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Seven Ways Trump Is Right About Taxes

Donald Trump continues to dominate the field of Republican presidential candidates, even if he won't yet release his tax returns. Why should he when he is winning so handily? Besides, everyone knows that [Trump is unapologetically aggressive on taxes](#). He pays as little as possible. And more than anything, he knows how to grab headlines, such as [highlighting the \\$4 billion in IRS refunds to illegals](#).

He offends large groups of people, even seeming to relish doing so. And he certainly does not mind the headlines that follow. He is not afraid to speak out, and has said that if he were President, simplifying the tax code would be one of his domestic priorities. One of his first statements about taxes was, "we have to bring down taxes, but ...before we do anything, simplify it. Make it nice and easy for people to understand, and reduce taxes." Even before Mr. Trump revealed his comprehensive tax makeover, some sensible comments are emerging from beneath his comb-over.



(Photo by Ethan Miller/Getty Images)

1. Taxes Are Too Complex. Trump said, “when they talk about fixing the tax, it’s so complicated, that people have to go and use H&R Block to do a \$50,000—a man who makes \$50,000 has to spend money.” He is right. Complying with the tax code costs immensely. 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. In 1913, our whole tax law was 27 pages. It is now over 4 million words, on 9,000 bloated pages. From 2001-2012 alone, there were 4,600 changes, more than one a day.

2. Flat Is Good. Early on, Trump said, “I think fair tax is okay. And I think flat tax is okay. But, I think the simplest thing to get approved is just the simplification of the existing....and lower taxes.” Later, he would release these simple—and low—rates:

Income (Single)	Ordinary Income Rate	Capital Gains Rate
\$0 – \$25,000	\$0	\$0
\$25,000 – \$50,000	10%	0%
\$50,000-\$150,000	20%	15%
\$150,000 and up	25%	20%

Mr. Trump would decrease taxes in other ways too, including:

- Cutting the corporate tax rate from 35% to 15%; and
- Eliminating the estate tax.

3. Hedge Funds Pay Too Little. Trump has blasted hedge fund managers for not paying their fair share. “The hedge fund guys didn’t build this country. These are guys that shift paper around and they get lucky....They make a fortune. They pay no tax. It’s ridiculous, ok?” Trump refers to the carried interest loophole that allows private equity and hedge fund managers pay taxes at capital gains rates instead of ordinary income. Hillary Clinton and Senator Bernie Sanders agree. As Trump says, “It is the wrong thing. These guys are getting away with murder.”

4. Some Deductions Are False. Trump says, “we could take so many of these deductions, these false deductions off...which, by the way, benefit the wealthy.” Many Fortune 500 companies pay zero tax. Many claim billions worth of tax breaks. Many individuals pay nothing. 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.

5. Beware Immigration and Taxes. President Obama’s aggressive executive action on immigration is still being litigated. In the meantime, tax credits and refunds for illegal immigrants have become controversial. Mr. Trump says [illegal immigrants get \\$4.2 billion in tax credits](#). He can point to a [2011 audit](#) by the Treasury Inspector General for Tax Administration. It confirms that individuals who are not authorized to work in the U.S. were paid \$4.2 billion in refundable credits.

6. Corporate Rates Are Too High. Mr. Trump would help corporate America with a 15% corporate rate. The current 35% rate is the highest in the developed world. To avoid paying that 35%, 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.

7. No One Can Understand Our Tax System. Our tax system is simply byzantine. Of his own tax returns, Mr. Trump boasted and complained on Fox & Friends that they, “would literally probably be 10 feet high if I put them together, it is so complicated and so terrible.” A case in point is the

alternative minimum tax or AMT. It is a complex parallel tax system that has grown like cancer. It's results are hard to predict and can be perverse. 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.

Like Warren Buffett and Mitt Romney, Trump has said "[I pay as little as possible](#)" in taxes. But at least he seems to recognize that 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.