



Robert W. Wood

THE TAX LAWYER

TAXES 8/24/2015

10 Ways Trump Is Right About Taxes

Among Republicans, Donald Trump continues to dominate the field of presidential candidates. He knows how to grab headlines, [such as highlighting the \\$4 Billion in IRS refunds to illegals](#). He may easily offend, but he is not afraid to speak out or do interviews. He has said that if he were President, simplifying the tax code would be one of his domestic priorities. When asked about his tax plan on Fox & Friends, Trump said, “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.”

Specifics remain scant, but [Trump says he'll release details on his tax plans](#) in September. In a telephone interview on CBS's "Face the Nation," Trump echoed some Democrats in saying that our current tax system is harming middle class Americans who face higher tax rates than traders on Wall Street. Even before Mr. Trump reveals his comprehensive tax makeover, some sensible comments are emerging from beneath his comb-over.



Republican presidential candidate businessman Donald Trump speaks during a campaign town hall Wednesday, Aug. 19, 2015, at Pinkerton Academy in Derry, N.H. (AP Photo/Mary Schwalm)

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 OK. On the “Matt Murphy Show” in Birmingham, 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.” Trump added that the tax code doesn’t “take care of” the middle class, and he wants to “focus on” and “take care of” the middle class.

3. Hedge Fund Loophole Must Go. 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. False Deductions. Trump says, “we could take so many of these deductions, these false deductions off...which, by the way, benefit the wealthy.” Until he reveals details, we don’t know which ones will go. But many Fortune 500 companies manage to pay zero tax, and 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. Tax Fraud and Identity Theft. Our complex system encourages bad behavior. For example, the Earned Income Tax Credit is plagued by fraud, up to 29% of all payments. Trump has focused on illegals, but that isn’t the biggest problem with this credit. 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?

6. Deceptive Give Aways. We do not know if Mr. Trump will focus on this one, but he might. Many tax giveaways do not even benefit the intended recipients. For example, the New Markets Tax Credit was meant to create jobs in low income areas. Instead it steered nearly \$1 billion to wealthy investors and Wall Street banks. Research and Development Tax Credits are another perceived abuse. They were meant to encourage mid-sized companies to increase R&D, but 80% went to huge companies like Google, Intel, Boeing, and Apple.

7. Deceptive Charities. Perhaps deceptive charities will fit within Mr. Trump's attack on false deductions. Using names like "Find the Children," "The Veterans Fund," and "Cancer Fund of America," the 50 worst charities in America raised \$1.3 billion in donations over the last 10 years. Almost none of this money benefited missing children, wounded veterans, or cancer patients.

8. The Alternative Minimum Tax. The AMT may account for part of the bulk in Trump's own tax returns. On Fox & Friends, he said they, "would literally probably be 10 feet high if I put them together, it is so complicated and so terrible." The AMT 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.

9. Reduce Rates. Mr. Trump says, "I want to lower the rates for the middle class." We do not yet know what that will mean. But in 2011, Mr. Trump suggested a 5-part tax plan to restore simplicity and sanity to the income tax. At that time, he said:

- Up to \$30,000, you should pay 1%;
- From \$30,000 to \$100,000, you should pay 5%;
- From \$100,000 to \$1 million, you should pay 10%; and
- On \$1 million or above, you should pay 15%.

10. Corporate Taxes Too. Mr. Trump has not laid out his tax plan, but it is likely he will criticize corporate rates too. After all, 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.

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?

Follow me on Forbes if you want alerts to future tax articles. You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.