

# THE TAX EFFICIENCY CHALLENGE

A guide to understanding clients' assets  
using the IRS Form 1040

## This guide will:

- Help clients lower their tax liability
- Identify tax-inefficient assets earmarked for the future
- Start the conversation with clients on tax-advantaged investing

We do not provide tax, accounting, or legal advice. Clients should consult their own independent advisors as to any tax, accounting, or legal statements made herein.

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# Do clients understand that the federal taxes they pay today on capital gains, dividends, and interest income may financially impact their future retirement?

**Form 1040** Department of the Treasury—Internal Revenue Service  
**U.S. Individual Income Tax Return** **2023** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2023, or other tax year beginning \_\_\_\_\_, 2023, ending \_\_\_\_\_, 2024. See separate instructions.

Your first name and middle initial \_\_\_\_\_ Last name \_\_\_\_\_ 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. \_\_\_\_\_

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 \_\_\_\_\_

**Filing Status** ☐ Single ☐ Head of household (HOH) ☐ Married filing jointly (even if only one had income) ☐ Married filing separately (MFS) ☐ Qualifying surviving spouse (QSS)

Check only one box. 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: \_\_\_\_\_

**Digital Assets** At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, 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, 1959 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1959 ☐ Is blind

**Dependents** (see instructions):

(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 <input type="checkbox"/>
				Credit for other dependents <input type="checkbox"/>

If more than four dependents, see instructions and check box ☐

**Amount You Owe**

36 Amount of line 34 you want applied to your 2024 estimated tax . . . . . **36**

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](http://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.

Your signature \_\_\_\_\_ Date \_\_\_\_\_ Your occupation \_\_\_\_\_

If the IRS sent you an Identity Protection PIN, enter it here (see inst.) \_\_\_\_\_

If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) \_\_\_\_\_

Date \_\_\_\_\_ PTIN \_\_\_\_\_ Check if: ☐ Self-employed

Phone no. \_\_\_\_\_

Firm's EIN \_\_\_\_\_

Firm's address \_\_\_\_\_

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information. Form **1040** (2023)

Line 15 shows a client's taxable income. The taxable income determines the tax bracket and the long-term capital gains rate. If the client is in a relatively high tax bracket, it may be particularly beneficial to invest in a tax-efficient manner.

How do your clients feel about their total tax burden?

## 1040—INCOME TAX RETURN

Line 2b shows taxable interest.

Line 3a shows qualified dividends and Line 3b shows ordinary dividends.

How much of this income does the client need today? Is there an opportunity to reposition their assets to achieve greater investment tax diversification?

Lines 6a and 6b show the amount of Social Security benefits the client received and any benefits that are subject to tax. It may surprise clients that a portion of their Social Security benefits may be taxable.

Line 7 "Capital Gains or Losses" from securities transactions on Schedule D. These are not included in Schedule 1 income.

Would clients like to explore ways to reduce the taxes they pay on Social Security benefits?

Line 11 shows the client's Adjusted Gross Income (AGI). AGI helps determine if the client will be subject to several other calculations, such as additional taxation on Net Investment Income, higher Medicare payroll taxation, higher Medicare premiums, or higher levels of Social Security taxation.

Would clients like to explore strategies to reduce AGI by moving currently taxable income into a deferral product?

## SCHEDULE 1 (Form 1040) Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.  
Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

OMB No. 1545-0074  
**2023**  
Attachment Sequence No. 01

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

### Part I Additional Income

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	

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	

## SCHEDULE 1—ADDITIONAL INCOME

Line 4 shows non-securities capital gains and losses. Securities transactions are detailed on Schedule D and entered on Line 7 of the 1040. In addition to the sale of a capital asset, it includes some distributions from nonqualified taxable assets. Since clients have no control over those distributions, they also have no control over the timing of the tax liability.

Line 13 shows deductions for HSA contributions.

Line 16 shows deductions for SEP and SIMPLE contributions.

Line 20 shows deductions for IRA contributions.

Would clients like to have more control over the timing of taxes? Where is that IRA being held?

SCHEDULE A (Form 1040)		Itemized Deductions		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Go to <a href="http://www.irs.gov/ScheduleA">www.irs.gov/ScheduleA</a> for instructions and the latest information.		2023 Attachment Sequence No. 07	
Name(s) shown on Form 1040 or 1040-SR		Your social security number			
<b>Medical and Dental Expenses</b>	<b>Caution:</b> 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 <b>2</b> . . . . .	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			
<b>Taxes You Paid</b>	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 <input type="checkbox"/> . . . . .	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: . . . . .				
<b>Casualty and Theft Losses</b>	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			
<b>Other Itemized Deductions</b>	16 Other—from list in instructions. List type and amount: . . . . .	16			
<b>Total Itemized Deductions</b>	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 <input type="checkbox"/> . . . . .				

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C Schedule A (Form 1040) 2023

## SCHEDULE A—ITEMIZED DEDUCTIONS

**Line 17** While fewer taxpayers will use itemized deductions due to the elimination of personal exemptions, the reduction of the number of itemized deductions available, and the increase in the Standard Deduction (in 2023, \$13,850 for Single filers and \$27,700 for Married Filing Jointly), taxpayers should still work through Schedule A to see if itemizing can provide a deduction larger than the Standard amount.

SCHEDULE 2 (Form 1040)		Additional Taxes		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		2023 Attachment Sequence No. 02	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR		Your social security number			
<b>Part I Tax</b>					
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			
<b>Part II Other Taxes</b>					

## SCHEDULE 2—ALTERNATIVE MINIMUM TAX

**Line 1** shows any applicable Alternative Minimum Tax (AMT). The AMT exemption amounts for tax year 2023 are \$81,300 (single) and \$126,500 (joint).

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)

## SCHEDULE 2—ADDITIONAL TAXES

**Line 11** shows an additional 0.9% Medicare tax on earned income that can be due for filers at higher income levels.

**Line 12** shows a 3.8% tax is imposed on investment income for higher income individuals. Both taxes are imposed on those single filers with more than \$200,000 AGI and more than \$250,000 for married couples filing jointly.

**Do you have clients subject to these taxes?  
Would they like to explore moving currently taxable income into a deferral product?**

## It's never too early—or too late—to plan for the next tax year.

Looking at a client's whole financial picture can help increase their trust and confidence in you. Carefully evaluate their overall financial situation and goals, as well as product features, fees, and limitations, before making investment decisions. For more help with tax efficiency, please call our **National Sales Desk** today at **800-513-0805**.

Annuities are issued by The Prudential Insurance Company of America and Pruco Life Insurance Company (in New York, by Pruco Life Insurance Company of New Jersey), located in Newark, NJ (main office). Variable annuities are distributed by Prudential Annuities Distributors, Inc., Shelton, CT.

A variable annuity is suitable for long-term investing, particularly when saving for retirement; however, it is possible to lose money investing in securities.

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Because qualified retirement plans, IRAs, and variable annuities offer a tax-deferral feature, clients should carefully consider the other features, benefits, risks, and costs associated with a variable annuity before purchasing one in either a qualified plan or an IRA. Before purchasing a variable annuity, clients should take full advantage of their 401(k) and other qualified plans.

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