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Seven Crazy Tax Laws Trump Should Change

President Elect Trump and Republicans say big tax changes are coming. It's about time. The U.S. tax code is the most complex in the world, chock full of perks to special interests and social engineering. It is incomprehensible, and often produces unjust results. In 1913, our *entire* tax law was 27 pages. It's now over 4 million words, 9,000 bloated pages. From 2001-2012 alone, there were 4,600 changes, more than one a day.

Individuals spend 6.1 *billion* hours a year doing their tax filings, the equivalent of a year's work for 3 million full-time workers. Many Fortune 500 companies manage to pay zero tax or get refunds. Of 145 million personal tax returns in 2011, 54 million (more than a third) had zero tax liability or got refunds. 1,600 people who filed tax returns with incomes of \$1 million or more paid no income taxes.



Here are just a few of the thousands of things that should be addressed:

1. The Earned Income Tax Credit is plagued by fraud, up to 29% of all payments. The IRS paid out \$125 *billion* in fraudulent refunds in the last 10 years, over \$12 billion a year. How about allowing American families to keep more of their own

money, instead of taking and ineffectively distributing it, losing billions to fraud?

2. The alternative minimum tax—usually shortened to AMT—is a kind of tax rubik's cube. It is a complex *parallel* tax system that has grown like cancer. It's results are hard to predict and can be perverse. It was designed to target certain rich tax deductions and to add them back for a kind of minimum tax computation. But over four decades it applies to vast numbers of deductions and is grossly unfair. If you win a lawsuit and pay contingent legal fees, you can end up taxed on more money than you received. AMT can ruin your stock options too.
3. Private equity and hedge fund owners get a “carried interest” for their work. Their pay looks like wages, but it is taxed at capital gain rates. Both Hillary Clinton and Donald Trump said they would eliminate it, so finally this sacred cow could actually go. Even so, fund managers contend firmly that time, effort, and risk are *really* capital investments. If they are, perhaps the wages that all American workers get should be taxed as capital gains too.
4. Our tax exempt organization rules need reform. Some tax-exempt charities end up giving little to their causes. Using names like “Find the Children,” “The Veterans Fund,” and “Cancer Fund of America,” one report said that the 50 worst charities in America raised \$1.3 billion in donations over the last 10 years. Yet almost none of this money benefited missing children, wounded veterans, or cancer patients. [Cancer Fund of America](#) spent [less than 1% of donations](#) on charitable activities. Over 10 years, it paid \$5 million to its founder's family and spent \$80 million on hired fundraisers, but gave only \$890,000 to cancer patients. There are plenty of good charities, of course, but the rules need reform. Many other classifications of tax exempt organizations should be reformed too. Despite millions in profits and revenue, the NFL, NHL, and PGA Tour are classified as non-profits, exempting their earnings from federal income taxes. They avoid paying millions in taxes but they pay out million-dollar salaries.
5. Then there are tax rates. U.S. corporate tax rates are the highest in the developed world. To avoid paying them, big U.S. companies keep their income abroad. U.S. multinational corporations kept \$2.1 trillion abroad in 2013. General Electric stashed \$110 billion overseas; Microsoft \$76 billion; and Pfizer \$69 billion. Americans lose out on all that capital. President elect Trump wants to bring it back. But note that unlike big companies that can *avoid* U.S. taxes on money stashed overseas, U.S. persons living abroad have to report and pay U.S. tax *globally*. And FATCA means that foreign banks often turn away American accounts entirely—dealing with American

tax law is just too complex. Many expats suffer, and some are so fed up they [renounce their U.S. citizenship](#).

6. Many tax credits do not actually benefit the people they are targeted to help. For example, the New Markets Tax Credit was meant to create jobs in low income areas. Instead, it has reportedly steered nearly \$1 billion to wealthy investors and Wall Street banks. Similarly, the Research and Development Tax Credit was meant to encourage mid-sized companies to increase R&D. Nevertheless, 80% has reportedly gone to huge companies like Google, Intel, Boeing and Apple.
7. Then, there is the estate tax. Whether you make a lot or a little over your lifetime, the notion of paying income taxes throughout life and then a death tax *too* seems wrong. It's a reason that [Trump could finally kill the death tax](#).

These are only a few provisions, mind you. There are thousands of pages of tax law needing reform. Although some parts of our tax law make sense, many do not or lead to abuses. Besides, they inject a level of complexity that no one would wish upon anyone. We need a better, simpler, fairer and flatter tax system. A flat tax or simple tax might not be perfectly fair, and might not improve *everything*. But is there any way to go but up?

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.