Looking back: Your 2022 tax-year 1040 form

It's as easy as...

1. Place the 1040 Highlighter over your 2022 annual tax returns.
2. Review the results with your financial professional.
3. Gather IRS Schedule D and determine the sources of interest, dividends, and capital gains. This will give you an opportunity to review, with your financial professional, your statements and financial plan to identify tax inefficiencies that could be mitigated by tax-deferred* vehicles.

*Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

Why pay more than your fair share?

Nobody wants to pay more taxes than they have to. See if any of these tips can help lessen your tax burdens.

1040

Line 2b Taxable interest

Interest income may increase your tax burden. Consider repositioning some of these investments to tax-deferred vehicles, which allow any earnings to compound on a tax-deferred basis until withdrawn. Earnings reflected on line 2b present an opportunity to identify funds that are in CDs.

Line 3a Qualified dividends

Earnings reflected on this line are taxed as long-term capital gains and represent an increased tax liability to you for that tax year.

Line 3b Ordinary dividends

Earnings reflected on this line are taxed as ordinary income. Consider reallocating these assets to a tax-deferred vehicle to reduce your tax liability. Dividends are reflected as ordinary dividends if you have not held the asset for the required holding period (which varies depending on stock type). If the dividend does not come from an American company or a qualifying foreign company, then the dividend may be an ordinary dividend.

Line 4b Taxable IRA distributions

This line represents the taxable portion of any withdrawals from your IRAs. Taxable distributions from IRAs are taxed as ordinary income. IMPORTANT NOTE: Once you are required to take minimum distributions from traditional IRAs, you can avoid taxation on their required minimum distributions (RMDs) by having the distributions sent directly to a charity, known as a qualified charitable distribution (QCD).[*1] If you have taken a QCD, that is reflected on lines 4a and 4b.

Lines 6a & 6b Social Security

Line 6a represents distributions of Social Security benefits. Line 6b represents the taxable portion of your Social Security benefit. Keep in mind that if a married couple's (filing jointly) provisional income is between $32,000 and $44,000, then up to 50% of their benefit is taxable. If a married couple's (filing jointly) provisional income is greater than $44,000, then up to 85% of their benefit is taxable. For a single filer, those thresholds are $25,000 and $34,000.[2]

Line 7 Capital gain or loss

This line represents capital gains or losses. Short-term capital gains are taxed as ordinary income and long-term capital gains are taxed from 0% to 23.8%[†,3] If this line indicates a gain, Schedule D can be analyzed to identify potential tax inefficiencies.

Line 11 Adjusted gross income

This is your adjusted gross income, or AGI. This is the sum of your income and adjustments. The lower the number on this line, the lower your tax liability. Tax deferral offers one avenue of reducing the number on line 7.

Line 12 Standard deduction

In 2022, the standard deduction is $25,900 for couples married filing jointly and $12,950 for single filers.[4]

Line 13 Business income deduction

If you own a business, then you may have additional deductions. Working with your accountant may offer other planning opportunities that reduce your taxable income so that you may qualify for an additional 20% business income deduction.[5]

Line 15 Taxable income

This is the amount you will pay taxes on.

* QCDs are subject to limitations including a cap of $100,000 on the amount that can be claimed as a QCD.

† When including a potential 3.8% net investment income tax. Capital gains rates can be higher, up to 28% for the sale of certain assets. Source: IRS Topic 409.

1 "IRA FAQs - Distributions (Withdrawals)," September 19, 2022.

2 Social Security Administration, "Benefits Planner - Income Taxes and Your Social Security Benefit," 2022.

3 IRS, "Topic No. 409 Capital Gains and Losses," October 4, 2022.

4 IRS, Rev. Proc. 2021-45, 2021.

5 IRS, "Tax Cuts and Job Act, Provision 11011 Section 199A - Qualified Business Income Deductions FAQs," October 4, 2022.

Schedule D

Lines 1a–3

These lines represent short-term capital gains and losses from form 1099-B and/or form 8949. If you have anything written on column (h) of these lines, then you have short-term capital gains or losses. Sources of short-term capital gains include dividend and capital gain distributions, and gains from the sale of certain assets (including stock and mutual fund shares) held less than one year. These gains or losses may be offset by other gains and losses in Part I of this form.

Line 5

If you have anything written on this line, then you have capital gains from partnership interests, S corporations, estates, or trusts. Trust income may be subject to highly compressed trust tax brackets. In 2022, ordinary income of $13,451 will place a trust in the top tax bracket of 37%, plus the 3.8% net investment income tax, for a combined tax rate of 40.8%.[6] One strategy for avoiding trust tax brackets is to pass income to trust beneficiaries. An alternative strategy is to position tax-deferred annuities in trust accounts and eliminate the need to pass out income each year. This allows the trust assets to grow, instead of passing out gains each year, and eliminates the need for taxable distributions to beneficiaries.

Line 7

This line is your net short-term capital gain or loss. Short-term capital gains are taxed as ordinary income.[7] Relocating short-term capital gains producing assets to an annuity can allow earnings to accumulate on a tax-deferred basis as an alternative to paying tax each year on dividends and capital gains. This may reduce tax drag on your investments and allow your assets to grow more quickly.

Lines 8a–10

These lines represent long-term capital gains and losses from form 1099-B and/or form 8949. If you have anything written on column (h) of these lines, then you have long-term capital gains or losses. Sources of long-term capital gains include dividend and capital gains distributions, and gains from the sale of certain assets (including stock and mutual fund shares) held for more than one year. These gains or losses may be offset by other gains and losses in Part II of this form.

Line 12

If you have anything written on this line, then you have capital gains from partnership interests, S corporations, estates, or trusts. Trust income may be subject to highly compressed trust tax brackets. In 2022, long-term capital gain income of $13,701 will place a trust in the top tax bracket of 20%,[6,7] plus the 3.8% net investment income tax, for a combined tax rate of 23.8%.[8] One strategy for avoiding trust tax brackets is to pass income to trust beneficiaries. An alternative strategy is to position tax-deferred annuities in trust accounts and eliminate the need to pass out income each year. This allows the trust assets to grow, instead of passing out gains each year, and eliminates the need for taxable distributions to beneficiaries.

Line 15

This line is your net long-term capital gain or loss. Long-term capital gains are taxed at 0%, 15%, or 20% depending on your total income.[7] In some cases, your capital gains rate can be 28% (if selling collectibles or §1202 qualified small business stock), or 25% (for unrecaptured §1250 gain from §1250 real property).[7] If you are single and have income over $200k or married and have income over $250k, an additional 3.8% may apply, making your long-term capital gains rate as high as 23.8%.[7, 8]

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[6] IRS, Rev. Proc. 2021-45.

[7] IRS, "Topic No. 409 Capital Gains and Losses," October 9, 2022.

[8] IRS, "Questions and Answers on the Net Income Tax," September 29, 2022.

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