



01/27/12: Mitt Romney's Tax Return

If you're curious about the political implications of the Romney tax returns, this cartoon pretty much says it all: <http://news.yahoo.com/comics/mike-luckovich-slideshow/>. Or, for many Americans, this: <http://news.yahoo.com/comics/pat-oliphant-slideshow/>.

The recent release of Republican presidential candidate Willard "Mitt" Romney's 2010 and 2011 tax records--all 500 pages of them--has generated a lot of buzz among financial types and mainstream voters. Indeed, people who work with financial advisors might be wondering: "why the heck can't my advisor get my federal taxes down to a 14% rate? Couldn't I be parking money in Bermuda (page 52 of the 2011 return), Switzerland (position sold in 2010 after the Swiss bank UBS came under federal investigation for facilitating tax fraud), and the Cayman Islands (called "various countries" on the return) if my advisor were just a little more creative?"

You can see the estimated 2011 return for yourself here: <http://mittrom-ney.com/learn/mitt/tax-return/2011/wmr-adr-return>, although the home address and the Social Security numbers for Willard M. and Ann D. Romney have been blacked out. (Oh darn!) What you DO see is a little over \$4 million in taxable interest, a little over \$3 million in dividends, \$10.7 million in capital gains, \$2.8 million in income from rental real estate, \$110,500 as a member of (the listed profession) "independent artists, writers, performers" and zero for wages or salaries. The estimated tax bill: \$3,226,623--about 14% of the nearly \$21 million in total income. (What I want to know is, why on earth would he want to be President?)

But anyway, this percentage (14%) could go down between now and the next filing date. Page 11 of the return says that the Romneys expect to receive a foreign tax credit, which is not yet factored into the tax payment. Pages 30, 31, 32, 33, 34 and 35 note that the K-1 tax information on various partnerships (one called "Rob Rom Enterprises, LLC") is also unavailable, and the tax calculation "may change significantly when the final 2011 K-1 is received."

If you're feeling envious of the low rates, and the fact that much of it was exempt from Social Security payroll taxes, you aren't alone; according to one report, Romney's secretary paid taxes at a higher marginal rate.

There are several ways to look the situation. One is that Romney actually paid MORE than his fair share--in fact, you could argue that he paid much more.

How? The argument goes something like this: if you walked into the grocery store to buy a loaf of bread, would the cost be dependent on your income? If it was, the average American would be paying roughly \$2.00 while Mr. Romney's cost would be closer to \$300. If we all received the same basic package of



services from the government, and the total cost is about \$6 trillion, then each of the 300 million people who live in America would owe about \$20,000. Mr. Romney, by paying about \$3 million a year, might be considered to be overpaying for his share of those governmental services.

Another way to look at it is that people who have more income or assets have more to protect, and therefore need those government services more than most. A progressive tax system that is capped at the top forces wealthier people to pay proportionately more, but they also get to keep a majority of what they earn. If you buy this philosophy, then the question becomes: how do you decide what is fair for everybody, the high earners as well as the low earners?

One traditional answer is that everybody should pay something. You hear a lot about low-income wage earners paying no income taxes, but in fact they are all required to pay Social Security payroll taxes, which are actually higher than income taxes for the majority of Americans. On the other end of the wealth spectrum, there are so many nuances to the tax code, so many deductions and loopholes, that it was possible for General Electric to largely escape corporate taxes. That isn't possible for individuals, ever since, in 1969, the U.S. Treasury Department disclosed that 155 high-income households had paid no income taxes. In the ensuing uproar, Congress passed the alternative minimum tax--and has been trying to fix it ever since.

There are two reasons why candidate Romney was able to escape the highest tax rate. The first is that his "job" at Bain Capital Management was to--as Warren Buffett has recently described it--"move money around." Specifically, he was investing his own and others' money into companies and then restructuring them. People on Wall Street and in Silicon Valley will tell you that this is real work, hard work, but all too often the result is to shift money from the company to the pockets of the investors. For this sort of work, the tax code applies the same tax rate as the taxes on dividends and capital gains--15% at the high end--rather than the maximum 35% rate that a corporate employee earning similar compensation would have to pay. Even somebody who sweeps the floors or answers the phone at Bain's offices, who earns more than \$35,000, would pay taxes at a 25% rate.

The second--lesser--reason why candidate Romney's taxes were so low is that he voluntarily gave \$2.6 million a year to his church and a total of more than \$4 million in total to charities (Schedule A and page 68). One could argue that his actual financial contribution to society--to his church, to the Bush presidential library, to other charities and the federal government--was actually \$7 million a year. That amount would equal roughly a 33% tax rate.

If nothing else, those voluminous tax returns, detailing offshore accounts, capital gains taxes for the same kind of work that corporate executives do and charitable donations, will create a new awareness of the implications of different candidates' positions on tax reform. The New York Times recently noted



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that candidate Romney's own tax reform proposals would require him to pay less than he does now, suggesting that he supports the idea that he's paying more than his fair share. The Newt Gingrich tax proposal would, if passed, essentially eliminate candidate Romney's tax burden altogether. Interestingly, Mr. Romney has labeled this "irresponsible."

One additional note: the Romney tax return checked the boxes to donate \$3 for each spouse to support the Presidential Election Campaign.

Romney taxes: <http://news.yahoo.com/blogs/ticket/mitt-romney-tax-returns-show-more-43-million-135129751.html>

<http://mittromney.com/learn/mitt/tax-return/main>

http://money.cnn.com/2012/01/26/news/economy/romney_tax_returns/

<http://news.yahoo.com/mitt-romney-reveals-tax-records-paid-3m-taxes-221209778--abc-news.html>

NY Times: http://www.nytimes.com/2012/01/25/us/politics/romneys-tax-returns-show-21-6-million-income-in-10.html?pagewanted=2&_r=1

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