TRANSAMERICA®

1040 Review Guide:

Using Your Clients' 1040 to Identify Planning Opportunities

ADVANCED MARKETS

Producers’ Guide to a 1040 Review

At Transamerica, we’re committed to providing you and your clients with the tools you need to get the right information, so you can help your clients make the right decisions. That’s what the IRS Form 1040 Review program is all about.

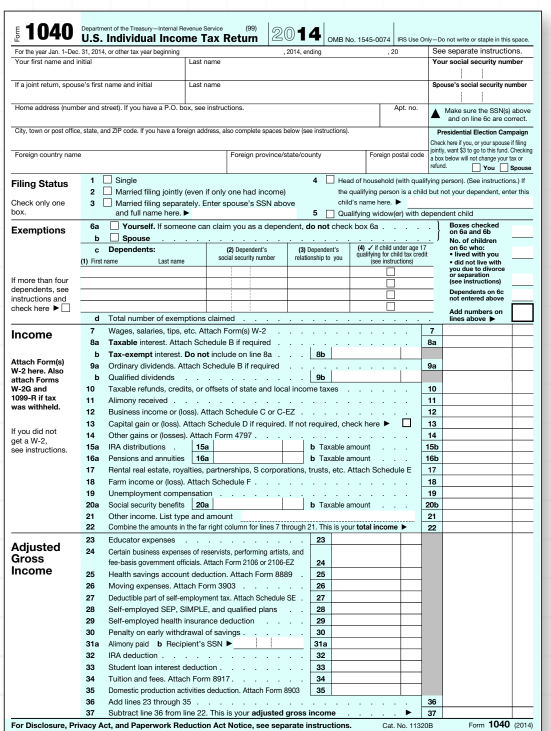
IRS Form 1040 is one of the most useful sources where you can get financial information from a client. Consider the information the 1040 provides:

- Family Structure
- Sources of Income
- Financial Holdings
- Retirement Accounts
- Tax Status

Even if you already know this information, a 1040 Review can help demonstrate your value as an advisor by offering your clients a comprehensive approach to financial planning.

Equipped with the information provided on the 1040, you’ll be in a better position to help clients:

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



Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2014 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2014, or other tax year beginning , 2014, ending , 20 See separate instructions.

Your first name and initial | Last name | **Your social security number**

If a joint return, spouse’s first name and initial | Last name | **Spouse’s social security number**

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | ▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name | Foreign province/state/county | Foreign postal code

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**

Filing Status
Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse’s SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child’s name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions
6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**
c **Dependents:** (1) First name Last name | (2) Dependent’s social security number | (3) Dependent’s relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ ☐
d Total number of exemptions claimed
Boxes checked on 6a and 6b
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above ▶

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 W-2, see instructions.
7 Wages, salaries, tips, etc. Attach Form(s) W-2 — 7
8a **Taxable** interest. Attach Schedule B if required — 8a
b **Tax-exempt** interest. **Do not** include on line 8a — 8b
9a Ordinary dividends. Attach Schedule B if required — 9a
b Qualified dividends — 9b
10 Taxable refunds, credits, or offsets of state and local income taxes — 10
11 Alimony received — 11
12 Business income or (loss). Attach Schedule C or C-EZ — 12
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ — 13
14 Other gains or (losses). Attach Form 4797 — 14
15a IRA distributions 15a — b Taxable amount — 15b
16a Pensions and annuities 16a — b Taxable amount — 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E — 17
18 Farm income or (loss). Attach Schedule F — 18
19 Unemployment compensation — 19
20a Social security benefits 20a — b Taxable amount — 20b
21 Other income. List type and amount — 21
22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ — 22

Adjusted Gross Income
23 Educator expenses — 23
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ — 24
25 Health savings account deduction. Attach Form 8889 — 25
26 Moving expenses. Attach Form 3903 — 26
27 Deductible part of self-employment tax. Attach Schedule SE — 27
28 Self-employed SEP, SIMPLE, and qualified plans — 28
29 Self-employed health insurance deduction — 29
30 Penalty on early withdrawal of savings — 30
31a Alimony paid b Recipient’s SSN ▶ — 31a
32 IRA deduction — 32
33 Student loan interest deduction — 33
34 Tuition and fees. Attach Form 8917 — 34
35 Domestic production activities deduction. Attach Form 8903 — 35
36 Add lines 23 through 35 — 36
37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ — 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2014)

In addition, the information found in a 1040 Review can help you grow your practice. The review can help you identify client assets not currently under your management. It can also act as an exercise to introduce new investment strategies.

This Guide will focus on some of the most relevant entries on IRS Form 1040, and what they can tell you about a client.

Part I – Personal Information, Filing Status, Exemptions, and Dependents

While this section of the 1040 may seem self-explanatory, it still provides an important and concise summary of the client's family situation. Having this information can help you better understand the client's family structure, potentially leading to conversations about topics such as college savings, beneficiary designations, or even estate planning. See *Transamerica Advanced Markets' Financial Professionals' Guide to Estate Planning* for an overview of common estate planning issues.

Part II – Income

Line 7 and Form W-2—Wages and Salary

IRS Form W-2, which accompanies the 1040, will generally show the amount from wages deferred to an employer-sponsored retirement plan (see Box 12). This is an easy way to confirm that the client is taking full advantage of available contributions. Also, clients age 50 or over may want to take advantage of catch-up contributions.

401(k) Contribution Limits	2015
Under Age 50	$18,000
Age 50 and up (with catch-up contributions)	$24,000
SIMPLE IRA Contribution Limits	**2015**
Under Age 50	$12,500
Age 50 and up (with catch-up contributions)	$15,500

Whenever a client is contributing to an employer-sponsored retirement plan, it's also a good idea for you to get a copy of the Summary Plan Description. This will contain information about investment options, availability of a Roth contribution option, distributions, and in-service withdrawal options. The plan assets most likely eligible for in-service distributions are amounts rolled over from another plan, fully vested employer contributions, and salary contribution amounts at age 59½.

Business Builder: An in-service withdrawal rolled over to an IRA may provide the client with expanded investment options. Before suggesting a rollover, be sure to consider whether keeping assets in a qualified plan may offer advantages, such as lower cost or exceptions to the 10% additional tax on withdrawals prior to age 59½, that may benefit the client. Rollovers may be subject to differences in features and expenses. Clients should consult with a tax advisor regarding their particular situation.

Line 8 and Schedule B—Taxable and Tax-Exempt Interest

8a – Taxable Interest: If an amount is indicated on Line 8a, a Schedule B must be completed. Schedule B can be helpful in identifying the client's financial accounts as each source of interest is listed on the form.

Keep in mind that interest income reported on Line 8a is often from savings or money market accounts. While these accounts can offer safety of principal, they can also present inflation risk. A review of investment objectives may open the door to a conversation about alternative low risk investments that might offer a higher after-tax return.

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

8b – Tax-exempt Interest: One of the benefits to understanding the client's tax situation is being able to determine whether taxable or tax-free income offers the best tax-adjusted return. Clients in a low tax bracket may get a better after-tax return from a taxable investment.

Business Builder: Schedule B to Form 1040 can be a useful asset gathering tool. Conduct a fixed income review to make sure the client is keeping up with inflation and getting an appropriate level of after-tax income based on their investment objectives and risk profile.

Part II – Income (cont'd)

Line 9—Ordinary and Qualified Dividends

9a – Ordinary Dividends: Ordinary dividends are taxed as ordinary income.

9b – Qualified Dividends: A dividend that is taxed at long-term capital gains rates instead of ordinary income. In order to understand the after-tax return of these dividends, clients need to understand their long-term capital gains tax rate. This can be 0%, 15%, or 20% depending on the client's tax bracket (see chart for Line 13).

Business Builder: Depending on the client's long-term capital gains tax rate, and if consistent with the client's investment objectives and risk tolerance, qualified dividends can be a tax-efficient source of income.

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

Planning Point

Given a prolonged low interest rate environment, many clients rely on dividend paying stocks for retirement income. Make sure these clients are well diversified and receiving a dividend yield that justifies their investment risk. Diversification is a technique to help reduce risk and does not guarantee against loss.

Line 12 and Schedule C—Business Income

A profit or loss from business is generally reported on Schedule C. If a client is reporting a large amount of business income, check Line 19 of Schedule C to see if the business made a pension or profit-sharing plan contribution. Such a contribution will generally reduce the income that passes through to the owner's 1040.

Business Builder: *Transamerica Advanced Markets' Guide to Small Business Retirement Plans* can help you evaluate the client's retirement plan options.

If a business loss is reported on Line 12, the client should consider whether a Roth conversion might make sense. Income from a Roth conversion is reported on Line 15. To the extent a loss on Line 12 offsets the Roth conversion income on Line 15, it can reduce the out-of-pocket tax cost of the Roth conversion.

Planning Point

Clients with Net Investment Income (which includes interest, taxable income from bonds, dividends, long-and short-term capital gains, rental and royalty income) will pay an additional 3.8% tax on the lesser of Net Investment Income or Modified Adjusted Gross Income above certain thresholds ($200,000 for single filers/$250,000 for married filing a joint return). See Line 60 for additional details.

Line 13 and Schedule D—Capital Gain or loss

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

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

Long-Term Capital Gains Tax Rates - 2015			
Married Filing Joint Return		Single Filer	
Taxable Income:		Taxable Income:	
$0 – $74,900	0%	$0 – $37,450	0%
$74,901 – $464,850	15%	$37,451 – $413,200	15%
Over $464,850	20%	Over $413,200	20%

There are a number of strategies available to minimize capital gains, if necessary:

- Use a buy-and-hold strategy
- Implement a tax loss harvesting strategy
- Use carry forward losses, if available
- Reposition assets into a tax-deferred investment*
- Leverage a low turnover mutual fund or other professionally managed, tax-advantaged strategy

*Note: taxable distributions from nonqualified annuities and traditional IRAs are always taxed as ordinary income.

Part II – Income (cont'd)

Line 15—IRA Distributions

Box 15a – Gross IRA Distributions, 15b – Taxable IRA Distributions: If an IRA distribution is fully taxable, Boxes 15a and 15b will contain the same number. If they do not, then the distribution likely included a return of nondeductible contributions. The taxpayer is responsible for tracking nondeductible IRA contributions, and the resulting nontaxable distributions, on IRS Form 8606.

Business Builder: Form 8606 can serve as an asset gathering and fact-finding form as it reveals the aggregate amount of assets contained in all of the client's Traditional, SEP and SIMPLE IRAs, no matter where they are held.

Planning Point

If a client is taking IRA distributions, consider whether the rate of withdrawals is sustainable. Even required minimum distributions (RMDs) exceed 5% of the account value at just 79 years of age. Clients with concerns about the withdrawal rate on their IRA may want to explore lifetime income options. All guarantees, including optional benefits, are backed by the claims-paying ability of the issuing insurance company.

Line 16—Pensions and Annuities

Just like Line 15, Line 16 is divided into two parts, with Box 16a showing the gross distribution and Box 16b showing the taxable amount. If the gross distribution is more than the taxable amount, the distribution likely included a nontaxable return of investment. This could be the result of annuitization of an annuity contract or the absence of taxable gains in a deferred annuity.

Business Builder: A nontaxable return of investment from a nonqualified annuity may indicate a poor investment performance. This may be a trigger for an annuity review. If an annuity is surrendered at a loss, that loss may be claimed by the owner as a miscellaneous itemized deduction (see IRS *Publication 575* for additional information).

Getting copies of a client's IRS Form 1099-R, which are used by financial companies to report retirement plan distributions, can help you identify qualified plans, retirement accounts, and annuities.

Line 17 and Schedule E—Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, etc.

Line 17 is used to report several different types of income. Schedule E to Form 1040 will show the source of the income.

If the source of the income is a trust, one issue to consider is whether the beneficiary receiving the income wants or needs that income. The tax structure of irrevocable, non-grantor trusts creates a significant incentive for the trustee to pay income to beneficiaries. In some situations, however, the primary objective of the trust might be to grow assets for remainder beneficiaries.

Business Builder: A variable annuity can provide tax deferral within a trust. It can also provide the trustee with control over income in the trust. In some instances, this can give the trustee flexibility in how they manage trust assets.

If a client is receiving a large amount of partnership or S Corporation income, consider whether the partnership or S Corporation could implement a retirement plan, or upgrade an existing plan.

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

Planning Point

Income retained in an irrevocable trust is subject to trust tax rates. In 2015, the top income tax rate of 39.6%, as well as the top capital gains rate of 20%, applies to trusts at just $12,300 of retained income. The 3.8% Net Investment Income Tax also applies to trusts at $12,300 of retained income. When managing trust assets, tax efficiency is very important.

Part III – Adjusted Gross Income (AGI)

AGI (reported on Line 37) is used to determine eligibility for certain credits, deductions, contributions, and exemptions. It is also a key to understanding the application of additional taxes, such as the 3.8% tax on Net Investment Income. AGI is figured by reducing total income (as shown on Line 22) by certain deductions.

Line 28 – Self-Employed SEP, SIMPLE, and Qualified Plans: An entry on this line means that the client is contributing to one of these accounts. Evaluate the investments in the account to determine if they are meeting the needs of the client. Also, if the client is a high-income earner, make sure that they are maxing out contributions.

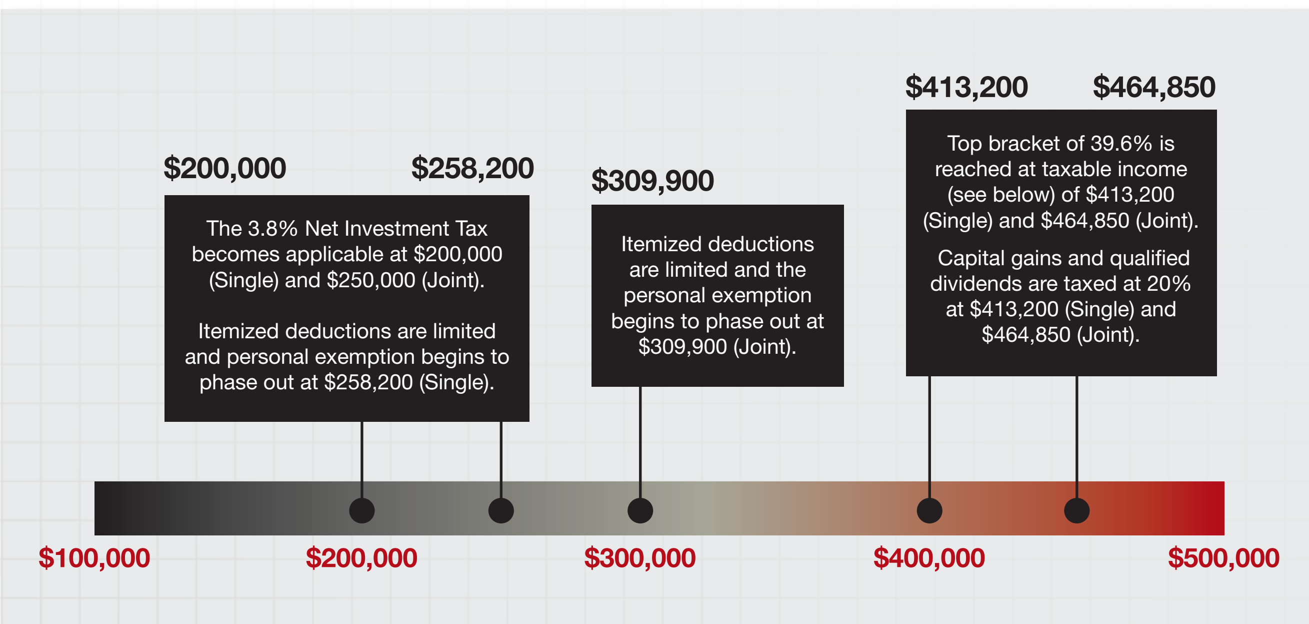
Business Builder: If Line 28 is blank, consider whether the client would benefit from a small business retirement plan. If there is an entry on this line, evaluate the existing plan to determine whether it is consistent with the client's retirement savings goals. A review of current plan investments is also appropriate.

Line 32 – IRA Deduction: All clients are free to contribute $5,500 ($6,500 if 50 or older) to an IRA. Whether they can deduct that contribution depends on their income and whether they, or their spouse, are covered by a qualified retirement plan at work (see IRS *Publication 590* for deductibility information). If the number in this line exceeds the individual deduction limit, it likely indicates that both spouses have made deductible contributions.

Even if Line 32 is blank, there may still be an IRA opportunity. Clients who cannot deduct an IRA contribution may still be eligible to contribute to Roth IRAs (subject to income restrictions—see IRS *Publication 590*). Spousal contributions are also available, even for spouses without earned income. Clients who choose to make nondeductible IRA contributions must track these contributions by filing Form 8606.

Business Builder: Getting IRAs set up and established now, even with relatively small contributions, may increase the likelihood that you will receive rollover contributions in the future. Asset allocation funds can be an appropriate way to get full diversification and professional management in small accounts.

Impact of Adjusted Gross Income and Taxable Income 2015



Part IV – Tax and Credits

Line 40 & 42 – Itemized Deductions and Exemptions: Certain items can only be deducted from income if the client itemizes deductions. Itemized deductions are listed on Schedule A to Form 1040. These include mortgage interest, charitable gifts, medical expenses, deferred annuity losses, and state income or state sales taxes. Itemized deductions and exemptions are limited for high-income individuals. Check whether deductions are likely to recur (such as mortgage interest), or represent a one-time event (such as medical expenses). Clients who anticipate large deductions or a tax credit in the current tax year may want to consider converting a portion of their retirement assets to a Roth IRA, as the deductions can offset conversion income that would otherwise be taxable.

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

Line 43 – Taxable Income: Taxable income determines the client's "tax bracket." Knowing a client's tax bracket is very important for decisions such as whether to invest in taxable or tax-free bonds and whether to contribute to a pretax, tax-deferred traditional retirement account or an after-tax, potentially tax-free Roth retirement account.

Line 59 – Additional Tax on IRAs, Qualified Plans, etc.: Clients reporting income on this line likely took a distribution from a retirement plan prior to age 59½, triggering a 10% additional federal tax. Check IRC Section 72(t) to see if the client qualifies for an exception (such as qualified first-time homebuyer or qualified higher-education expense). Clients who don't qualify for an exception can still set up a Series of Substantially Equal Periodic Payments in order to avoid the 10% additional federal tax going forward.

Planning Point

Clients with high incomes are subject to a phase-out of itemized deductions at the following AGI thresholds:

$258,200 Single

$284,050 Head of Household

$309,900 Joint

$154,950 Married, Filing Separately

Certain types of deductions are shielded from the phase-out of itemized deductions, including:

- Deductible medical expenses
- Investment interest
- Casualty and theft losses

Line 62 – Taxes from Form 8960 (Net Investment Income Tax): If the client checks Box b on Line 62, the client is paying the 3.8% Net Investment Income Tax. This means that they have income from rents, royalties, capital gains, dividends, taxable bond income or interest in excess of the applicable thresholds (MAGI of $200,000 for single filers or $250,000 for married couples filing jointly). The following are items to consider if the client has exposure to the Net Investment Income Tax:

- Take steps to reduce the client's modified AGI (MAGI). The higher the client's underlying MAGI, the more their investment income may exceed the applicable thresholds.
- Traditional IRA distributions are excluded from the tax, but added to MAGI, potentially creating exposure. Reduce traditional IRA distributions if possible.
- Income from a Roth IRA is not included when determining whether the client's income is above the applicable thresholds. Consider meeting income needs from a Roth IRA, if available.
- Municipal bond income is excluded from both AGI and the Net Investment Income Tax. Use municipal bonds for income when possible.
- While annuity income is subject to tax, tax deferral can delay recognition of income into years where exposure is lower.
- Consider taking capital losses when available.

Business Builder: Being prepared to offer strategies to deal with the Net Investment Income Tax can help you to both distinguish yourself as an advisor and solicit referrals.

Transamerica Can Help You Bring More Value to Your Clients

The IRS Form 1040 review can be a catalyst to important planning conversations with your clients.

The client's tax professional should be brought into the discussion to review issues that you have identified.

- This can help you build a relationship and may lead to referrals.

Leverage Transamerica's tools to assist with the Form 1040 review:

- Transamerica Advanced Markets' "Financial Professionals' Guide to Estate Planning"
- Transamerica Advanced Markets' "1040 Review Guide"
- Transamerica Advanced Markets' "Producers' Guide to 1040 Review"
- Transamerica Advanced Markets' "Understanding the Net Investment Income Tax"
- Transamerica Advanced Markets' "Guide to Small Business Retirement Plans"
- Transamerica Advanced Markets' "Retirement Plans and Variable Annuities"
- Transamerica Advanced Markets' "Roth IRAs—A Wealth Transfer Strategy"
- Transamerica's "Tax Facts at a Glance"

Schedule an appointment with your Transamerica Mutual Funds or Transamerica Variable Annuity partner for the tools to put these strategies into action!

All guarantees, including optional benefits, are backed by the claims-paying ability of the issuing insurance company.

Annuities issued by Transamerica Life Insurance Company in Cedar Rapids, Iowa and Transamerica Financial Life Insurance Company in Harrison, New York. Transamerica Financial Life Insurance Company is licensed in New York. Transamerica Funds are advised by Transamerica Asset Management, Inc. References to Transamerica pertain either individually or collectively to these Transamerica companies. Variable annuities and mutual funds are distributed by Transamerica Capital, Inc.

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

Transamerica is prohibited by law from providing tax or legal advice. We inform you that this material was not intended or written to be used, and cannot be used, to avoid penalties imposed under the Internal Revenue Code and/or any other relevant laws. This material was written to support the promotion or marketing of the products, services, and/or concepts addressed in this material. Anyone to whom this material is promoted, marketed, or recommended should consult with and rely solely on their own independent advisors regarding their particular situation and the concepts presented herein.

There is no additional tax-deferral benefit derived from placing IRA or other tax-qualified funds into an annuity. Features other than tax-deferral should be considered in the purchase of a qualified annuity.

Withdrawals of taxable amounts are subject to ordinary income tax and if taken prior to age 59½, a 10% federal tax additional may apply.

Variable annuities are subject to investment risk, including possible loss of principal. Annuities are long-term tax deferred vehicles designed for retirement purposes.

Neither Transamerica nor any of its financial professionals provide tax or legal advice. Your clients should consult a qualified tax advisor for questions regarding their particular situation.

Your clients should consider annuity or mutual fund investment objectives, risks, charges, and expenses carefully before investing. The prospectus and/or summary prospectus contains this and other information. Call Transamerica at 800-851-7555 for a mutual fund or variable annuity prospectus. Encourage them to read it carefully.

AMFPG10400115
© 2014 Transamerica Capital, Inc.

TRANSAMERICA®