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## Trump's Tax Returns Might Not Answer Questions

The complexity of his business empire may mean he reports relatively little taxable income

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Donald Trump has put his wealth and the success of his business empire at the center of his presidential campaign. But what if the complexity of that enterprise—packed with opportunities for write-offs and deferred profits—means he reports relatively little taxable income?

Only the man, his accountant and his Internal Revenue Service auditor know for sure, but the Republican front-runner's statements and disclosures provide some clues.

Mr. Trump, whose campaign has put his wealth "in excess of 10 billion dollars," says he won't release tax returns while he is being audited. Under pressure from rivals to release them, Mr. Trump has emphasized that tax returns don't reveal the size of a person's wealth. Those comments suggest his reported income may not be as huge as the casual voter may expect.

Income, or one year's earnings, and wealth, a person's accumulated assets, aren't the same, as Mr. Trump says. That is especially true for someone with real-estate investments and stocks, because ultimate profits aren't taxed until those assets are sold.

But tax returns reveal plenty about a filer's investments and businesses. Mr. Trump's returns—if he paid "little tax," as he said in January—could reflect careful planning that generates losses or businesses that aren't as successful as he claims.

"Mr. Trump's tax returns are undergoing a routine audit, as has happened, unfairly, virtually every year for the last decade," said Hope Hicks, a campaign spokeswoman, declining to elaborate further on the contents of his tax filings.

Like many wealthy investors, the real-estate developer can use tax-free exchanges, depreciation deductions and international tax deferrals to minimize taxable income now or defer it to the future.

"The real-estate industry is replete with judgment calls rather than black-letter law," said David Lifson, a CPA at accounting firm Crowe Horwath LLP in New York with high-net-worth clients. "The tax return of the head of Harvard wouldn't be open to question, but many items on a billionaire's return probably would be."

The clearest picture of Mr. Trump's income comes from required financial disclosures for candidates that he filed last year, showing ownership in hundreds of partnerships and corporations. According to those disclosures, Mr. Trump brought in at least \$414 million in business income from January 2014 to July 2015, plus fees from speeches and stock dividends. Mr. Trump's campaign last year said his 2014 income was \$362 million.

Forbes and Bloomberg News concluded that Mr. Trump overstates his wealth but is still a billionaire. Federal disclosures are reviewed for compliance with reporting requirements, but not audited for accuracy.

Many line items on Mr. Trump's disclosure appear as "revenue," "rent" or "condo sales," suggesting they are a top-line number before expenses. For example, he reported that Trump National Golf Club in Jupiter, Fla., generated \$12,400,958 in "golf related revenue."

Deductible expenses can include labor, supplies and equipment or items where it is hard to separate Trump the business from Trump the man, such as his jet or perhaps even the maintenance of his famous coiffure, said Joseph Perry, a partner-in-charge at accounting firm Marcum LLP.

"His haircuts might be deductible because that's an image that he keeps and he needs to keep in order to generate more fees, because he's an entertainer," Mr. Perry said.

Depreciation deductions and other breaks let real-estate investors pay lower taxes than business owners in other industries, Mr. Perry said. It is possible, he added, that Mr. Trump's real estate holdings generate losses that offset other income.

Real estate owners also can benefit by borrowing against their properties, generating tax-deductible interest. Mr. Trump's liabilities include at least \$250 million in loans.

Mr. Trump might be resisting IRS assertions that he is a real estate dealer, not an investor, says Joe Walloch, a professor emeritus of advanced taxation at the University of California, Riverside. The difference is important, because dealers pay ordinary income taxes, not lower capital-gains rates, when they sell.

Mr. Trump's full tax returns could include details of his charitable contributions, though taxpayers aren't required to list donations.

Mr. Trump's chief rivals for the GOP nomination, Ted Cruz and Marco Rubio, released only the first two pages of their returns. That decision obscured charitable giving and business arrangements deeper inside the senators' filings.

Whatever it may contain, Mr. Trump's return is sure to be large. A photo of him seated and signing it showed a paper stack rising above his head.

"Making sense of it all will be crazy," said Sam Brunson, a tax law professor at Loyola University Chicago.

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