Observations on the Clinton 2015 Tax Return

A CFP® and CPA's Perspective: Do You See What I See?

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Hillary and Bill Clinton have released their personal tax returns for all to see via her campaign website, https://www.hillaryclinton.com/page/tax-returns/. For a finance and tax geek like me, the Form 1040 is a window into a married couple's financial life – if not a complete picture. The Clintons' 2015 tax return, the tax and financial strategies it reflects, offer some interesting insights which render supportable observations.

A few of items of interest and related observations:

Indexing: The Clintons have between $4 and $5 million in Vanguard's S&P 500 Index Fund, which includes stock in 500 large U.S.-based companies. The amount of the investment can be approximated by the reported taxable dividend of $84,358. The Index, considered a passive investment, allows the Clintons to avoid owning individual company stocks, which in turn removes any perceived personal gain from future laws or regulations that might favor certain types of businesses.

Observation: What I question here is the lack of diversification. Why not own other index funds of international or emerging market equities? Still, the S&P 500 has been a top performing index over the last several years. Should the Clinton's decide to sell some of this position, they have nearly $700,000 in capital loss carryforwards to offset any capital gains.

Cash is king: The Clintons likely retain more than $5 million in cash in six JP Morgan Chase Bank accounts, the estimated amount extrapolated from their 2015 taxable interest of $23,560. Like all savers today, the Clintons are victims of low interest rates.

Observation: Clearly they are playing it safe by keeping that much in cash. But they could play it even safer by opening a sufficient number of accounts to keep each within FDIC insurance limits of $250,000.

Retirement Plan deductions left on the table: Hillary and Bill combined for a 2015 self-employment income in excess of $10 million from speaking, authoring and consulting. As they weren't participants in employer-sponsored retirement plans during the year, they could have made deductible contributions to their own self-created retirement plans or qualified pension plans, which would allow them to save a substantial amount of money on a pretax basis.

Observation: The Clintons are in the highest ordinary tax bracket of 39.6 percent. Moving money into some type of self-created retirement plan or qualified pension would have created substantial tax savings.

Certainly the Clintons don't lack for financial advice. And just as certainly, they decided not to take advantage of such "loopholes" that favor high-income individuals and open themselves to criticism as acting contrary to their political stance on, and proposed reforms to, the tax code.

"File and Suspend" opportunity missed:

File and Suspend is an advanced Social Security filing technique that was disallowed this past year. Bill could have employed the technique in 2012, filing then suspending his Social Security retirement benefits, allowing Hillary to file a "restricted scope" spousal application in 2013 to receive half of Bill's primary benefit amount. They could then both let their retirement benefits grow, typically by about 32 percent, to age 70, the mandatory age to start taking benefits.

Observation: Social Security planning isn't easy, and most Americans should get professional advice to ensure they make the right decisions. It is likely Bill and Hillary had professional guidance, but chose not to employ this filing strategy.

Certainly the Clintons don't lack for financial advice. And just as certainly, they decided not to take advantage of such "loopholes" that favor high-income individuals and open themselves to criticism as acting contrary to their political stance on, and proposed reforms to, the tax code. These are the kinds of things you can learn – and surmise – just by looking at a tax return. I wonder what we'll learn when – that is, if – Donald Trump releases his 2015 return.