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Trump Hired His Kids For Parent-Child Benefits, And Maybe You Should Too

Candidate Trump may have stepped deeply into the weeds lately, or worse. Plus, his Wisconsin loss to Ted Cruz seems to have frustrated Mr. Trump to no end. But he still has some fervent fans. And his kids are among them, on the payroll and otherwise. As [Donald Trump's children jump into the campaign fray](#), their role even before his presidential bid is worth noting.

We don't know what Mr. Trump's tax returns will show, but he has said—not unlike Warren Buffett—that he pays as little tax as possible. That's a common refrain and plenty of tax cases say it is OK. For tax and non-tax benefits, it's clear that hiring one's children can make sense. Multiple Trump children have a paid professional role for the far flung Trump enterprises, including Donald Jr. He noted to the [Wall Street Journal](#) that, "Dad prepared us our entire lives to run the business," Don Jr., who is 38 years old. "But politics? We jumped in with zero experience."



Republican presidential candidate Donald Trump (C) speaks as his sons Donald Trump Jr. (L) and Eric Trump (R) look on during a caucus night watch party at the Treasure Island Hotel & Casino on February 23, 2016 in Las Vegas, Nevada. (Photo by Ethan Miller/Getty Images)

Family businesses sometimes pay their children too much, and sometimes too little. It isn't clear whether Mr. Trump is in either camp. Yet Trump appears to have instilled his fervor for the art of the deal in his kids. Offering kids a job in the family business can make sense from a variety of perspectives. There's summers, full-time, and much in between. On top of tangible and familial benefits, there can be significant tax benefits.

For example, one tax perk is to shift income from high tax-bracket parents to lower taxed kids. The work should be legit and the pay should be reasonable to be deductible. But in general, shifting pay to those who pay lower tax rates is tax-efficient. Let's say you hire your child to work in the office full-time during the summer and part-time in the fall. You may be in the 39.6% tax bracket, but some pay to your kid will be tax-free. Say your child earns \$6,300 that you would otherwise come to you. If it comes to you, it is subject to a 39.6% tax.

The standard deduction is \$6,300. So if you pay your child, he or she can shelter the \$6,300 tax-free with his standard deduction. You just saved about \$2,000 by hiring your child. More generally, once you get beyond the \$6,300, you'll still save since the tax rates are graduated. Salaries of \$50,000 or \$100,000 for a child may make sense and be taxed efficiently too. A dollar taxed at your 39.6% rate might be only taxed at 20% or 25% to your child. Even a high salary for your offspring might be taxed less than pay you would receive.

For children under age 18 at the close of the tax year (or full-time students age 19 to 23), there's an added complication: the kiddie tax. It applies to the child if he doesn't file a joint return and (1) hasn't reached age 18 before the close of the tax year; or (2) his earned income doesn't exceed one-half of his support and the child is age 18 or is a full-time student age 19 to 23. Even if the kiddie tax applies, it only means a child's investment income over \$2,100 is taxed at the parent's rate. It has no impact on the child's wages and other earned income.

IRA tax savings can also be significant. For 2016, your child can contribute \$5,500 to an IRA. The business could also provide retirement plan benefits depending on the type of plan it has, the child's age, and the hours worked. Between the child's standard deduction and IRA contribution, he or she can earn up to \$11,800 in 2016 without paying any income taxes.

Of course, there are payroll taxes to consider, and they can be expensive. You

must withhold income taxes on wages. If your kid owes no taxes and had no tax liability the prior year, he might be able to claim an exemption from withholding. However, even if you have to withhold, if your child has no tax liability, he should get a refund when he files his return. Of course, if Ted Cruz is elected, will we still have an IRS? In that sense, perhaps Mr. Trump will win either way.

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