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Tax Newsletter

IRS Allows Loss Deductions for Financial Scams
Explains five scenarios in new ruling

The IRS has issued a new memo that "clears the way" for victims of investment scams to claim deductions under the tax code section for casualty and theft losses. The new memo, *Chief Counsel Advice 202511015*, clarifies the current rules.

Background: Previously, you could deduct unreimbursed casualty and theft losses exceeding 10% of your adjusted gross income (AGI), after subtracting $100 per event. For example, if a taxpayer with an AGI of $100,000 suffered $20,000 in damages to their home due to a wildfire, the deductible loss was limited to $9,900. Common theft losses included home burglaries.

However, the Tax Cuts and Jobs Act (TCJA) generally suspended the deduction for casualty and theft losses, except losses from natural disasters in areas formally designated as federal disaster areas. The Federal Disaster Tax Relief Act temporarily eliminated the 10%-of-AGI limit while raising the "floor" per event from $100 to $500, but the previous limits apply once again.

Nevertheless, if you are victimized by one of the many financial scams or frauds proliferating these days, you may be entitled to tax relief. Specifically, a loss is deductible if—

- It results from criminal conduct classified as theft under applicable state law;
- You have no reasonable prospect of recovering the stolen funds; and
- The loss arises from a transaction entered into for profit.

Tax update: The new IRS memo provides five common scenarios to help determine whether a loss from a scam is deductible.

1. Compromised account scam: The taxpayer is contacted by someone impersonating a financial institution's fraud specialist. The imposter induces the taxpayer to authorize distributions from financial accounts and then the victim transfers the funds to new overseas accounts controlled by the scammer.

2: Pig butchering scam: The taxpayer responds to an unsolicited email advertising a cryptocurrency investment. After small early successes, the taxpayer commits more money and then the scammer disappears with all the funds. This is called "pig butchering" because the scammer "fattens up the prey."

3. Phishing scam: The taxpayer is tricked into providing login credentials for financial accounts. Subsequently, funds are withdrawn and deposited into an overseas account without the taxpayer's approval.

4. Romance scam: The taxpayer develops a romantic relationship with a scammer online. The victim is convinced to authorize distributions to purportedly help the fraudster pay for a relative's medical expenses. Naturally, the entire situation is a ruse.

5. Kidnapping scams: The taxpayer is convinced that a caller has kidnapped their grandchild and is demanding a ransom for their safe return. This may use a "cloned voice" of the supposed kidnapped victim. After the funds are sent, the scammer disappears.

In the first three scenarios, the taxpayers entered into transactions intending to turn a profit and now have little hope of recovery. Therefore, the losses are deductible. Conversely, the losses resulting from the romantic and kidnapping scams are personal and nondeductible.

The new memo also offers guidance to taxpayers victimized by Ponzi schemes like the one famously perpetrated by Bernie Madoff. Such losses may be deductible under a safe-harbor rule if the loss stems from a fraud by someone who has been criminally indicted or is the subject of a legal criminal complaint.

Final words: Stay vigilant. The best approach is to avoid scams and financial cons in the first place.

Tax Benefits for a "Medical Dependent"
How to deduct payments for a relative

It is tough—with a capital "T"—to qualify for medical expense deductions on your personal tax return, even if you otherwise itemize deductions. Reason: The threshold for deducting unreimbursed expenses is imposing. However, if you are near the threshold for 2025, do not allow any deductible expenses to slip through the cracks.

Notably, you may not be able to claim personal exemptions for a relative you support this year, but you could still count the medical expenses you pay on behalf of that relative towards your annual total. The relative does not necessarily have to be a member of your immediate family.

Background: Under current law, you can deduct unreimbursed medical expenses above 7.5% of your adjusted gross income (AGI). For instance, if you have an AGI of $100,000 in 2025 and you incur $8,000 in qualified medical expenses, your deduction is limited to $500. And, if your expenses fall below the $7,500 level, you get no deduction,

As a result, it is important to log in every deductible medical dollar you spend during the year. This includes expenses paid for yourself, your spouse and your children, like co-pays for visits to physicians, dentists or hospitals, as well as the cost of prescription drugs for these family members.

On the other hand, you cannot claim any personal exemptions for family members or other relatives. Previously, you could claim an exemption for a relative you help support—say, an elderly parent—if you provide more than half of their annual support and their gross income for the year does not exceed the personal exemption threshold. (It was, for example, $4,050 in 2017.) The Tax Cuts and Jobs Act (TCJA) suspended these exemptions for 2018 through 2025. Note: This TCJA provision could be extended.

However, the IRS allows you to deduct medical expenses you pay for certain relatives. According to the Publication, 502, Medical and Dental Expenses, the relative does not have to qualify as your dependent as long as you provide more than half of their support. You do not have to pass the "gross income" part of the dependency test.

Example: Your elderly mother expects to receive $10,000 in Social Security benefits and $7,000 of taxable investment income in 2025. Because you give her $1,500 a month for rent and groceries, for an annual total of $18,000, you will provide more than half of her support for the year ($18,000 vs. $17,000). So, you can count the medical expenses paid for your mother as your own, regardless of whether she meets the technical definition of a "dependent" due to the gross income limit.

In this hypothetical example, your mother cannot deduct her medical expenses on her own personal 2025 return. But she probably does not qualify anyway or even itemize deductions. Also, the medical expense deduction is likely to be worth more to you in your high tax bracket than it is to her.

Practical advice: Take a close look at the situation with your professional tax advisor. Then adopt the approach that makes the most sense.

Five Charitable Strategies for Itemizers
Maximize tax benefits of donations

As the mid-point of the year approaches, you might increase your donations to qualified charitable organizations. Depending on your situation, you may be able to write off the full amount of your contributions, within certain limits. Consider the following five strategies for maximizing the tax benefits.

1. Bunching donations: The first thing you should do is to figure out if you will be itemizing deductions on your 2025 return or taking the standard deduction. This will dictate your moves for the rest of the year.

Briefly stated, it makes sense tax-wise to "bunch" donations in a tax year in which you will be itemizing. Thus, you can reap tax rewards for your generosity without "wasting" donations that are not deductible. For example, you might add to your donations at year-end if it is clear you will itemize in 2025.

2. Appreciated property: If you donate appreciated property to charity, you may benefit from a unique tax break. Normally, you can deduct only the amount equal to the original cost of donated property. However, if you have owned the property for longer than one year, you may take a current deduction for its fair market value (FMV).

In other words, you benefit from the appreciation in value while you have owned the property. There is no tax due on this appreciation—ever. Note: Current deductions for gifts of property are limited to 30% of adjusted gross income (AGI). Any excess may be carried over for up to five years.

3. Donor-advised funds: With a donor-advised fund (DAF), you may earmark funds for future gifts while qualifying for a current tax deduction on your tax return. The money is invested and grows until it is distributed to the designated recipients.

The DAF allows you to choose qualified charitable organizations that will benefit from your generosity. This has become a popular way for charitable-minded individuals to maintain some control over donations while preserving tax benefits.

4. Charitable remainder trusts. Another way for itemizers to contribute to charity is to establish a charitable remainder trust (CRT) in a year in which they expect to itemize.

Essentially, an income beneficiary—perhaps you or your spouse—receives annual payouts from the trust assets while the remainder goes to charity at the end of the trust term or death of the beneficiary. This provides a charitable deduction based on the value of the remainder interest. CRTs are complex, so obtain professional assistance.

5. Qualified charitable distributions: Under a special tax code provision, a taxpayer age 70½ or older can choose to transfer funds directly from an IRA to a qualified charitable organization. Although you cannot deduct this qualified charitable distribution (QCD), you are not taxed on the distribution either. It is a virtual "wash" for tax purposes.

The maximum amount that can be transferred each year is $100,000 per individual ($108,000 in 2025). Best of all, the transfer counts as a required minimum distribution (RMD). Because certain older taxpayers must take RMDs from their IRAs anyway (the current age threshold is 73), this enables them to avoid tax on payouts at the same time they support a charity.

Develop an overall gift-giving strategy for your personal situation. Rely on your professional advisors for guidance.

Touch All the Tax Bases

Can your small business deduct the cost of sponsoring a local Little League team or other youth sports outfit? The short answer is "yes."

Ground rules: Generally, you can write off the cost of uniforms with your firm's name stitched on the shirts as business advertising expenses. The deduction extends to the cost of caps, bats, balls, catcher's mitts and masks and other equipment—even the payments for local umpires or referees.

Besides the tax deductions, you're benefiting the youths in your community while you are building goodwill for your firm. Everyone comes out ahead.

Facts and Figures
Timely points of particular interest

Disaster Plans—With the onset of summer, the IRS is reminding taxpayers to protect important tax and financial information as part of a disaster emergency plan. As of this writing, the Federal Emergency Management Agency (FEMA) has already issued 12 major disaster declarations in nine states impacted by winter storms, flooding, tornadoes, wildfires, landslides and mudslides in 2025. **Reminder:** Tax relief may be available but is strictly limited by the rules for casualty and theft losses.

Spousal IRAs—Normally, you can make IRA contributions up to the lesser of your "earned income" (e.g., wages) for the year or an annual limit. The limit for 2025 is $7,000 ($8,000 if you are age 50 or older). However, a married couple filing a joint tax return may qualify for a double contribution even if one spouse has zero or little earned income. Thus, the effective limit for married couples in 2025 is $14,000 ($16,000 if both spouses are age 50 or older). The couple can use any combination of traditional and Roth IRA accounts.