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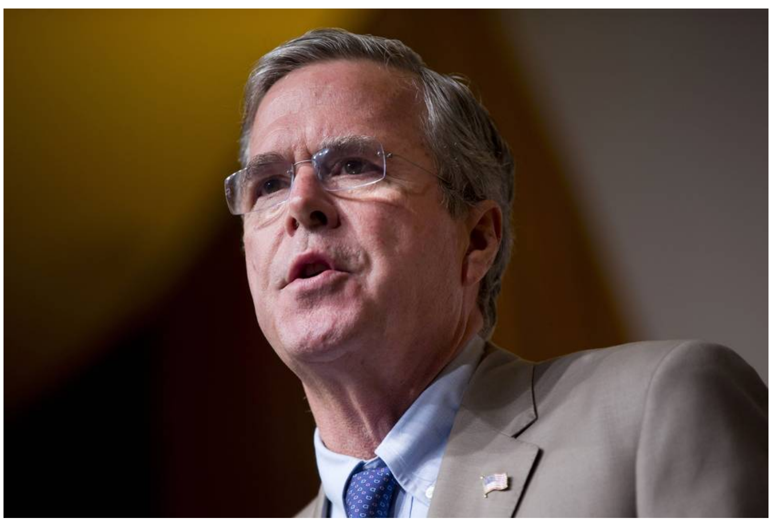
POLITICS

Jeb Bush’s Pension Cut His Taxes

GOP candidate used little-known but perfectly legal tax strategy to set aside annual average of $350,000 for last five years



Republican presidential candidate and former Florida Gov. Jeb Bush spoke in Washington last month. *PHOTO: PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS*

By **MARK MAREMONT**
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In the tax returns he released Tuesday, GOP presidential candidate Jeb Bush reported puzzlingly large deductions for payments to “pension and profit-sharing plans.” The payments averaged $350,000 a year for the past five years, far more than most people could contribute to an individual retirement account or 401(k) plan.

It turns out that Mr. Bush used a little-known but perfectly legal tax strategy that involved establishing a personal pension plan for himself and one other person.

The strategy has allowed Mr. Bush to defer paying hundreds of thousands of dollars in income taxes since he established the plan in 2007 and to rapidly build up a large retirement kitty, according to attorneys who work with such plans.

"I have any number of clients in this age range, early to mid-60s, who have used these kinds of tax-shelter, defined-benefit plans," said Charles M. Lax, an employee-benefits attorney with Maddin, Hauser, Roth & Heller, P.C. in Southfield, Mich. He reviewed Mr. Bush's plan for The Wall Street Journal.

RELATED DOCUMENTS

- Mr. Bush's filing on the defined benefit plan (http://online.wsj.com/public/resources/documents/bushdefinedbenefit.pdf)
- Mr. Bush's filing on the 401(k) plan (http://online.wsj.com/public/resources/documents/bush401k.pdf)

Between 2007 and 2013, Mr. Bush reported a total of $2.4 million in pension payments that reduced his business profits by the same amount. (Mr. Bush hasn't yet released information on his 2014 taxes.)

The pension plan, which resembles defined-benefit programs many large companies gave employees before the advent of 401(k) plans, appears to be one of the few examples of Mr. Bush using financial planning to lower his tax bill. His effective annual federal tax rate of around 36% is substantially higher than that paid by average Americans and by the top 1% of earners.

Mr. Lax described the most common user of the tax strategy as a small-business owner or self-employed professional, such as a doctor, looking to save as much pretax income as possible for retirement.

Details of Mr. Bush's pension arrangement are found in filings by his consulting firm, Jeb Bush & Associates LLC, with the U.S. Labor Department. The filings, not released by the Bush campaign, show that the firm's pension plan had assets of $2.4 million as of the end of 2013.

The plan covered two individuals, who aren’t named. Outside attorneys said they presumably include Mr. Bush, who until recently was the company’s sole owner. The second person could be his son Jeb Bush Jr., who worked at the firm, or Columba Bush, the elder Mr. Bush’s wife.

“By virtue of being predominantly a family business, the Bushes were able to plan for their retirement through Jeb Bush & Associates,” said a campaign spokeswoman. She wouldn’t provide the names of the people covered by the company pension plan and didn’t respond to other detailed questions.

The consulting company had a separate 401(k) plan, covering five unnamed individuals, the filings show. It is possible Mr. Bush also participated in this plan, attorneys said.

In a blog posting, Bill Parish, a Portland, Ore., investment adviser, called Mr. Bush’s pension plan “aggressive,” in part because the defined-benefit plan assumes a retirement age of 62. That allowed Mr. Bush, who turned 62 in February, to shelter more money more quickly than if the plan assumed retirement at 65. Mr. Bush’s election as president wouldn’t have any impact on the retirement plan.

In releasing 33 years of his tax returns, Mr. Bush told reporters he made a commitment not to take a public pension when he was elected Florida governor. “Had I taken my pension I would have started getting it this year,” he said. “Someone asked about this and I had totally forgotten that I had not taken the pension and I would instead be receiving something like $29,000 a year. I just never felt it was that important to do.”

Mr. Lax, the employee-benefits attorney, said tax rules allow Mr. Bush to roll over the balance in his pension fund into an IRA upon reaching the planned retirement age, which he did this year. Mr. Lax said that is what his typical client does.

Mr. Bush’s pension isn’t nearly in the same league as the IRA held by Mitt Romney, the GOP’s 2012 presidential nominee, who in filings reported his retirement fund held between $20.7 million and $101.6 million.

Jeffrey S. Ashendorf, a benefits attorney at Ford & Harrison LLP in New York, said Mr. Bush probably didn’t shelter the maximum possible income through the pension arrangement, based on his rough calculations from reviewing the Jeb

Bush & Associates filings.

Tax rules this year allow ordinary wage earners under the age of 50 to shelter $18,000 in a 401(k) plan. For those in the over-50 category, like Mr. Bush, the maximum that could go into a 401(k) plan this year is $59,000 including the employer’s contribution, said Mr. Lax, and the current IRA contribution limit is $6,500.

The strategy used by Mr. Bush follows rules for traditional pension plans. They allow employers to contribute much larger sums to build up a kitty that could provide a pension of as much as $210,000 a year for a retired employee’s expected lifetime.

Mr. Bush, as owner of Jeb Bush & Associates, acted as the employer in funding the pension plans, which reduced his taxable income from the company. In 2013, for example, Mr. Bush reported $7.5 million in gross receipts for his business, and $254,000 in payments to pension and profit-sharing plans.

From 2007 to 2010, the percentage of his business income sheltered through the pension arrangement was much higher, ranging between 10% and 13%. In 2008, for example, Mr. Bush reported his company made gross receipts of $2.4 million and paid $323,000 into pension plans.

—Beth Reinhard contributed to this article.