

Form 1040 Review Guide

The following guide is for use in identifying planning opportunities through a review of a client's Federal Income Tax Return. The headings and line numbers parallel the tax form.

Filing Status

Label; Line 2 – What is the name of the spouse?

Exemptions

Who are the dependents?

- For children – Potential needs are educational savings, banking needs of older children, or special care needs.
- For parents – Potential needs are elder care, investment management of the parent's assets, or insurance.
- For others – Needs will be specific to the situation that has created the dependency.

Income

What is the salary or compensation?

- See if any of these codes are in boxes 12a through 12d of the attached W-2 Wage and Tax Statement:

C = Group term life insurance beyond \$50,000. What other life insurance does the client have? Is it adequate?

D, E, F, G, H, S = Elective deferrals to various retirement plans. Is the client maximizing tax-advantaged opportunities to defer income and save for retirement?

T – Benefits paid under an adoption assistance program. This life-changing event opens up the possibility to discuss estate planning and education planning.

V – Income from the exercise of a nonqualified stock option. Such sales may generate liquidity needs and/or investment management needs.

W – Employer contributions to a health savings account. Is the client maximizing the efficiency of his medical coverage? How extensive are his employee benefits? What provisions has the client made for the potential risk of disability?

What are the client's investments? Examine Schedule B for details.

- From the level and type of income, estimate the value of the assets and how they are allocated.

- Look at where the assets are held. This is your competition.
- Is the client taking advantage of qualified dividend rates, or are assets being sold too soon?
- **Key questions to ask are:**
 - What are your goals for your investments?
 - How has your current advisor worked with you to identify the proper asset allocation for your investments?
 - How has your advisor worked with you to maximize after-tax returns?
 - What process does your advisor use to select securities for your portfolio?
 - How has your advisor worked with you to ensure your investments are appropriately diversified?

Does the client have business income? If so, review Schedule C.

- Is the client aggressive in deducting expenses?
- Are there capital needs associated with the business?
- Are there estate planning needs associated with the business?

Does the client have capital gains or losses? Details are found on Schedule D.

- How long were assets held prior to sale? If there were a lot of short-term gains, you might ask: "How has your advisor concluded it is in your best interest to have a short-term investment strategy?"
- Was there a large liquidity event? This should prompt further inquiry to reveal potential investment opportunities.
- A good open-ended question to ask is, "How does your advisor determine when it is appropriate to sell a security?"

Is the client receiving retirement and/or Social Security income? If so, ask some fact-finding questions to discern the overall retirement plan and the client's need for retirement income. Then ask some open-ended questions like:

- How has your advisor structured your portfolio so that you don't have to worry about your cash needs?
- How has your advisor structured your portfolio to provide the ongoing income you need without having to resort to untimely sales of assets?
- Is the client receiving Social Security income for retirement benefits or for another reason?

Does the client have income or loss from rental real estate, partnerships, S corporations, or trusts? If so, ask fact-finding questions to learn more about these items and the client's involvement with them. Key issues to discern include:

- Are there expenses associated with these that might impact the client's cash flow?
- Do these items make sense in the client's overall portfolio?
- Is the client anticipating a sizeable future distribution for which you could provide investment assistance?

Is the client receiving any "other" income? In particular, look for trustee fees. The

client may need assistance in fulfilling trustee duties or may prefer to reduce the risk associated with acting as trustee.

Adjusted Gross Income

Is the client saving for retirement? Ask about the client's plans for retirement, timing for retirement and the need for additional savings.

- If the plan includes an IRA, is the client happy with the current provider?
- Is there a rollover opportunity?

Is the client paying for self-employed health insurance? If so, you should explore other potential business-related insurance needs, such as life insurance and liability coverage.

Is there an educational deduction? If so, there may be cash flow needs.

Tax and Credits

Did the client itemize deductions? If so, look at Schedule A.

- Schedule A, Line 4 – Was there a deduction for medical expenses? If so, find out if this represents a one-time event or a long-term care need.
- Schedule A, Lines 10 and 11 – Are there deductions for mortgage interest? If so, there may be an opportunity for refinancing.
- Schedule A, Line 14 – Was there an investment interest deduction? Will the client have sufficient investment income by which to deduct interest expenses in the future?
- Schedule A, Line 19 – Is the client charitably inclined? If so, examine the types of property being given, the client's ability to maximize the current benefit of such gifts, and the long-term goals of the client. This may open up a broader discussion of various planned giving approaches.
- Schedule A, Lines 22 and 23 – What are other professionals charging for their services? What levels of services are being offered and is the client happy with them? Can you do better?

Is there an AMT tax? If so, examine the following lines on Form 6251:

- Form 6251, Line 4 – Is the client using a home equity line for purposes other than buying, building, or improving a home? If so, this may be contributing to the AMT tax. You may be able to offer a preferable means of financing.
- Form 6251, Line 12 – Does the client have interest from a private activity bond? If so, this may be contributing to the AMT tax. You may be able to offer an alternative investment.
- Form 6251, Line 14 – Did the client exercise incentive stock options? If so, the client may have a number of associated needs:

- Liquidity with which to pay the additional taxes.
- Professional assistance in planning for future exercises.
- Professional investment management that will reduce the risk of holding stock concentrations and properly diversify investments once the holdings are liquidated.

Is there a foreign tax credit? If not, the client may not be realizing the benefit of investing in international or global funds.

If this is confirmed, you might ask, "How has your advisor worked with you to make the determination that you should not participate in the diversification and additional return that is available by adding international investments to your portfolio?"

Payments

Is the client making estimated tax payments? If so, you might be able to assist with providing a line of credit or restructuring the portfolio to provide the necessary cash flow.