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Americans are taking their sweet time paying taxes, and the government is running out of cash

By **Max Ehrenfreund** and **Damian Paletta** June 1

Wealthy Americans and business owners are putting off paying taxes in the hopes that Republicans will deliver big cuts, leaving the government increasingly short on cash and accelerating its crash into the debt ceiling.

Federal data and anecdotes from tax advisers reveal that a significant number of taxpayers are postponing cashing out on investments and other financial decisions, hoping to pay less later if the White House and congressional Republicans pass a huge reduction in tax rates.

The Treasury Department had \$177 billion in its cash account as of Tuesday, a cash pile that it is drawing down because the government is limited in how much it can borrow by the debt ceiling.

Monthly swings can be immense. In March, for example, the government brought in \$217 billion in new revenue but spent \$393 billion, including \$79 billion for Social Security, \$75 billion for Medicare and \$30 billion in interest on the debt.

Even before the tax payments slowed, the government was spending more money than it brought in through revenue. To cover the difference, the government borrows money by issuing debt. But it can only issue debt

up to a certain limit, known as the debt ceiling. And the debt ceiling can be raised only by Congress. The government has been bumping up against the debt ceiling since mid-March, and the Treasury Department is expected to run out of emergency steps to avoid defaulting on payments in a few months.

A failure by Treasury to make major payments would call into question whether the U.S. government can meet its obligations. Because federal debts serve as a global reserve currency, relied on by banks and businesses around the world, a default could cause a severe crisis. The precise consequences are difficult to predict, but they could include frozen international credit markets, a spike in interest rates, and a worldwide collapse in stocks.

That's why the cash shortage is causing major problems for the Treasury Department, which manages the government's money. The current shortage has caused Treasury Secretary Steven Mnuchin to urge Congress to raise the debt limit by August, months sooner than previously expected.

And the slide toward default is being accelerated by Americans waiting to see whether tax rates will be cut, tax advisers say. "Clients do not want to overpay," said Brent Lipschultz, a partner at the global accounting firm PwC. Their goal, he said, is "to pay the government less now, knowing that they could be paying a lot less in the future."

The cash crunch is worse than forecasters projected. A report from the Congressional Budget Office in May estimated that revenue is about 3 percent — roughly \$60 billion to \$70 billion — below what the office estimated in January.

The office said one possible explanation was that some "taxpayers shifted more income than projected from 2016 to later years, expecting legislation to reduce tax rates." In other words, after the November election, some investors opted against selling investments that would trigger capital gains because they are hopeful that the tax rate on capital gains will be lower, something Trump has promised he will do.

The tax rate on capital gains is based on income level, but the highest earners can pay 23.8 percent. Trump has proposed lowering it to 20 percent, and House Republicans want to lower it even more.

The White House's effort to overhaul the tax code has bogged down, amid a split in the Republican Party over whether to pursue temporary changes or a long-term revamp. The White House wanted the tax changes to be completed by August, but now they are targeting December, and many lawmakers think that timeline is still too ambitious as they haven't resolved numerous thorny issues, such as whether it will grow the deficit and how much to cut rates.

“There’s a lot of financial engineering,” Lipschultz said. “Those types of transactions seem to be coming alive again.”

Complicating matters, the Treasury Department has not specified exactly how big of a cash crunch they are facing. Traditionally, Treasury notifies Congress of the exact date when they believe they will no longer be able to make all of their payments. But Mnuchin hasn't done that this year. These precise deadlines can illustrate to lawmakers when they will no longer have any flexibility to act.

“There’s just so much uncertainty,” said Gary Fox, managing partner at the accounting firm Crowe Horwath. “You just don’t know where it’s headed.” He said that one reason for revenue below expectations could be that business was particularly slow for hedge funds last year, and that partners in those funds may have taken in less in income and paid less in taxes as a result.

Outside of hedge funds, however, the available data suggests that investors may be finding ways to postpone paying taxes. A report by Bloomberg cited a recent analysis conducted at Moody's Investors Service, which noted that while stock prices were sailing upward after Trump's election, taxes collected on capital gains were declining. The discrepancy indicates that investors might be holding off on making those payments.

“Investors are hopeful that tax rates will go down next year, and that the net investment income tax will go away,” said Beth Shapiro Kaufman, who is the president of Caplin & Drysdale, a Washington law firm.

For investors aiming to delay taxes, the simplest approach is to put off selling investments that have appreciated in value. Alternatively, investors can sell securities that have declined in value ahead of schedule to subtract those losses from their income subject to tax in the current year.

Many investors, however, do not want to change how they are timing the market, and they are using a range of different legal options to delay their taxes anyway, advisers said.

One of Kaufman's clients is the owner of a closely held business who is retiring and selling his stake in the firm. To put himself in position to take advantage of a tax cut in the future, the company will pay him out in installments over the next several years, rather than in a lump sum. If Republicans bring down rates, that client will be able to pay less in taxes when those installments come due.

Another strategy Kaufman's clients have deployed involves a special legal entity known as a charitable remainder trust. Wealthy taxpayers can shelter their assets in these trusts, which can sell securities at a profit without incurring a tax bill. The investor remains in control of the assets and can take a regular

payment out of the trust as long as a certain minimum remainder — about 10 percent of the total assets — is donated to charity.

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