CNBC

https://www.cnbc.com/2021/02/22/what-trump-tax-returns-may-reveal-following-supreme-court-ruling.html

What Trump tax returns may reveal following Supreme Court ruling

PUBLISHED MON, FEB 22 20211:36 PM EST

Greg Iacurci@GREGIACURCI

Darla Mercado, CFP®@DARLA_MERCADO

KEY POINTS

- The Supreme Court on Monday ordered accountants for former President Donald Trump to hand over financial and tax records to New York prosecutors.
- Supporting documents and schedules attached to a tax return offer detail about income sources and tax deductions.

Former President Donald Trump's tax returns are back in the news.

The Supreme Court rejected Trump's efforts to shield financial records from New York prosecutors on Monday. The unsigned order requires Trump's accountants to hand over tax and other documents.

The legal battle over eight years of records, dating to 2011, was in connection to an investigation by Manhattan District Attorney Cyrus Vance Jr. into potential tax violations involving the Trump Organization.

A spokesman for Vance said that the office would quickly move to enforce its subpoena on the president's longtime accounting firm, Mazars USA.

It's unclear when or if the tax documents will become public.

By itself, a tax return won't tell you everything about an individual's bottom line. However, if you combine it with other supporting documents, including a statement of net worth, you can gain some insight into a taxpayer's finances.

“Taking a look at a tax return gives you a roadmap of the activities and the transactions any one individual had during the year,” said Edward Reitmeyer, regional tax partner-in-charge at Marcum LLP in Philadelphia.

“It’s the accumulation of the year’s transactions into one document,” he said.

The Form 1040 sums up a filer’s taxable income. However, the attached schedules are the meat and potatoes: They show the sources of a taxpayer’s income and deductions claimed.

Rent, partnerships and more

Whether your real estate empire is racking up losses or you’re getting income through a web of pass-through entities, Schedule E will have the details on residential, vacation and commercial property.

Trump himself uses many limited liability companies to manage different aspects of his businesses.

“If someone were to meet with a prospective client — and that client was a well-known international real estate developer — they would expect to see an expansive Schedule E,” Reitmeyer said.

Income from pass-through entities and partnerships would also show up on Schedule E. Rental income is on Line 3.

Keep a close eye on depreciation, which you can find on Line 18. Depreciation is a tax deduction you can take each year to recover the cost of your real estate as you use it.

Schedule E also might share the name of a pass-through entity that’s providing income to the taxpayer, but it may be difficult to learn the details of who ultimately owns it.

Itemizing deductions

Deductible medical expenses, state and local taxes paid and other itemized deductions would be explained on Schedule A.

Starting in the 2018 tax year, the deduction for state and local taxes paid was capped at $10,000 for individual filers, so there’s a limit to the extent anyone with a personal residence in a high-tax state like New York could write off those property and income taxes. Trump was a lifelong New York resident until officially declaring himself a resident of Florida in October 2019.

Keep a close eye on the “gifts to charity” portion of Schedule A. Donations that are worth more than $500 must be spelled out on Form 8283, the non-cash charitable contribution form.

Taxpayers must describe the donated property and provide a summary of its appraised fair market value, including art, real estate and cars.

Side gigs, sole proprietorships

Individuals who run a sole proprietorship from home or who have a side hustle would spell out gains, losses and related business expenses on Schedule C.

You can get an idea of whether an entrepreneur claimed the new qualified business income deduction — a potential 20% tax break that went into effect in 2018.

Line 10 of the 2020 Form 1040 will spell out how much a taxpayer claimed for this. Forms 8995 and 8995-A will have additional details.

This new break allows owners of pass-through entities, including S-corporations, partnerships and sole proprietorships, to deduct up to 20% of their qualified business income.

Business owners in any industry may take the 20% deduction if they have taxable income that's under $163,300 if single or $326,600 if married and filing jointly in 2020.

The IRS applies limitations over those thresholds.

For starters, taxpayers in a "specified service trade or business," including doctors, lawyers and accountants, can't take the deduction at all if their taxable income exceeds $213,300, if single, or $426,600, if married.

The rules are a little different for business owners who aren't in a "specified service trade or business."

In that case, you get a reduced deduction if your taxable income exceeds the $163,300/$326,600 threshold but is still under the $213,300/$426,600 threshold.

If your business isn't in a specified service trade or business, and your taxable income exceeds the $213,300/$426,600 threshold, then your deduction is generally capped as a percentage of W-2 wages paid to your employees.

Interest, dividends and capital gains

Schedule B spells out the details of interest from a bank account, as well as ordinary dividends paid.

On this form, you'll see where some of these interest- and dividend-paying investments are held, but you won't get any details on what exactly the taxpayer has invested in.

What if you sold an asset? Schedule D will tell you more about the gains and losses stemming from the sale.

Filers would fill out Form 8949, and make note of their purchase and sales dates, as well as the cost basis, to correctly fill out this schedule. It can act as a window into the taxpayer's trading activity.

Individuals who sold an investment, reaped a capital gain and then put the proceeds into a qualified opportunity zone fund – a tax-advantaged way to invest in up-and-coming neighborhoods – will need to report them on Form 8997.