How Elon Musk, Google Guys and Zuckerberg Hide Their Corrupt Cash

Jensen Huang, the chief executive of Nvidia, is the 10th-richest person in the United States, worth $127 billion. In theory, when he dies, his estate should pay 40 percent of his net worth to the government in taxes.

But Mr. Huang, 61, is not only an engineering genius and Silicon Valley icon whose company, the world's second-most valuable, makes the chips that power much artificial intelligence. He is also the beneficiary of a series of tax dodges that will enable him to pass on much of his fortune tax free, according to securities and tax filings reviewed by The New York Times.

The savings for his family are on a pace to be roughly $8 billion. It likely ranks among the largest tax dodges in the United States.

The types of strategies Mr. Huang has deployed to shield his wealth have become ubiquitous among the ultrawealthy. Blackstone Group's Stephen A. Schwarzman, Meta's Mark Zuckerberg and top executives at Google, Coinbase, Eli Lilly, Mastercard and Advanced Micro Devices have collectively shifted billions of dollars into financial vehicles in order to avoid the federal estate tax, according to a Times analysis of securities disclosures.

It is just one sign of how the estate tax — imposed solely on a sliver of the country's multimillionaires — has been eviscerated.

Revenue from the tax has barely changed since 2000, even as the wealth of the richest Americans has roughly quadrupled. If the estate tax had simply kept pace, it would have raised around $120 billion last year. Instead it brought in about a quarter of that.

That missing revenue would be enough to simultaneously double the budget of the Justice Department and triple federal funding for cancer and Alzheimer's research.

The story of Mr. Huang's tax avoidance is a case study in how the ultrarich bend the U.S. tax system for their benefit. His strategies were not explicitly authorized by Congress. Instead, they were cooked up by creative lawyers who have exploited a combination of obscure federal regulations, narrow findings by courts and rulings that the Internal Revenue Service issues in individual cases that then served as models for future tax shelters. As such strategies became widespread, they effectively became the law.

"You have an army of well-trained, brilliant people who sit there all day long, charging $1,000 an hour, thinking up ways to beat this tax," said Jack Bogdanski, a professor at

Lewis & Clark Law School and the author of a widely cited treatise on the estate tax. "Don't expect anyone in Congress to stop this."

The richest Americans are able to pass down approximately $200 billion each year without paying estate tax on it, thanks to the use of complex trusts and other avoidance strategies, estimated Daniel Hemel, a tax law professor at New York University.

Enforcement of the rules governing the estate tax has eased in part because the I.R.S. has been decimated by years of budget cuts. In the early 1990s, the agency audited more than 20 percent of all estate tax returns. By 2020, the rate had fallen to about 3 percent.

The trend is likely to accelerate with Republicans controlling both the White House and Capitol Hill. They are already slashing funding for law enforcement by the I.R.S. The incoming Senate majority leader, John Thune, and other congressional Republicans for years have been trying to kill the estate tax, branding it as a penalty on family farms and small businesses.

Yet Mr. Huang's multibillion-dollar maneuver — detailed in the fine print of his filings with the Securities and Exchange Commission and his foundation's disclosures to the I.R.S. — shows the extent to which the estate tax has already been hollowed out.

"From an estate-tax-planning perspective, it's a grand slam," said Jonathan Blattmachr, a prominent trusts and estates lawyer who reviewed Mr. Huang's disclosures for The Times. "He's done a magnificent job."

An Nvidia spokeswoman, Stephanie Matthew, declined to discuss details of the Huangs' tax strategies.

'Only Morons'

Going back millenniums, governments have sought to slow the buildup of dynastic wealth. Augustus Caesar in ancient Rome taxed wealth at death. Adam Smith, the intellectual father of laissez-faire capitalism, attacked inherited fortunes. During the last Gilded Age, so did some of America's wealthiest men. "By taxing estates heavily at death, the state marks its condemnation of the selfish millionaire's unworthy life," Andrew Carnegie said.

The United States adopted the modern estate tax in 1916. In recent decades, congressional Republicans have successfully watered it down, cutting the rate and increasing the amount that is exempt from the tax. Today, a married couple can pass on about $27 million tax free; anything more than that is generally supposed to be taxed at a 40 percent rate.

Billionaires have made a sport out of trying to avoid the tax. Gary Cohn, a former Goldman Sachs executive who was President-elect Donald J. Trump's chief economic adviser during his first administration, once quipped that "only morons pay the estate tax."

Mr. Huang is no moron. In 1993, he and two other engineers were eating in a booth at a Denny's in San Jose, Calif., when they came up with the idea for a powerful new computer chip that would be the basis for Nvidia. The company was initially focused on making chips for 3-D graphics, but by the 2000s it was branching into other areas, such as supplying semiconductors for Tesla's electric vehicles.

In 2012, Mr. Huang and his wife, Lori, took one of their first steps to shield their fortune from the estate tax.

They set up a financial vehicle known as an irrevocable trust and moved 584,000 Nvidia shares into it, according to a securities disclosure that Mr. Huang filed. The shares at the time were worth about $7 million, but they would eventually generate tax savings many times greater.

The Huangs were taking advantage of a precedent set nearly two decades earlier, in 1995, when the I.R.S. blessed a transaction that tax professionals affectionately nicknamed "I Dig It." (The moniker was a play on the name of the type of financial vehicle involved: an intentionally defective grantor trust.)

One of the beauties of I Dig It was that it had the potential to largely circumvent not only the estate tax but also the federal gift tax. That tax applies to assets that multimillionaires give to their heirs while they're alive and essentially serves as a backstop to the estate tax; otherwise, rich people could give away all their money before they die in order to avoid the estate tax.

Here's how the I Dig It arrangement worked. Say that a hypothetical tycoon, John Doe, gave $10 million in cash to a trust for the benefit of his children. He wouldn't have to pay gift taxes on that unless he had already hit the $27 million gift-tax exemption.

The trust could then use a combination of the $10 million and a loan from Mr. Doe to acquire $100 million of shares. Those shares wouldn't be subject to the estate tax, thanks to the I.R.S.'s 1995 ruling.

There was an additional benefit. Say that the value of the shares in the trust soared tenfold. None of that would be subject to the estate tax. But it could trigger a $214 million capital gains tax bill — the $900 million gain taxed at 23.8 percent. Under a separate I.R.S. ruling, Mr. Doe could pay that tax on the trust's behalf, without it counting as an additional gift to his heirs.

Otherwise, the trust would have to pay the capital gains tax bill, leaving a smaller fortune to future generations.

The I Dig It maneuver was enormously complicated — and enormously lucrative.

“I’ve always called it the gift that keeps on giving,” said Michael D. Mulligan, a veteran trusts and estates lawyer in St. Louis who helped create the strategy.

A parade of the ultrawealthy soon deployed variations of the technique, according to filings in court and with securities regulators.

The family of the media mogul Mel Karmazin used several I Dig Its. A former owner of the Detroit Pistons, Bill Davidson, used them to avoid more than $2.7 billion in taxes. Mitt Romney, who at the time was running the private equity firm Bain Capital and would later propose abolishing the estate tax as the Republican nominee for president in 2012, also used the technique.

The I.R.S. has challenged some setups that it viewed as overly aggressive. Mr. Davidson settled with the I.R.S. The agency claimed that the Karmazin family’s arrangements “lacked economic substance” and sought $2.4 million in back taxes. But the agency ultimately abandoned most of its arguments and collected about $100,000, according to a lawyer for the Karmazin family.

In Mr. Huang’s case, the details in securities filings are limited. But multiple experts, including Mr. Mulligan, said it was almost certainly a classic I Dig It gift, loan and sale transaction.

The $7 million of shares that Mr. Huang moved into his trust in 2012 are today worth more than $3 billion. If those shares were directly passed on to Mr. Huang’s heirs, they would be taxed at 40 percent — or well over $1 billion.

Instead, the tax bill will probably be no more than a few hundred thousand dollars.

First-Name Basis

The Huangs soon took another big step toward reducing their estate-tax bill.

Nvidia was emerging as the main provider of chips for artificial intelligence technology, eventually capturing more than 90 percent of the market. Mr. Huang was becoming a Silicon Valley celebrity. He adopted an all-black dress code. Such was his renown that he was known in tech circles simply by his first name, along with luminaries like Tesla’s Elon, Meta’s Mark and Google’s Sergey and Larry.

In 2016, the Huangs set up several vehicles known as grantor retained annuity trusts, or GRATs, securities filings show.

They were borrowing a strategy that had been invented years earlier on behalf of the ex-wife of Walmart’s co-founder. Beginning in 1993, Audrey Walton transferred about $200 million worth of shares to two GRATs. The twist was that the trusts had to eventually repay Ms. Walton the value of those shares, plus some modest interest. If the value of the shares went up more than what had to be repaid, the trusts could keep whatever was left over — tax free.

The I.R.S. contested the arrangement on narrow technical grounds. But in 2000, a U.S. Tax Court judge upheld its legality.

Mr. Hemel of New York University said the I.R.S. could have challenged the use of GRATs on other grounds as well. Instead, he said, the agency "capitulated" and essentially permitted the use of the trusts as an acceptable avenue for avoiding the estate tax.

Billionaires took notice. The Goldman Sachs chief executive Lloyd Blankfein, the casino magnate Sheldon Adelson, the oil investor Harold Hamm, the cable magnates John Malone and Charles Dolan, and the designer Ralph Lauren were among those who set up GRATs soon after the Walton decision, according to disclosures in the men's filings with the S.E.C. That positioned their families to collectively avoid billions of dollars in future tax bills.

Under President Barack Obama, the Treasury Department repeatedly tried to make it harder to avoid the estate tax, proposing restrictions on the use of GRATs and I Dig Its. But the proposals died in Congress. (In the Trump administration, Treasury Secretary Steven Mnuchin, himself a GRAT user, would halt efforts to close the loopholes.)

In 2016, Mr. Huang and his wife put just over three million Nvidia shares into their four new GRATs. The shares were worth about $100 million. If their value rose, the increase would be a tax-free windfall for their two adult children, who both work at Nvidia.

That is precisely what happened. The shares are now worth more than $15 billion, according to data from securities filings compiled for The Times by Equilar, a data firm. That means that the Huang family is poised to avoid roughly $6 billion in estate taxes.

If the Huangs' trusts sell their shares, that will generate a hefty capital gains tax bill — more than $4 billion, based on Nvidia's current stock price. Mr. and Mrs. Huang can pay that bill on behalf of the trusts, without it counting as a taxable gift to their heirs.

A Charitable Tax Dodge

Starting in 2007, Mr. Huang deployed another technique that will further reduce his family's estate taxes. This strategy involved taking advantage of his and his wife's charitable foundation.

Mr. Huang has given the Jen Hsun & Lori Huang Foundation shares of Nvidia that were worth about $330 million at the time of the donations. Such donations are taxdeductible, meaning they reduced the Huangs' income tax bills in the years that the gifts took place.

Foundations are required to make annual donations to charities equal to at least 5 percent of their total assets. But the Huangs' foundation, like those of many billionaires, is satisfying that requirement by giving heavily to what is known as a donor-advised fund.

Such funds are pools of money that the donor controls. There are limitations on how the money can be spent. Buying cars or vacation homes or the like is off limits. But a fund could, say, invest money in a business run by the donor's friend or donate enough money to name a building at a university that the donor's children hope to attend.

There is a gaping loophole in the tax laws: Donor-advised funds are not required to actually give any money to charitable organizations.

When the donor dies, control of the fund can pass to his heirs — without incurring any estate taxes.

In recent years, 84 percent of the Huang foundation's donations have gone to their donor-advised fund, named GeForce, an apparent nod to the name of an Nvidia videogame chip. The Nvidia shares that the Huangs have donated are today worth about $2 billion.

The fund is not required to disclose how its money is spent, though the foundation has said the assets will be used for charitable purposes. The Nvidia spokeswoman, Ms. Matthew, said those causes included higher education and public health.

But there is another benefit. Based on Nvidia's current stock price, the donations to the fund have reduced Mr. Huang's eventual estate-tax bill by about $800 million.

The post How One of the World's Richest Men Is Avoiding $8 Billion in Taxes appeared first on New York Times.