the modification so that alimony is no longer deductible by the payor and includible in income of the recipient? (See **section 303 in the Tax Planning and Advisory *Divorce* topic** .)

#

**Wills and Other Revisions.** Has the client made any necessary revisions to his will or other testamentary documents since the divorce? (See "Reviewing Wills, Trusts, and Other Documents" beginning at **section 1500 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

**Business Income or (Loss)-Schedule 1, Line 3**

See Section 11 of this checklist for a discussion of business (Schedule C) operations and planning strategies.

#

**Business Disposition.** Have succession options been discussed, and is there any action the client can take currently to save estate taxes?

**Other Gains or (Losses).-Schedule 1, Line 4**

# **Nonrecaptured Section 1231 Losses.** If the client has claimed Section 1231 ordinary losses, has planning been done to avoid reporting future Section 1231 gains as ordinary income? (See **section 201 in the Tax Planning and Advisory *Sales and Exchanges* topic.)**

**Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.-Schedule 1, Line 5**

# **Passive Activity Losses.** If the client is subject to the passive activity loss rules and has significant loss carryforwards, have ways to generate passive income been considered?

# **Passive Activities.** Has the client considered strategies that convert passive activities (including those conducted through pass-through entities) to nonpassive? (See "Real Estate Investments" beginning at **section 700 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Rental Real Estate and Special Loss Allowance.** If the client has rental property, does the $25,000 loss allowance rule apply because of active participation in the activity? The planner should be aware of strategies for avoiding the passive loss limitations on rental real estate. (See section **1105** .)

# Does the client carry adequate amounts of property and liability insurance for each real estate interest?

# Is the real property in a state other than the state of domicile? If so, transferring the property to a revocable trust could avoid ancillary administration. (See **section 803 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

**Possible Gain Exclusion.** Using a property for rental does not preclude a taxpayer from later excluding gain from the sale, provided the Section 121 gain exclusion rules are met when the property is sold. (See **section 306 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Real Estate Professional.** Does the client qualify as a real estate professional so that rental activities with material participation are treated as nonpassive rather than passive? This rental activity exception will also apply to determine whether the activity is a passive activity for the 3.8% NIIT. Should the election to combine rental activities be made to meet the material participation requirement? (See **section 704 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Vacation Home.** The tax treatment of rented vacation homes depends on how often the property is rented and how much the owner uses it personally. Proper planning strategies are necessary to maximize the property's tax benefits. (See **section 304 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

The client could avoid estate and gift taxes by gifting fractional interests in the property to other family members over an extended period. (See **section 315 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** and "Valuation Issues" beginning at **section 700 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .) Alternatively, the client could use a qualified personal residence trust to transfer the property while retaining the use of it for an extended period. (See section **918** .)

#

**Basis Issues.** Does the client have sufficient basis in any partnership interest or S corporation stock to allow deduction of losses from the activity?

#

**Family Business Transfers.** Have clients considered transferring closely held business interests to family members? Are they aware of the effective use of valuation discounts in valuing their interest for transfer tax purposes? Would they like to retain an interest in the business after retiring? (See **section 600 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Partnership Interest Sale.** Are clients considering disposing of a partnership interest? Do they understand the tax consequences of selling their interest versus other alternatives such as transfers, liquidation, or abandonment?

#

**Unreimbursed Business Expenses.** Have a partner or S shareholder's unreimbursed business expenses been properly handled?

#

**Valuation Discounts.** Could the value of the client's ownership interest in a partnership or corporation be discounted and gifted to successors at a reduced gift tax rate? (See **600** and "Valuation Issues" beginning at **section 700 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Grantor Retained Trusts.** If the client owns S corporation stock, has the client considered using the S stock to fund a grantor retained annuity trust (GRAT)? (See "Transfers of Business Interests" beginning at **section 600 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** for issues relating to the transfer of S corporation stock and the use of a GRAT.)

#

**Buy/Sell Agreements.** Has the client considered the benefits of a buy/sell agreement for the transfer of partnership, LLC, or S corporation interests? (See "Transfers of Business Interests" beginning at **section 600 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**3.8% Net Investment Income Tax (3.8% NIIT).** Is the client aware that income from rents, royalties, trusts, and passive activities, and gains from the sale of partnership and S corporation interests may be subject to the 3.8% NIIT? Have strategies been put in place to minimize the impact of the 3.8% NIIT? Active participation in a business activity will limit exposure to the 3.8% NIIT. (See **section 612 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Farm Income (or Loss)-Schedule 1, Line 6**

**Special-use Valuation.** Is the client aware of a possible reduction in the estate tax value of the family farm through the special-use valuation rules? Does the client need to restructure the estate to meet these requirements and qualify for the reduction? (See "Valuation Issues" beginning at **section 700 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Gifting Fractional Interests.** Has the client considered a program of lifetime giving to reduce the value of the farm to be included in his or her gross estate? Gifts of fractional undivided interests in the farm or farm property could qualify for the annual gift tax exclusion and result in reduced estate taxes. (See **section 315 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** and "Valuation Issues" beginning at **section 700 in the Tax Planning and**

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**Advisory *Estate and Wealth Transfer Planning* topic** .)

**Other Income-Schedule 1, Line 8z**

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**Director's Fees and Other Earned Income.** Is the client including in other income director's fees or other miscellaneous consulting fees that should be reported on Schedule C? If the client has other income from director's fees or other miscellaneous consulting fees, is a retirement plan established to shelter a portion of the earnings from tax? Has the client considered a health savings account (if eligible)?

**SECTION 5 ADJUSTMENTS TO INCOME (Schedule 1, Lines 11-24)**

Adjustments to income usually are preferable to itemized deductions because they (1) reduce adjusted gross income (AGI), thereby increasing AGI-sensitive deductions and credits, and (2) are available in addition to the standard deduction.

#

**Medical Deductions Limitation.** Is the client aware of how AGI can limit the deductible amount of medical expenses not covered by insurance and has this been considered in planning for these expenses?

**Health Savings Account Deduction-Line 13**

#

Has the client considered establishing a health savings account? (See **section 404 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**Moving Expenses-Line 14**

**Exclude Gain on Residence Sale.** If a client's move involved (or will involve) the sale of a residence, $250,000 ($500,000 for married filing jointly) of gain realized on the sale is excludable under **IRC Sec. 121** . A surviving spouse can continue to use the $500,000 exclusion when the sale occurs within two years after his or her spouse's death and all other requirements for the larger exclusion were met immediately before the date of death. Any period of nonqualified use must be considered when computing the residential home sale gain exclusion. Also, a gain in excess of the applicable exclusion amount may be subject to the 3.8% NIIT. Please note that for tax years 2018-2025, moving expenses are allowed only for certain armed forces members [ **IRC Sec. 217(k)** ]. (See **section 306 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**New Residence.** If the client recently purchased and moved to a new residence, has he or she considered the estate planning techniques available to exclude the residence from the estate while retaining its use? (See "Wealth Transfer Planning Using Lifetime Trusts" beginning at **section 400 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** and "Wealth Transfer Planning without Trusts" beginning at **section 500 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .) Has the client considered the impact of his domicile on his or her estate plan? Does the client own real property in another state that will be subject to ancillary administration? (See "A Systems Approach to Estate Planning" beginning at **section 100 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

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**Deductions Related to Self-employment-Lines 15-17**

**Self-employment (SE) Tax.** Have strategies to help minimize SE tax been considered? Strategies include leasing property to a closely held corporation or partnership allowing a withdrawal of cash from the business that is not subject to FICA or SE taxes. Also, implementing self-insured medical reimbursement plans and deductible educational assistance plans can reduce SE taxes. Alternatively, should wages be increased in order to maximize the amount of the QBI deduction? (See sections **403 in the Tax Planning and Advisory *Individual Tax Planning* topic** and **100 in the Tax Planning and Advisory *Qualified Business Income Deduction* topic** .)

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**SEP, SIMPLE, and Qualified Plan Contributions.** Is the client taking full advantage of available retirement plan options considering the increased contribution limits for each? Are plan funds being invested in accordance with Modern Portfolio Theory? Have the owner's retirement goals, risk capacity, and time horizon been considered? (See **section 101 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

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**Self-employed Health Insurance Deduction.** Has the client considered establishing a high deductible health plan, in conjunction with a tax-favored Health Savings Account? If the client has employees and does not offer group health insurance coverage, has the client considered offering a Qualified Small Employer Health Reimbursement Arrangement to the employees? (See **section 404 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Health Insurance Deduction.** Is a self-employed client aware of the deduction available for health

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insurance costs (including long-term care insurance)? (See section **1112** .)

#

**Business Liability.** Has the client obtained sufficient property and liability insurance for the business and his management role (if any)? If the client has an active management role in the business, employment practices coverage and liability coverage for obligations arising from a fiduciary management position (i.e., officer or director) may be advisable. (See "Risk Management and Insurance" beginning at section **600** .)

#

**Charitable Remainder Trust (CRT).** Has the client considered using a CRT as an alternative to a qualified retirement plan to generate retirement income? The client receives a charitable deduction for the contribution to the trust and an annuity for life. Using a CRT to generate retirement income enables the client to avoid covering employees. (See section **917** .)

**Alimony Paid-Line 19a**

#

**Support Payments.** If the client was able to structure child support and other payments made to a former spouse under a pre-2019 divorce agreement so that they can be treated as alimony, will alimony payments cease in the coming year so that the client will need to adjust withholding/estimates to avoid tax underpayment penalties? (See **section 303 in the Tax Planning and Advisory *Divorce* topic** .)

#

**Modification of Pre-2019 Agreement.** Should the taxpayer consider modifying a pre-2019 divorce agreement expressly providing that the amendments made by the 2017 Tax Cuts and Jobs

Act (TCJA) will apply to the modification so that alimony is no longer deductible by the payor and includible in income of the recipient? (See **section 303 in the Tax Planning and Advisory *Divorce* topic** .)

#

**Will and Other Document Revisions.** Has the client made any necessary revisions to his will or other testamentary documents since the divorce? (See "Reviewing Wills, Trusts, and Other Documents" beginning at **section 1500 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

#

**Property Settlements.** Payments for property interests and transfers of property pursuant to a divorce generally are not taxable to the receiving spouse or deductible by the paying spouse, but there are tax basis and other potential tax issues that require special attention in marital dissolutions. These include dividing up retirement assets using a qualified domestic relations order (QDRO) and structuring the redemption of one spouse's stock in a closely held business. Are payments for property interests and transfers of property structured to ensure the maximum tax benefits? Are QDROs structured properly and in agreement with applicable qualified plan provisions? (See "Transferring Property in Divorce" beginning at **section 400 in the Tax Planning and Advisory *Divorce* topic** and **section 606 in the Tax Planning and Advisory *Divorce* topic**

**IRA Deduction-Line 20**

#

**IRA Considerations.** Is the client contributing to the type of IRA that makes the most sense given his tax situation and objectives? Is the client aware of the maximum allowable contributions, given the increasing limits, special catch-up amounts for those age 50 or older, and allowable contributions for nonworking spouses? Is the client eligible for the retirement savers credit? Does the client's employer offer the Roth option in its 401(k) plan? (See **section 100 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

#

**Children's IRAs.** Have the clients considered IRAs for their children as a means of sheltering the children's income from tax and getting an early start on a retirement fund? (See **section 802 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Nondeductible IRAs.** If nondeductible IRA contributions have been made, have records tracking the tax basis in the account been maintained so that income tax will not be paid on the contributions when withdrawn? Also, if the client has deducted an IRA contribution, but received little tax benefit from the contribution, it may be beneficial to amend the return to show the contribution as nondeductible and therefore avoid tax when it is eventually withdrawn. (See **paragraph 203.29 in the Tax Planning and Advisory *Individual Retirement Accounts* topic** .)

#

**Spousal IRA Contribution.** Is the client aware that a working and nonworking spouse can each make separate IRA contributions, provided the working spouse has sufficient earned income? Whether the contributions are deductible (if made to a traditional IRA rather than a Roth IRA) depends on the couple's income and other pension coverage.

**Rollovers to a Roth IRA.** Has the client considered converting an existing traditional IRA to a Roth IRA? This strategy can, over time, reduce a taxpayer's liability for federal income tax and the 3.8% NIIT. (See **section 306 in the Tax Planning and Advisory *Individual Retirement Accounts* topic** .)

#

**Allocation of Assets Held in IRAs.** Are IRA assets allocated in accordance with Modern Portfolio Theory? Are they invested with the tax-deferred (traditional IRAs) or tax-free (Roth IRAs) nature of the account in mind (i.e., tax-free investments are generally not appropriate)?

#

**Other.** Is the client aware of the double taxation (estate and income tax) of IRA or self-employed retirement plan balances? Has the client considered the cash flow and tax consequences of the beneficiary designation? Is the client aware of the plan's default provision concerning recalculation of life expectancies and the impact on distributions? (See "Retirement Plan Distributions" beginning at **section 1000 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning*topic** .)

#

**Student Loan Interest Deduction-Line 21**

**Higher Education Loan Interest.** If the client qualifies for the student loan interest deduction, he or she may also qualify for other education tax incentives, such as education credits. (See sections **704** and **1110** .)

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**Qualified Tuition Plans.** If the client has outstanding student loans, has he or she considered receiving a tax-exempt distribution of up to $10,000 from a qualified tuition plan to pay off the

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loan? (See section 706 .)

## SECTION 6 QUALIFIED BUSINESS INCOME DEDUCTION (Form 1040, Line 13)

### Qualified Business Income-Line 10

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**Maximizing the Qualified Business Income (QBI) Deduction.** Has the taxpayer considered the various planning strategies to maximize the QBI deduction, including analyzing rental activities for possible trade or business classification, aggregating qualified businesses for taxpayers with multiple businesses, separating a non-specified service business from a service business, and wage and qualified investment planning for the threshold amounts? (See **section 100 in the Tax Planning and Advisory *Qualified Business Income Deduction* topic** .)

## SECTION 7 TAX AND OTHER TAXES, INCLUDING FROM SCHEDULE 2

### Tax-Form 1040, Line 16

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**High Marginal Tax Bracket.** Have clients in high marginal tax brackets considered ways to reduce their taxable income? For example, investments in tax-exempt bonds or tax-efficient equity mutual funds should be considered. (See section **1008** .)

#

**Kiddie Tax.** If the client's child is subject to the kiddie tax, is it better to include the child's income on the parents' return or file a separate return for the child? Should investments held in the children's names be restructured to minimize current unearned income (e.g., more growth stocks, Series EE bonds), so that the kiddie tax does not apply.

Also, have strategies for minimizing the impact of the 3.8% NIIT been considered? (See section **709** .)

**Lump Sum Retirement Plan Distribution.** A client qualifying for one of the favorable averaging methods to compute tax on a lump sum retirement plan distribution reports the tax separately from the regular tax. (See **section 106 in the Tax Planning and Advisory *Retirement Plans for Self-Employed* topic** .) These clients may also be in the market for investment management services, and may need tax advice concerning their investments.

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**Retirement Investments.** Is the retirement fund being invested in accordance with Modern Portfolio Theory? Are the expenses incurred reasonable (i.e., are transaction fees and management fees being minimized)? Are funds being invested with the client's expected return and risk capacity in mind?

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**Self-employment Tax-Schedule 2, Line 4**

**SE Income.** Clients subject to SE tax can often realize significant tax savings by reducing SE income. Clients with SE income passing through from a partnership K-1 can usually reduce SE income for any unreimbursed business expenses related to that activity. (See "Sole Proprietors and Other Business Owners" beginning at **section 400 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**Liability Insurance.** If the client is self-employed, has sufficient property and liability insurance coverage for the business been obtained? (See section **617** .)

#

**Sole Proprietors with Children.** Self-employed clients should consider employing their children in

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the business. Wages paid can reduce SE income because children under age 18 are not subject to social security taxes on wages paid by a parent-owned sole proprietorship.

**Additional Tax on IRAs, Other Qualified Retirement Plans, etc.-Schedule 2, Line 8**

# **Early Distribution Penalty.** Depending on the type of retirement plan the distribution is from, there are several exceptions to the early distribution penalty. The practitioner should review these exceptions for the current distribution or for a planning strategy to apply an exception to future distributions. If a penalty was paid in a prior tax year, can a refund be claimed? (See **section 105 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

**Household Employment Taxes from Schedule H -Schedule 2, Line 9**

# **Household Employees.** Is the client withholding tax on household employee wages? The client should consider using an agency that employs its own workers to avoid withholding and reporting requirements. These taxes must be considered when computing quarterly estimated payments or FIT withholding.

**Taxes from Form 8959 and Form 8960 -Schedule 2, Lines 11 and 12**

# **Additional 0.9% Medicare Tax.** Has the client considered the various strategies to reduce the additional 0.9% Medicare tax? (See paragraph **410 in the Tax Planning and Advisory *Individual Tax Planning* topic** and **510 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **3.8% Net Investment Income Tax (3.8% NIIT).** Has the client considered the various strategies to

reduce the 3.8% NIIT? (See **section 612 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

## SECTION 8 CREDITS, INCLUDING FROM SCHEDULE 3

### Foreign Tax Credit-Schedule 3, Line 1

# **Foreign Tax Paid/Withheld.** Claiming a credit (rather than a deduction) for foreign taxes paid usually results in greater tax savings. Foreign taxes paid are commonly shown on broker statements, Schedule K-1s, or Form 1099s.

### Credit for Child and Dependent Care Expenses-Schedule 3, Lines 2 and 13g

# **Child Care Expenses.** Expenses incurred for a qualifying individual to allow the client to work qualify for this credit. Also, have clients considered all expenses that may qualify (e.g., day camps, housekeeper)?

### Education Credits-Schedule 3, Line 3

# **Education Credits.** Education credits give rise to numerous planning strategies. Proper planning will help taxpayers maximize the tax benefit from these credits by carefully timing when qualified education expenses are paid, determining who should claim the credit, and the type of credit claimed. (See section **704** .)

### Residential Energy Credits-Schedule 3, Line 5

# **Residential Clean Energy Credit and Efficient Home Improvement Credit.** Ensure the client has identified all qualifying equipment and installation

expenditures available for the credit. Has the maximum allowable credit been calculated and claimed and a notation of any unused credit been made for reference in future years? (See **section 307 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**Other Credits-Schedule 3, Line 6**

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**Minimum Tax Credit (MTC) [Line 6b].** Planning for the alternative minimum tax (AMT) and the MTC requires a multiyear projection of the client's income, and no general planning applies to all taxpayers. However, certain strategies may be effective depending on the client's particular situation. (See **section 804 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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**Qualified Adoption Expenses [Line 6c].** Has the maximum allowable credit been claimed? Qualified adoption expenses for purposes of the credit also include the cost of construction, renovations, alterations, or purchases specifically required by the state to meet the needs of the adopted child. (See **section 801 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Vehicle Credits [Lines 6f and 6i].** Taxpayers can claim a credit for purchasing qualifying vehicles. Beginning in 2023, the requirements for qualifying vehicles changed; additionally, certain used vehicles now qualify for a credit. (See **section 408 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

**SECTION 9 PAYMENTS, INCLUDING FROM SCHEDULE 3**

**Federal Income Tax Withheld-Form 1040, Line 25**

**Form 1099 Withholding (Line 25b).** A Form W-9 should be filed with the payer if income tax was withheld on investment income, and the client desires for the withholding to stop. However, Form 1099 withholding (e.g., on pension income) may be appropriate from a cash management standpoint and to avoid underpayment penalties. Consider quarterly estimated tax payments as an alternative to withholding.

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**Wages Subject to Withholding (Line 25a).** Federal income tax (FIT) withholding is deemed to be withheld evenly throughout the year so increasing year-end withholding can help avoid tax underpayment penalties for the entire year. (See section **505** .)

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**Estimated Tax Payments-Form 1040, Line 26**

**Minimizing Estimated Tax Payments.** If the client's income fluctuates throughout the year, quarterly estimated payments can be minimized by using the annualization method, alternating between safe harbor exceptions, or increasing withholding at year end. (See **section 803 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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**Avoid Underpayment Penalty.** A client with significant amounts of unearned income will likely need to make quarterly estimated tax payments to avoid an underpayment penalty (since usually no withholding exists on the income), unless wage withholding can be adjusted to cover the shortfall. Clients who consider forgoing required estimated payments and investing the funds should compare the after-tax rate of return on the investment to the IRS underpayment penalty rates.

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**Excess Social Security and Tier 1 RRTA Tax Withheld-Schedule 3, Line 11**

# **Multiple Employers.** If the client has multiple employers, consider any social security tax withheld in excess of the annual wage limit in computing the amount the client needs to have withheld or paid in through estimated tax payments. This is an income tax and cash management planning opportunity.

**SECTION 10 ITEMIZED DEDUCTIONS (Form 1040, Schedule A)**

Carefully timing the payment of itemized deductions can result in tax savings for the client. However, these expenses are subject to additional limitations, including the 7.5% adjusted gross income (AGI) limit on medical expenses.

# **Alternate Standard and Itemized Deduction.** Clients whose standard deduction exceeds their itemized deductions may benefit from shifting expenses from one year to another. By bunching deductions, the client may realize income tax savings by itemizing every other year, and claiming the standard deduction in the intervening years. (See paragraph **1110.8** .)

# **AGI-sensitive Itemized Deductions.** Do married clients have significant AGI-sensitive itemized deductions (e.g., medical) that would allow taxes to be saved if they filed separately? (See "Income Tax Considerations" beginning at **section 400 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

**Medical and Dental Expenses-Lines 1-4**

# **Medical Expenses.** If the client is self-employed and can employ his or her spouse, consider establishing a self-insured medical reimbursement

plan so that medical expenses can be fully deducted as business expenses on Schedule C or F.

**Medical Insurance Premiums and Health Savings Accounts (HSAs).** If the client is self-employed, he or she may be eligible to claim a portion of medical insurance premiums (including all Medicare premiums) as an adjustment to income rather than an itemized deduction. Also, if the client has incurred significantly high premiums, the planner should consider the tax benefits associated with a high-deductible health plan coupled with an HSA. (See "Sole Proprietors and Other Business Owners" beginning at **section 400 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

#

**Nursing Home Costs.** Is the client aware that nursing home costs (or other long-term care expenses and insurance premiums for long-term care coverage), as well as in-home care, may be deductible as a medical expense? (See sections **409 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** and **1001 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

#

**Chronically or Terminally Ill Individuals.** If chronically or terminally ill, is the client aware of the income exclusions available for accelerated death benefits under life insurance contracts and amounts received in viatical settlements of such contracts? (See section **612** .)

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**Long-term Care.** Has the client evaluated his or her long-term care needs and how those needs will be met? If the client has an existing long-term care insurance policy, is the coverage adequate? The client may fear that long-term care needs will either

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leave them destitute or use up their estate and leave no residual for heirs. (See "Long-term Care and Medicaid Funding" beginning at **section 1000 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

**Medicare Benefits.** Is the client currently receiving benefits under Medicare Part A hospital insurance, Part B medical insurance, and Medicare Part D prescription drug coverage? If so, check for duplicate insurance coverage. (See "Medicare and Other Health Care Funding" beginning at **section 900 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

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**Medigap Insurance.** Does the client have a Medigap policy? Has there been a recent cost comparison performed for the type of standardized policy selected? Is the standardized policy selected appropriate? Also, check for duplicate insurance coverage. (See **section 908 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

#

**Company Group Health Insurance.** Does the client's employer provide continuing group health care coverage to retired employees? Will the employee be required to pay a portion of the premium? Is the coverage guaranteed? These policies might not serve as an adequate supplement to Medicare. (See section **613** .)

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**Living Will.** Does the client have a living will or durable power of attorney for health care, and have they been reviewed recently? (See **section 702 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

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**Qualifying for Medicaid.** Does the client qualify for

# Medicaid (or will he qualify if significant medical

expenses are incurred)? Medicaid is a needs-based program that may cover all medical expenses for individuals with limited income and assets. (See **section 1003 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

**<u>Family Medical Expenses.</u>** Is the client aware that certain direct payments for medical (and educational) expenses are not subject to the gift tax? (See "Income Tax Considerations" beginning at **section 400 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

#

**<u>Disability Expenses.</u>** If the client incurs significant disability-related medical expenses, consider establishing an Achieving a Better Life Experience (ABLE) account to accumulate and distribute funds tax-free for payment of disability expenses. (See **section 807 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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**Taxes Paid-Lines 5-6**

**<u>Real Estate Taxes.</u>** Taxpayers subject to alternative minimum tax (AMT) should be aware that real estate taxes are generally not deductible for AMT; therefore, avoid paying these in years when the taxpayer is subject to AMT. In addition, the deduction for personal state and local taxes, including property taxes, is limited to $10,000. However, real estate taxes allocable to business activities or investment properties eligible for Section 212 treatment are not subject to the $10,000 limit.

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**<u>Liability insurance.</u>** Are all real estate interests covered by sufficient property and liability insurance? (See section **615** .)

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**Nonresidential Real Estate Taxes.** Does the client pay real estate taxes on property other than a residence? If so, there may be planning opportunities, particularly if the client is considering selling the property. This could be especially pertinent in light of the $10,000 maximum state and local tax deduction. (See "Real Estate Investments" beginning at **section 700 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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**Pass-through Entity State Tax.** The majority of states allow an election at the pass-through entity level that can be used to optimize the $10,000 state and local deduction for individuals with pass-through income. If the Sch. K-1 shows taxable income but does not show a state tax credit, the pass-through entity may not be making the election.(See "Residences and Vacation Homes" beginning at section 300 in the Tax Planning and Advisory *Individual Tax Planning* topic.)

#

**Probate Costs.** Review payments of real property taxes. Does the client own property in another state subject to ancillary administration? Would transferring property to a revocable trust be appropriate? Is the client aware of the tax consequences of his current domicile? (See "A Systems Approach to Estate Planning" beginning at **section 100 in the Tax Planning and Advisory *Estate and Wealth Transfer Planning* topic** .)

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**Interest Paid-Lines 8-9**

**Mortgage Interest.** Is the client's mortgage interest fully deductible under either the qualified residence rules (requiring the debt to be secured by the property) or home equity loan limitations? Please note that for 2018-2025, home equity interest is not deductible if the loan proceeds were used for

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personal expenses. If the client borrowed from a 401(k) plan for the down payment on a residence, has the loan been properly secured by the property so that interest payments qualify as mortgage interest? Also, consider reverse mortgage loans for older clients with high equity residences. (See "Residences and Vacation Homes" beginning at **section 300 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Mortgage Points.** If the taxpayer purchased a new residence, was information required to calculate the current deduction and future amortization of mortgage points. (See "Residences and Vacation Homes" beginning at **section 300 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Homeowner's Insurance.** If the client is a homeowner, is appropriate homeowner's insurance coverage in effect? Do policy limits and exclusions seem reasonable, given the client's needs? Consider recommending an umbrella liability policy if the client does not have one. (See section **616** .)

# **Renter's Insurance.** If the client rents his or her residence, does he or she have sufficient renter's insurance in place? Consider the policy limits and exclusions for both property and liability claims. (See section **614** .)

# **Personal Residence.** If the client owns a personal residence or a vacation home, would a transfer of the residence to a qualified personal residence trust be appropriate? (See section **918** .)

# Clients who own a principal residence should be aware of the rules for excluding gain when the residence is sold so that planning prior to a sale can be done if necessary. (See "Residences and

Vacation Homes" beginning at **section 300 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Liquidity Concerns.** Would the client's family have adequate liquidity if the client died suddenly? Review current levels of life insurance coverage or other sources of liquidity in relation to level of debt (e.g., mortgage debt). (See section **605** .)

# **Nondeductible Personal Interest.** If the client incurs nondeductible credit card or auto loan interest, can a lower interest loan (including a home equity loan) be obtained to pay off personal interest debt? Alternatively, would borrowing from the client's retirement plan assets make sense? (See section **505** .)

# **Investment Interest.** Interest (e.g., margin account interest) that can be traced to the purchase of taxable investment property is deductible to the extent of investment income. If investment income is insufficient to cover the interest expense, consider whether it would be beneficial to make an election to tax net long-term capital gains at the client's regular tax rate (instead of the maximum long-term capital gain rate). This would allow the client to include long-term gains in computing investment income and therefore increase the interest deduction. (See **section 609 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# If borrowed funds are being invested, is the practice part of a rational, long-term investment strategy or mere speculation? If the latter, does the client understand the risk/return characteristics of such a practice? Is the investment of borrowed funds a significant portion of the client's total investment portfolio? If so, the practice of investing with borrowed funds may need to be reviewed.

**Gifts to Charity-Lines 11-12**

# **Donating Appreciated Property Rather Than Cash.** Is the client aware that donating appreciated property such as stock or mutual fund shares to charity rather than selling the property and gifting the proceeds often results in income tax savings? (See section **917** .)

# **Out-of-pocket Expenses.** Has the client incurred out-of-pocket expenses, including mileage, on behalf of charity that can be claimed as a deduction? (See **section 204 in the Tax Planning and Advisory *Charitable Giving* topic** .)

# **Private Foundations.** Has a charitably inclined client considered a private foundation or a donor-advised fund as a means of prefunding future gifts? (See "Private Foundations and Alternative Charitable Entities" beginning at **section 600 in the Tax Planning and Advisory *Charitable Giving* topic** .)

# **Residence/Pension Plan Bequests.** Has the client considered the tax benefits of leaving a residence or pension plan assets to charity (and therefore protecting them from possible estate tax)? (See "Gifting an Interest in a Personal Residence or Farm" beginning at **section 900 in the Tax Planning and Advisory *Charitable Giving* topic** .)

# **Noncash Gifts.** Has the client made noncash gifts and if so, have they been properly valued? (See **section 202 in the Tax Planning and Advisory *Charitable Giving* topic** .)

**Charitable Lead Trusts (CLTs).** If charitably inclined, is the client aware of the use of CLTs to obtain a current charitable contribution deduction while retaining a remainder interest for a noncharitable beneficiary? (See "Charitable Lead Trusts" beginning at **section 500 in the Tax Planning and Advisory *Charitable Giving* topic** .)

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**Charitable Remainder Trusts (CRTs).** Is a charitably inclined client aware of the use of CRTs to obtain a current income tax deduction for a future gift while retaining an income stream for life? (See "Charitable Remainder Trusts" beginning at **section 400 in the Tax Planning and Advisory *Charitable Giving* topic** .)

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**Distributing IRA Assets to Charity.** Individuals age 70½ and older (on the specific transfer date) can distribute otherwise taxable traditional and Roth IRA amounts directly to certain tax-exempt charities. These distributions, called qualified charitable distributions, are federal income tax-free to the donor. No charitable deduction is allowed on Form 1040, but qualified charitable distributions can have valuable tax-saving advantages. (See paragraph **1110.66** .)

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**Carryover from Prior Years.** Contribution carryovers generally expire after five years. Adequate planning should utilize them before they expire. (See **section 304 in the Tax Planning and Advisory *Charitable Giving* topic** .)

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## SECTION 11 PROFIT OR LOSS FROM BUSINESS (Form 1040, Schedule C)

**Form of Business.** Has the client considered whether another legal form of business is

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appropriate (e.g., corporation or limited liability company), given such issues as legal liability and double taxation? Has the use of an S corporation been considered as a means of reducing exposure to FICA TAX and the additional 0.9% Medicare tax? (See section **2003** .)

**Hobby_Loss_Rules.** If there is consistently a net loss, the planner should review the client's business to determine if it is subject to the hobby loss rules and, if so, consider planning strategies to help avoid the application of these rules. (See "Sole Proprietors and Other Business Owners" beginning at **section 400 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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**Employing_Family_Members.** Is the client aware of the income tax benefits of employing family members in the business such as (1) shifting income to lower tax rate family members, (2) reducing SE income by employing an under-age-18 child, (3) obtaining a 100% deduction for health insurance by employing the owner's family members and setting up an appropriate health insurance plan, and (4) avoiding the kiddie tax? (See section **1112** .)

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**Additional_0.9%_Medicare_Tax_on_Earned Income.** Has the client employed strategies to minimize the impact of the additional 0.9% Medicare tax? Have appropriate adjustments been made to estimated tax payments and withholding amounts to cover any additional tax liability for this tax? Can income be deferred or accelerated to avoid this tax on a multi-year basis? (See "Sole Proprietors and Other Business Owners" beginning at **section 400 in the Tax Planning and Advisory *Individual Tax Planning* topic** and "Executive Compensation" beginning at **section 500 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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# **<u>Qualified Business Income.</u>** If the client expects to have net qualified business income (QBI) from the business, have steps been taken to maximize the amount of the 20% QBI deduction? (See **section 100 in the Tax Planning and Advisory *Qualified Business Income Deduction* topic** .)

**Expenses**

# **<u>Health Care Costs.</u>** Self-employed taxpayers should consider the tax advantages of establishing and contributing to a health savings account (HSA). HSAs can be set up for individuals with certain high-deductible health insurance policies. Also, eligible sole proprietors that do not offer group health insurance coverage to their eligible employees should consider offering a qualified small employer health reimbursement arrangement (QSEHRA). (See paragraph **1109.35** .)

# **<u>Personal Auto Used for Business.</u>** If the client uses a personal auto for business purposes, has the standard mileage rate been compared to using actual expenses to maximize deductions? Would leasing an auto be more advantageous from both a tax and financial standpoint? (See "Sole Proprietors and Other Business Owners" beginning at **section 400 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **<u>Business Debt.</u>** Has the client borrowed funds for business purposes, therefore allowing an interest deduction (under the interest tracing rules)? If the client obtained the funds from a home equity loan, can any interest be allocated to the business? (See "Residences and Vacation Homes" beginning at

**section 300 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

# **Liability Protection.** Has the client obtained sufficient property and liability insurance coverage for the business? If the client is an employer, ensure that appropriate liability insurance is in place to protect the client from (1) claims by employees against the client and (2) claims by third parties against the client arising from the acts (or omissions) of an employee under his or her control. (See "Risk Management and Insurance" beginning at section **600** .)

# Has the client considered incorporation, or the use of a single-member LLC taxed as a sole proprietorship, to shield personal assets from business liabilities? (See "Asset Protection Strategies" beginning at **section 800 in the Tax Planning and Advisory *Retirement Planning and Elder Care* topic** .)

# **Home Office.** Is the client eligible to claim a home office deduction for a portion of the home used exclusively and regularly as the principal place of business for a trade or business? Is the simplified (safe harbor) option for claiming a home office deduction appropriate for the client? (See section **1112** .)

# **Retirement Plan Options.** The self-employed client should consider taking advantage of the deductions allowed for contributions to a qualified retirement plan, SIMPLE, or SEP retirement plans. A solo 401(k) plan is also an option. (See **section 101 in the Tax Planning and Advisory *Retirement Plans for Self-employed* topic** .)

**Business Property Purchased.** Consider using the Section 179 deduction to expense qualifying property to reduce SE income and avoid the midquarter convention. Alternatively, depreciation methods should be selected considering the client's tax situation [i.e., accelerate deduction using bonus depreciation (through December 31, 2026) to reduce SE tax, or minimize deduction for clients subject to alternative minimum tax (AMT)]. Also, the use of specific class lives for specific activities should be considered. If a building was purchased, has the purchase price been properly allocated between real and personal property and has a cost segregation study been considered to maximize depreciation deductions for non-real property components? (See section **1112** .)

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**Business Travel.** If a client is experiencing significant travel costs, the planner should review the client's travel policies and procedures. Planning strategies exist to ensure travel qualifies as *away from home*, convert commuting expenses into deductible travel, preserve deductions for combined business and pleasure travel, and ease the record keeping burden. (See "Sole Proprietors and Other Business Owners" beginning at **section 400 in the Tax Planning and Advisory *Individual Tax Planning* topic** .)

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**FORM 1040 ROADMAP-CLIENT SUMMARY WORKSHEET**

Client: Year:

Preparer's Initials and Date: Reviewer's Initials and Date:

**Instructions:**

Use this worksheet to summarize the results of reviewing the client's Form 1040. List each of the potential planning opportunities identified and describe follow-up action. This worksheet along with the completed Form 1040 Checklist can then become part of the client's tax planning file and can be used to monitor the action taken and status of each possible planning strategy.

| Description of Potential Planning Strategy | Initial Action b | Date Done | Follow-up Action | Date Done |
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**Comments:**

**Notes:**

**a** Regulations under **IRC Sec. 7216** provide standards for using or disclosing clients' tax return information. The basic rule is that tax return preparers cannot use or disclose tax return information without first receiving a client's written consent. Use is the act of referring to, or relying on, tax return information as the basis to take or permit an action [ **Reg. 301.7216-1(b)(4)** ]. The regulations include an example concluding that a return preparer is using tax return information when asking a taxpayer whether he or she wants to make an IRA contribution, after determining while preparing the return that the taxpayer is eligible to make a contribution. Therefore, to be on the safe side, tax return preparers should obtain the clients' consent to use their tax return information before completing the Roadmap. (See Practice Aids **PA-142** and **PA-143** .) See section **1505** for a discussion on complying with these disclosure and use requirements and see **section 1706 in the Tax Planning and Advisory *IRS Tax Resolution and Representation* topic** for coverage of the penalty for noncompliance.

**b** The initial action plan may include a limited review of the potential planning strategy to further determine the viability and suitability for the client and often ends with contacting the client (e.g., telephone call, email, meeting, or letter) to advise him or her of potential tax planning opportunities. The client's interest and response will determine whether the planner should proceed in developing the planning strategies and recommendations (i.e., follow up action).