



TRUMP'S \$10 BILLION IRS LAWSUIT AND HIS EXPANDING PATTERN OF SELF-DEALING



TRUMP'S \$10 BILLION IRS LAWSUIT AND HIS EXPANDING PATTERN OF SELF-DEALING

MAY 2026

BY:

Virginia Canter

*Chief Counsel and Director of Anti-Corruption and Ethics,
Democracy Defenders Fund*

Andrew Warren

Deputy Director, Litigation, Democracy Defenders Fund

Maya Cook

Litigation Program Associate, Democracy Defenders Fund

Overview

In January 2026, President Trump, his sons, Don Jr. and Eric, and the Trump Organization filed a \$10 billion federal lawsuit against the Internal Revenue Service (IRS), an agency he controls, for the unauthorized disclosure of his tax returns during his first term. The suit named the IRS and Treasury Department as defendants. The presiding judge raised concerns about whether the case involved a genuine legal dispute and ordered the parties to address the issue, while inviting expert analysis from lawyers not involved in the case.

On May 18, 2026, President Trump and the other plaintiffs filed a notice with the court to [voluntarily dismiss their complaint](#) with prejudice, apparently to preempt the judge's ability to approve a potential settlement. At the same time, the Trump administration announced a \$1.776 billion "[Anti-Weaponization Fund](#)" formed as part of a settlement agreement associated with the voluntary dismissal. The same day, the presiding judge determined that Trump's voluntary dismissal extinguished the claims and [ordered the case closed](#) without addressing its legal deficiencies.

The [settlement](#) creates a five-member commission authorized to distribute more than \$1.7 billion in taxpayer dollars to purported victims of "lawfare and weaponization," as defined by the Trump administration. The [victims](#) appear to include nearly 1,600 people charged in connection with the January 6 Capitol attack. President Trump can fire the commission members at will. Also, the commission can operate mostly in secrecy with little to no transparency required about the identities of the recipients, or the application, review, dissemination, and appeal processes—raising potential due process concerns. The settlement also covers a demand for \$230 million related to meritless administrative claims President Trump filed against the DOJ concerning the FBI's search of Mar-a-Lago and the Russia collusion investigation.

On May 19, 2026, the day after the administration announced the fund, the Office of the Attorney General surreptitiously posted a [document](#) on their website in which officials agreed not to pursue tax claims currently pending against Trump, his family, or his businesses. This includes any tax returns filed before the effective date of the settlement. The new release is so broad that it covers individuals who are not plaintiffs, including "related or affiliated individuals (including without limitation, family or others filing jointly, or parties including trusts, parent, sister, or related companies, affiliates, and subsidiaries." It also applies to other types of matters, including "lawfare and/or weaponization" matters. This one-page document was not included in the original agreement laying out the terms to dismiss the lawsuit and does not bear the signature of an IRS or Treasury official.

With the case now closed, Trump and the Justice Department have avoided judicial review of the lawsuit and settlement, even though former DOJ prosecutors and IRS officials have viewed the underlying claims as [legally and factually weak](#) and the newly-established fund likely violates the U.S. Constitution's Domestic Emoluments Clause. That provision applies solely to the president and explicitly bars him from accepting "any ... Emolument from the United States" other than his salary.

An emolument is broadly defined as any "profit, gain, or advantage." A settlement paid into a newly-created fund to benefit the president's loyalists (characterized by the DOJ as "victims of lawfare and weaponization") likely constitutes an emolument since the president is obtaining an extraordinary advantage by virtue of having a vehicle to give away more than \$1.7 billion to his political supporters, assuring him of their ongoing loyalty.

In addition to the emoluments issue, this lawsuit presents several other legal issues. Chief among them is whether Congress authorized funds for this type of settlement. Additionally, the settlement appears to violate several provisions of the federal law that provides for damages resulting from the unauthorized disclosure of tax records. The case was filed after the two-year statute of limitations and arguably should have been dismissed, and there are questions as to whether the government is liable when a contractor—not a government employee—was responsible for the disclosure, as happened here. Lastly, the \$10 billion demand far exceeds both the actual damages and the alternative \$1,000 statutory limit for each disclosure.

[IRS career attorneys](#) reportedly drafted a memo identifying these and other legal shortcomings of the lawsuit to be raised by the DOJ in court, but no DOJ attorney ever made a court appearance in the suit. Within hours of the Trump administration announcing the fund, the Department of the Treasury's General Counsel, Brian Morrissey, [resigned](#) after serving only seven months in office.

There are a number of other controversial aspects to the deal. The [DOJ order](#) creating the Anti-Weaponization Fund includes a disclaimer that appears to exempt President Trump and the DOJ from liability for fraudulent transfers and other types of fraud or misuse of the funds once they are placed into the designated fund. The settlement agreement includes a provision that purports to relieve him and the other plaintiffs from tax liability arising from it, notwithstanding the clear benefit President Trump derives from the creation of the fund.

Beyond being a gross misuse of taxpayer funds the agreement creates a dangerous incentive. The president could continually file meritless lawsuits knowing the DOJ would settle them for extraordinary amounts. This would allow the administration to use taxpayer funds to create additional partisan slush funds to benefit those who the president arbitrarily designates.

This case, while extreme, is not surprising. It is the latest and most brazen example of President Trump using federal institutions—law enforcement, regulatory bodies, and the courts—as vehicles for private gain. It is part of a demonstrated pattern of self-dealing that has spanned crypto ventures, foreign policy entanglements, and now, a lawsuit in which the plaintiff and the defendant are, in practical terms, the same person.

Background

The Leak

The lawsuit centered on Charles Littlejohn, a former government contractor working for the consulting firm Booz Allen Hamilton, who accessed and disclosed tax return data belonging to President Trump and other wealthy Americans. Littlejohn provided Trump's records to The New York Times and ProPublica; in 2020, the Times reported that Trump paid just \$750 in federal income taxes in 2016 and no income taxes at all in 10 of the prior 15 years. Littlejohn was convicted for sending Trump and others' IRS documents to news outlets, and he is currently serving a five-year federal prison sentence.

In January 2026, Trump, along with his two eldest sons and the Trump Organization, sued the IRS and Treasury Department for at least \$10 billion, alleging that they failed to prevent Littlejohn's unauthorized access to IRS documents. The underlying tax leak has already been investigated, and the person responsible was held to account. It is a settled issue. Americans have every right to question why their taxpayer dollars should go toward enriching a sitting president or his loyalists while average families struggle to afford basic necessities.

The Conflict-of-Interest Problem

In addition to the Domestic Emoluments Clause, the lawsuit presented an immediate and fundamental structural problem. President Trump, as the head of the Executive Branch, controls the IRS and the Justice Department, which represents the IRS in federal court.

Trump acknowledged the contradiction. Shortly after filing the suit in January, he agreed with a reporter that it was unusual to be on both sides of a lawsuit. "It's very interesting," he said on Air Force One, "We're thinking about doing something for charity, where I'll give money to charity." He was even more direct when talking about the administrative claims against the Justice Department, saying, "It sort of looks bad, 'I'm suing myself,' right?" The settlement also included the withdrawal of these claims.

Judge Kathleen Williams, an Obama appointee in the Southern District of Florida, oversaw the case. She questioned whether a genuine legal controversy existed between the parties and, thus, whether it satisfies a threshold requirement to proceed. In a four-page [order](#) issued in April, she wrote, "[A]lthough President Trump avers that he is bringing this lawsuit in his personal capacity, he is the sitting president and his named adversaries are entities whose decisions are subject to his direction." She added that it was "unclear to this Court whether the Parties are sufficiently adverse to each other so as to satisfy [the Constitution's] case or controversy requirement."

Judge Williams ordered both sides to submit briefs by May 20 and set a hearing on the matter for May 27. She also appointed a panel of six independent lawyers not otherwise involved in the case to advise her on the lawsuit's legitimacy. Several public interest organizations, including [Democracy Defenders Action](#) on behalf of 93 members of the House of Representatives, filed amicus briefs raising concerns about the lawsuit's legitimacy, the inherent conflict of interest posed, and the collusive nature of a possible settlement.

The Push for Settlement

Shortly after noticing dismissal of the case, the Trump administration announced a \$1.776 billion fund for “victims of lawfare and weaponization,” according to Acting Attorney General Todd Blanche. On May 19, the DOJ attempted to further expand the agreement to include a provision that would bar the IRS from pursuing audits of Trump, his family members, and his businesses based on tax returns filed by them before the settlement date.

DOJ’s press statement on Monday indicated that Trump, his family members, and businesses would receive no monetary payment or damages of any kind related to this settlement. But IRS procedures mandate annual audits of the president and vice president. In fact, the Times in 2024 found that an adverse audit outcome could cost Trump more than \$100 million. Relief from that exposure could constitute a substantial and ongoing financial benefit to the president, derived directly from the lawsuit he brought against an agency he controls. Federal law explicitly prohibits the president from ordering the initiation or conclusion of a specific taxpayer’s IRS audit, although there is an [exception](#) for the Attorney General. Nevertheless, this does raise serious questions about whether this prohibition is being circumvented and whether this type of economic benefit should itself create a new tax liability.

By withdrawing the case and negotiating settlement terms between himself and his own DOJ, Trump effectively short-circuited Judge Williams’ scrutiny before any ruling on whether the lawsuit was even constitutionally or legally valid.

A Pattern of Conduct

This lawsuit and subsequent settlement dealings follow a well-established pattern in which the Trump administration has used government power to direct benefits to the president, his family, and his political allies. Prior to this suit, Trump demanded the Justice Department pay him approximately \$230 million in compensation for the federal criminal investigations into his conduct during and after his first term—investigations brought by the same department he now controls. Democracy Defenders Fund sought an investigation into this matter by the DOJ Inspector General since the claims are meritless and any payment to settle them would likely violate the Domestic Emolument Clause and other federal laws.

This is also not the first time that attempts have been made to use the DOJ as a mechanism for paying out Trump allies. In June 2025, the Proud Boys filed a \$100 million lawsuit against the DOJ, claiming their constitutional rights were violated during their prosecution for the events of January 6, 2021. While this case is still ongoing, there is a reasonable possibility that it could end in a settlement for the Proud Boys in which American taxpayers are forced to fund a violent extremist group.

In addition to the various attempts to orchestrate payouts for himself and his allies, Trump has already added billions to his net worth through cryptocurrency ventures, including World Liberty Financial’s \$WLFI governance token, the \$TRUMP memecoin, and the \$USD1 stablecoin, all while dismantling federal oversight and regulation of the industry. Collectively, Bloomberg estimates that these ventures have generated approximately \$1.4 billion in revenue since President Trump was re-elected, much from foreign entities.

In addition to the family crypto ventures, Trump family members are in line to benefit from million-dollar federal contracts and sales to foreign governments. A robot company owned by Eric Trump just won a [\\$24 million Pentagon contract](#), while a drone company backed by Eric and Donald Trump Jr. is pitching sales to [several Gulf countries](#) under attack by Iran. Eric Trump accompanied his father on a state visit to China at a time when Alt5 Sigma, a company affiliated with World Liberty Financial, is pursuing deals with a Chinese chipmaker believed to have ties to the Chinese Communist party.

The president has demonstrated a focus on high-profile vanity projects and personal enrichment from those seeking favor, including the White House ballroom, and gifts such as the the Qatari jumbo jet, a 24k gold bar from Apple CEO Tim Cook, and the Nobel Peace Prize from Venezuelan opposition leader María Corina Machado.

What's at Stake

This settlement represents a deeply disturbing and abnormal abuse of federal power. The dollar amounts at issue are staggering. The institutional conflict is direct. And the mechanism (a lawsuit the president effectively controls on both sides) represents an outright attempt to use taxpayer money for private, personal enrichment.

In a similar case regarding leaked tax returns, the federal government did not pay the litigant. Ken Griffin, the hedge fund billionaire whose tax returns were also disclosed by Littlejohn, settled his lawsuit against the IRS in 2024. The government did not pay damages in that case; it issued a public apology. Trump is using his power as the head of the Executive Branch and the DOJ to circumvent normal rule of law procedures in favor of an outcome that benefits him. The terms of this settlement come at an enormous cost to American taxpayers. Judge Williams moved deliberately to ensure that the case received genuine adversarial scrutiny before any resolution. Settling before that scrutiny was complete serves as a critical test of whether federal institutions can remain independent when the president's personal interests are at stake.

Sources

Bernard Condon, “How the Trump family’s business deals could open the door for future presidents to profit,” PBS, Apr. 13, 2026.

Andrew Duehren and Chris Cameron, “Trump Sues I.R.S. Over Tax Data Leak, Demanding \$10 Billion,” The New York Times, Jan. 29, 2026.

Andrew Duehren and Alan Feuer, “Justice Dept. Officials Consider Settling Trump Suit Against I.R.S.,” The New York Times, May 12, 2026.

Josh Gerstein, “Judge Signals Trouble for Trump’s \$10B Lawsuit Against the IRS,” Politico, Apr. 24, 2026.

House Judiciary Committee Democrats, “Trump, Crypto, and New Age of Corruption,” November 24, 2025.

Katherine Faulders, Peter Charalambous, and Alexander Mallin, “Trump poised to drop IRS suit, launch \$1.7B ‘weaponization’ fund for allies: Sources,” ABC News, May 14, 2026.

Andrew Duehren, “The I.R.S. Thought It Could Fight Trump’s Lawsuit, but It Reached a Deal Anyway,” The New York Times, May 19, 2026.

Andrew Duehren, “Top Treasury Lawyer Resigns After Creation of ‘Anti-Weaponization Fund,’” The New York Times, May 18, 2026.

Ellie Quinlan Houghtaling, “Eric Trump Brags About \$24 Million Pentagon Deal His Company Landed,” The New Republic, Apr. 23, 2026.

Bernard Condon, “Company backed by Trump sons looks to sell drone interceptors to Gulf states being attacked by Iran,” PBS, Apr. 3, 2026.

Russ Buettner and Paul Kiel, “Trump May Owe \$100 Million From Double-Dip Tax Breaks, Audit Shows,” The New York Times, May 11, 2024.

Alan Feuer, Andrew Duehren, Glenn Thrush, “I.R.S. to Drop Audits of Trump and Family,” The New York Times, May 19, 2026.