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Tax Newsletter

Tax Twists to Intra-Family Loans
Beware of "imputed interest" rules

Suppose your child needs a cash outlay to help with a down payment on their dream home or to jump-start a business venture. If you can afford it, you may be glad to pitch in by lending them the money. In fact, you might charge them a rock-bottom interest rate on this intra-family loan or even no interest at all.

Are there any tax consequences? Possibly.

Background: If you arrange an interest-free loan with a family member, or you charge interest at a lower-than-normal rate, you may effectively be treated as having received taxable interest under the IRS' "imputed interest" rules. As a result, you must report the tax liability on your return…even if you do not pocket a penny of interest.

Fortunately, there are two ways you may be able to avoid these onerous tax rules.

1. Lend no more than $10,000. A "de minimis exception" applies to loans totaling $10,000 or less if the loan is not directly attributable to the purchase or carrying of income-producing assets. For example, if you lend your child $9,000 to complete a home purchase, the imputed interest rules do not apply.

2. Lend no more than $100,000. If loans total $100,000 or less, the amount of interest you are treated as receiving annually for tax purposes is limited to the borrower's net investment income for the year. If the borrower's net investment income does not exceed $1,000, there is no taxable interest income on the intra-family loan. You are off the hook.

This special exception is not available if you did not charge any interest or provide a below-market level interest rate for tax avoidance purposes.

Caution: The IRS is traditionally tough on loans reputedly made for business purposes. For instance, if you cannot present "clear and convincing" evidence that the loan is tied to a business transaction, the transaction may be deemed to be a gift. Accordingly, you are not entitled to any tax benefits if the loan is not repaid.

Sometimes it is best to simply adhere to the rules. Instead of giving your child a no-interest loan, you might charge interest based on the Applicable Federal Rate (AFR) for the month of the loan. For example, the AFR rate for loans of five years made in June 2025 is 4.07%.

Remember to specify in writing the terms of the intra-family loan, including the amount, the time for repayment and the designation of collateral. Finally, have the loan document witnessed and notarized. Thus, you will have proof if the IRS ever challenges the transaction.

What happens if your child cannot repay a personal loan? In that case, the subsequent loss is treated as a short-term capital loss when it becomes totally worthless (i.e., there's no reasonable prospect for repayment). You can use this loss to offset capital gains realized during the year plus up to $3,000 of high-taxed ordinary income. For a loan made in connection with your business, the full amount of the loss may offset ordinary income like wages.

Final words: From a tax perspective, it is best to meet all the obligations required by the tax law. Your professional tax advisors can provide the necessary guidance.

Can the Corporate Veil Be Pierced?
Potential liability in limited occasions

There are several possible non-tax reasons why you might incorporate a business. One of the main advantages unrelated to taxes is the protection of the “corporate veil” (also known as the “corporate shield”). Under this basic principle, a business owner cannot be held personally liable for the debts and obligations of the corporation. But the corporate veil is not *completely* impenetrable.

Background: A corporation is separate and distinct from its individual shareholders. This generally includes limited liability companies (LLC) and LLC “members,” but not partnerships or self-employed operations. (Thus, the following discussion also applies to LLCs and their members.) As a result, corporate shareholders are not legally required to “make good” on the corporation’s debts when creditors come calling.

However, in certain situations, a court may still hold officers, directors and shareholders (or members) personally liable for debts. This is often referred to as “piercing the corporate veil.” It happens more often to owners of small, closely-held businesses than it does to officers of Fortune 500 companies.

When the corporate veil is pierced, creditors can pursue your personal assets—such as your home, bank accounts and investments— to satisfy the corporate debt. But courts will impose personal liability on individuals only in limited circumstances.

For example, the courts may consider the following factors in determining whether to pierce the corporate veil:

- If the corporation engaged in fraudulent behavior.
- If the corporation failed to comply with corporate formalities.
- If the corporation is inadequately capitalized (e.g., it never had enough funds to operate as a separate entity that could stand on its own).
- If one person, or a small group of closely-related people, is in complete control of the corporation.

Based on those factors, owners of closely held companies are more vulnerable to losing protection than are shareholders of large, publicly-traded corporations. For instance, a small company may not observe all the corporate formalities, such as recording minutes for significant business decisions.

To be on the safe side, small corporations should hold annual meetings of directors and shareholders or members; keep accurate and detailed minutes of important decisions at meetings; adopt company bylaws; and make sure that officers and agents abide by those bylaws.

A small business owner is also more likely to be guilty of commingling assets. For example, an owner might divert corporate assets for their own personal use by writing a check from the company account to pay the mortgage on a home or deposit a check made out to a corporation in a personal bank account. Better approach: The corporation should maintain its own bank account and the owner should not use the company account personally in any way, shape or form.

Warning: When a business owner handles things on the straight and narrow, a corporation can provide a formidable shield from personal liability should dire financial situations occur. But blurring the lines between your business and your personal affairs is only asking for trouble. If you have any questions about the distinctions, consult your professional advisors.

Don't Make These Roth IRA Mistakes
Five common pitfalls to avoid

The benefits of Roth IRAs are relatively well-known. Notably, distributions from a Roth in existence at least five years are 100% tax-free if made after age 59½. And even withdrawals made earlier may be wholly or partially tax-free under favorable IRS "ordering rules" (although a 10% penalty may apply). Nevertheless, Roth IRA owners are often plagued by several common mistakes, including the following.

Mistake #1: You think that you are not eligible to make contributions.

Although there are annual limits on eligibility for contributing to a Roth IRA, based on your modified adjusted gross income (MAGI), or the joint MAGI of you and your spouse if you are married, you still may qualify for a full or partial contribution. In any event, you may decide to convert traditional IRA funds into a Roth for the promise of future tax-free benefits. The conversion is subject to current income tax.

Mistake #2: You assume it is too expensive to convert to a Roth.

Of course, there is a tax price to pay for a conversion, but it might not be as steep as you think. What's more, a conversion does not have to be an all-or-nothing proposition. Alternatively, you can convert as much or as little as you want over a series of years. By doing so, the annual distributions may be taxed at lower rates and spread out over time, thereby saving tax overall.

Mistake #3: You withdraw money from a Roth when you do not have to.

With traditional IRAs, you must begin taking required minimum distributions (RMDs) after age 73 under current law. But RMDs are not mandatory with a Roth. Unless you need the money, the funds can continue to grow tax-deferred within the account. In other words, you can preserve more assets for your heirs this way, so use other resources when you can. When the beneficiaries inherit the Roth, they will have to take RMDs each year, but hopefully that will not be for a while.

Mistake #4: You make an excess contribution to a Roth.

Watch out for the annual limits for Roth contributions. For 2025, you can contribute up to $7,000 (or your earned income, if that is less) if you are under age 50. If you are age 50 or older, the annual limit is $8,000. But it is easy to exceed either limit if you are not careful, especially if you contribute at several intervals during the year. The penalty for an excess contribution equals 6% of the overage and you must pull the extra money out. Fortunately, no penalty is due if you fix the problem before filing your tax return.

Mistake #5: You do not name any beneficiaries.

This sounds obvious, but surprisingly it is a frequent problem among Roth participants. For starters, you should designate at least one primary beneficiary and several contingent beneficiaries should the primary beneficiary predecease you. Also, when naming beneficiaries, provide complete information about each person, including their name, address, date of birth and Social Security number (SSN). Simply listing “my daughter” or “my son” on the forms is not enough.

Do you have any questions? Your professional tax and financial advisors are ready to help.

Gambling Losses Down to the Wire
Offset tax on gambling winnings

Did you bet on Sovereignty or Journalism or another entry in the final leg of horse racing’s triple crown? If you picked the Belmont Stakes winner Sovereignty, congratulations. If not, at least you may be able to salvage a gambling loss. Despite the crackdown on miscellaneous expenses under the Tax Cuts and Jobs Act (TCJA), you can still deduct gambling losses, within certain limits, if you itemize on your personal tax return.

Basic rules: For starters, the TCJA suspended deductions for miscellaneous expenses for 2018 through 2025. (This provision may be extended by Congress.) But you can still deduct gambling losses up to the amount of your winnings under separate rules, although you cannot deduct the loss against other high-taxed income, like wages from your job. Conversely, you might show a taxable gain for the year.

For example, say that you incur gambling winnings of $10,000 at casinos and losses of $3,000 in 2025. Accordingly, you can deduct $3,000 this year, but you are still taxed on the $7,000 difference. If you incur $5,000 in losses and have zero winnings, you get no deduction at all. The best you can hope to do tax-wise for 2025 is to break even.

Furthermore, you must keep detailed records in case the IRS ever challenges your deduction. Taxpayers must compile the following in a log or other ledger.

- The date and type of each wager or wagering activity.
- The name and location of the gambling establishment.
- The names of any other person accompanying you to the gambling establishment.
- The amount you won or lost.

The IRS says you can document winnings and losses from table games at casinos by recording the number of the table and keeping statements showing casino credits.

Theoretically, you are supposed to record each gambling win or loss for each blackjack hand, spin at the roulette table and throw of the dice, as well as every horse or dog race. Practically speaking, this is rarely done. The IRS acknowledged this reality several years ago for slot machine play. It now allows casual slot machine players to keep records of winnings and losses for a gambling “session.”

In other words, the IRS will probably accept a log or other record that details the activities for a day at a particular venue. But be forewarned: The agency is suspicious of taxpayers who have appeared to collect random ticket stubs of losers at the track. For instance, it is not likely that you would have placed hundreds of $2 wagers on the same horse in the same race.

Finally, if your gambling activities rise to the point where it becomes an actual business (i.e., you are a professional gambler), you can deduct an annual loss. However, under the TCJA, taxpayers can no longer include non-wagering expenses, such as travel, in any loss that is deductible.

Update: The new "One Big Beautiful Bill Act" (OBBBA) includes changes for professional gamblers. We will have more information in a future issue.

Reminder: The gambling loss deduction can take some of the sting out of losing streak but be mindful of your overall financial situation. Only gamble what you can afford to lose!

The Current State of the IRS

National Taxpayer Advocate (NTA), Erin M. Collins, just released the **Fiscal Year 2026 Objectives Report** to Congress. In this report, the IRS "watchdog" highlights a predominantly successful 2025 filing season, despite its workforce being reduced by 26%.

But Collins also points out concerns about persistent refund delays for victims of identity theft, delays in processing Employee Retention Credit (ERC) claims and other critical challenges facing the agency as it prepares for the 2026 filing season. Plus, it remains to be seen what impact new tax legislation could have on IRS activities. Stay tuned.

Facts and Figures
Timely points of particular interest

IRS Improvements-- The IRS recently released its annual "Data Book" providing statistics about the IRS during its 2024 fiscal year (FY2024). Generally, the agency received high marks. Significantly, its toll-free customer service lines provided live telephone assistance to almost 20 million callers in FY 2024, up almost 11%. The IRS also assisted more than two million taxpayers at its Taxpayer Assistance Centers (TACs), an increase of almost 26%. View the entire Data Book at https://www.irs.gov/pub/irs-pdf/p55b.pdf

Business Legalities—If you own a business and are getting married, do not dismiss the idea of a prenuptial agreement. This legally-binding document can help establish a value for the business in the event of a divorce or separation. In addition, it can provide a road map to handling business matters and dividing assets at what could be an emotional and tumultuous time. This is not a one-size-fits-all proposition. Consult with your professional business advisors on the best approach for your situation.

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