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Tax Newsletter

Five Tax “Baskets” of Interest Expenses Separate rules for different categories

Are your personal interest expenses fully deductible on your 2025 return, partially deductible or not deductible at all? It depends on the type of expense. Notably, these rules have been modified by the new One Big Beautiful Bill Act (OBBBA). Following is an overview of the five main categories or “baskets.”

1. Mortgage interest: Generally, itemizers can deduct mortgage interest paid during the year. To qualify, you must be legally obligated to pay the mortgage and the loan must be secured by a qualified residence, before you determine if the debt is an acquisition debt or a home equity debt.

- **Acquisition debt:** This is a debt incurred to buy, build or substantially improve a qualified home. Under new limits made permanent by the OBBBA, only the interest paid on the first \$750,000 of acquisition debt is deductible, down from \$1 million before 2018. (However, certain prior debts are “grandfathered” so the higher limit may still apply.)
- **Home equity debt:** Other debts (e.g., a home equity loan or line of credit) are generally treated as home equity debt. Previously, the interest paid on up to \$100,000 of home equity debt was deductible, but this deduction is permanently eliminated by the OBBBA.

Note that a home equity debt may be converted into an acquisition debt if the loan proceeds are used for substantial home improvements like adding an in-ground pool or finishing a basement.

2. Investment interest: If you borrow funds to buy property held for investment purposes (e.g., securities or real estate) and itemize, the interest paid on the loan is treated as investment interest. The amount of investment interest you can deduct is generally limited to the amount of your “net investment income” for the year. Any excess is carried over to the next year.

Net investment income includes gross income from property held for investment such as interest, annuities and royalties, but not capital gains and qualified dividends eligible for tax-favored treatment. The maximum tax rate for long-term capital gain and qualified dividends is generally 15% (20% for some high-income taxpayers) in contrast to ordinary income taxed at rates up to 37%. Note: You can elect to include long-term capital gain and qualified dividends as net investment income if you forfeit the preferential tax rate.

3. Student loan interest: Unlike most other types of “personal interest expenses,” student loan interest paid for qualified higher education expenses— like tuition, room and board, books, and fees—is deductible. This maximum deduction of \$2,500 is phased out for high-income taxpayers but can be deducted whether or not you itemize.

4. Auto loan interest: Under the OBBBA, you may claim a brand-new deduction of up to \$10,000 of annual interest paid on auto loans, assuming certain requirements are met. This tax break is effective for 2025 through 2028. However, the deduction begins to phase out at \$100,000 of modified adjusted gross income (MAGI) for single filers and \$200,000 of MAGI for joint filers. We will have more details in the next issue.

5. Personal interest: Generally speaking, interest expenses that do not fall into any one of the other four categories are treated as nondeductible personal interest. This includes most credit card debts on personal purchases like clothing or groceries. (Business interest is generally deductible by the business.)

Of course, this is only an overview of complex tax rules. Obtain professional advice for your situation.

Introducing the New Trump Account **New tax law creates savings vehicle**

Meet the latest way to save for the future: the “Trump account.” This investment device, authorized by the One Big Beautiful Bill Act (OBBBA), can provide significant benefits but other options may be preferred, depending on your circumstances.

Trump accounts are already available, but contributions are not allowed until one year after the OBBBA was signed into law—July 4, 2026. The IRS recently issued its initial guidance on these new accounts.

Background: Some families can benefit from a one-time gift from Uncle Sam. As an incentive to save for the future, the new law provides a \$1,000 contribution to a Trump account for a qualified child born between January 1, 2025, and December 31, 2028. Otherwise, annual contributions of up to \$5,000 are allowed for this group of newborns and other qualified children.

To qualify to use a Trump account, your child must be under age 18 at the end of the year, be a U.S. citizen and have a Social Security number (SSN). Anyone who wants to contribute—say, a parent or grandparent or favorite aunt or uncle—can kick in up to a combined \$5,000 total for any tax year before the child turns age 18.

Bonus contributions: Your own company may also contribute up to \$2,500 to a Trump account for a qualified child within the same limits. However, the IRS has now clarified that these contributions count toward the annual \$5,000 threshold. In addition, contributions may be made on behalf of qualified children by nonprofit organizations or federal, state or local government units above and beyond the \$5,000 limit.

Like some other tax-favored savings accounts, such as IRAs and Section 529 plan accounts for education, contributions are invested and may compound without any current tax erosion, although the contributions are nondeductible. Typically, you can choose from a variety of mutual funds and exchange-traded funds (ETFs).

Special rules: Generally, withdrawals are not permitted during the account’s initial build-up stage, which lasts until the child reaches age 18. At that point, the account must be converted into an IRA and withdrawals may be made under traditional IRA rules. Distributions attributable to after-tax contributions are exempt from tax, but the portion allocable to earnings is taxable as ordinary income. So, a beneficiary can expect to pay some tax on withdrawals from Trump accounts.

Furthermore, withdrawals made before age 59½ are generally hit with a 10% tax penalty in addition to regular income tax, unless one of the IRA exceptions applies. The account may be converted into a Roth IRA, subject to the usual tax on such conversions, to provide future tax-exempt payouts.

Note that a Trump account may be used to pay any type of expense. Unlike a 529 plan, the money does not have to go toward qualified education expenses, but there is no tax break for distributions.

Finally, required minimum distributions (RMDs) must be taken from the account after the beneficiary reaches the specified age. Currently, the age threshold of 73 is scheduled to rise to age 75 in 2033.

The IRS is expected to issue additional guidance on Trump accounts in the near future. We will keep you posted.

Practical approach: Consider all the relevant factors. Consult with your professional advisors with respect to Trump accounts for your family's situation.

Don't Be Hog-Tied by This Scam **Avoid losses from "pig butchering"**

Despite numerous "red flags," innocent investors often fall prey to scams perpetrated by cunning and sophisticated criminals. These con artists may use technology as part of the scheme. For example, in the classic "say yes" scam, a caller asks an innocent question like "Is this (your name)" to illicit a positive response. Then they use your recorded voice with a positive response to gain access to financial accounts or personal information.

In one of the latest variations on an old theme commonly referred to as "pig butchering," investment frauds committed in 2024 totaled \$5.7 billion, according to the Federal Trade Commission (FTC). The name for this onerous scam derives from the fact that the perpetrators take their sweet time "fattening up" victims for the eventual slaughter.

How it works: Typically, the crook makes their initial contact through a social media platform like Facebook, LinkedIn, Instagram or one of the many dating apps. After striking up a relationship, the fraudster asks investment-related questions like, "Have you or would you ever invest in cryptocurrency?" The callers are experts at coaxing information about investments from their unsuspecting victims.

The key to the scheme for fraudsters is to gain the trust of the target. They will start by producing documents showing phenomenal increases in the sector or particular investments they are promoting. They may "dummy up" accounts to look more profitable than they actually were. Eventually, the criminal asks for their conversations to move from social media to other messaging methods that are supposedly more private and secure.

The payouts start with modest withdrawals that produce favorable results. This encourages the targets to invest even greater amounts.

Once the account is ripe for picking, the con artists begin the butchering. All of a sudden, you can no longer contact the perpetrator or access the trading platform or any accounts you have opened. Your online "friend" vanishes into thin air without a trace and so does all your money.

Invariably, there is a tendency for victims to keep kicking themselves for being lured into this trap. But it is a common situation that affects intelligent and experienced people as well as neophytes. In one classic case, a successful bank officer lost \$47 million in a pig butchering scam.

Sound advice: Be on the lookout for this and other scams that can cause financial distress. If something sounds too good to be true, it usually is.

Can you deduct losses from pig butchering or other scams? Possibly. Under current law, an investor may be entitled to deduct a loss resulting from a fraud that involves a “transaction entered into for profit.” Usually, the promoter of a pig butchering scam convinces the victim that they are entering into a legitimate investment opportunity, so the loss is deductible. But losses stemming from scams that do not involve a profit motive cannot be deducted.

Final words: Do not hesitate to reach out to reputable advisors to provide guidance. Only rely on those you can truly trust.

Get Ready for Filing 2025 Returns IRS offers helpful suggestions

Like the classic Temptations song “Get Ready,” the IRS is advising individual taxpayers to prepare for the 2026 tax filing season. This is sound advice every year, but it is especially important for 2025 returns that may be affected by the One Big Beautiful Bill Act (OBBBA). The new law may result in new deductions for tips or overtime pay, auto loan interest and senior citizens—just to name a few of the possibilities.

In any event, you will want to make sure that you can maximize the tax benefits on your 2025 return while avoiding potential tax pitfalls. The IRS notes that some advanced work preparing paperwork and organizing information can help with filing tax returns quickly and accurately. Your professional tax return preparer can provide any assistance you need in filing your return.

The basics: First and foremost, the IRS instructs taxpayers to gather and organize their tax records. Organizing your records helps ensure that your returns are accurate and avoid errors that could delay refunds. Start by collecting the following:

- Bank account information.
- Forms W-2 from your employer(s).
- Forms 1099 from banks and other payers.
- Records of digital asset transactions.

Tax returns should not be filed until all the necessary tax records have been obtained. Keeping documents organized can also make it easier to locate information needed to claim deductions or credits.

The IRS also recommends that taxpayers establish an online account. This allows you to access your personal tax information, including recently filed returns, securely. Through this tool, you may:

- View tax records, including adjusted gross income and transcripts.
- Make, schedule and view payments.
- Obtain or view your Identity Protection PIN (IP PIN).
- Authorize a tax professional to access tax records digitally.
- Access available Forms W-2 and certain 1099s.

In addition, the IRS is encouraging taxpayers to speed up their tax refunds by using direct deposit. Direct deposit is the fastest way to receive a refund. In addition, in accordance with an executive order, the IRS began phasing out paper refund checks on September 30, 2025. That means most taxpayers must provide routing and account numbers to have their refunds directly deposited into their bank accounts.

Taxpayers without a bank account can learn how to open one at an FDIC-insured bank or through the National Credit Union Locator Tool. Military veterans may benefit from other services.

Prepaid debit cards, digital wallets or mobile apps may support direct deposit. To use these options, taxpayers must have routing and account numbers associated with their personal accounts. Check with the mobile app provider or financial institution to confirm which numbers to use.

Last but not least: You are not facing these challenges alone. Your professional tax advisors can help you navigate the process.

Facts and Figures

Timely points of particular interest

SALT Shake-Up—The One Big Beautiful Bill Act (OBBBA) is expected to have a major impact on 2025 income tax returns. One key change: The annual deduction limit for state and local income taxes (SALT) payments is increased from \$10,000 to \$40,000, subject to a phase-out for high-income taxpayers. Due to the SALT change, individuals may switch from the standard deduction to itemizing deductions. Note: The new \$40,000 limit only applies through 2029.

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