“Pig Butchering” Scams and How Victims May Be Able to Deduct Their Losses Under IRC §165

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Impact of Cyber Crimes on Individuals

There is no silver lining for a victim who suffers a financial fraud attack, but federal tax law may provide a degree of relief. Financial fraud is a serious concern for all businesses and individuals, regardless of sophistication or wealth. The amount of money Americans lose to fraud is truly staggering. The Federal Bureau of Investigation (FBI) documented that over $9 billion was lost through business email compromise and investment fraud attacks in 2024, from over 69,000 separate victims.[1] And the FBI’s data likely underreports the size of this problem, as research demonstrates that many victims will never file a report.

“Pig Butchering” Schemes

The largest category of financial fraud suffered by individuals is investment fraud, with $5.7 billion in reported losses in 2024, according to the Federal Trade Commission.[2] These scams are often referred to as “pig butchering” scams. The unsettling name is derived from the idea that the perpetrators take time to “fatten up” their victims to get as much money as possible placed with the fictious investments. Then, the “butchering” occurs when the victim’s account is wiped out.

Many of these scams are variations on the same theme.[3] Usually, the victim is contacted via a social media platform (*e.g.*, Facebook, LinkedIn, or a dating website). After a time establishing a rapport, the perpetrator moves the conversation to questions like, “Have you ever invested in gold?” or “Do you deal in crypto?” The fraudsters are exceptionally skilled at gaining their targets’ trust. Fake investment results are often produced, and dummy account balances reveal spectacular gains. Conversations that began by email on well-known platforms typically are moved, at the fraudster’s request, to other private messaging platforms with less

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controls, like WhatsApp, WeChat, or Telegram. Even minor withdrawals may be fulfilled to continue building trust, as part of the scheme to induce the victims into investing even greater amounts.

But the curtain always falls. Once the victim's financial assets are exhausted or material withdrawals are requested, then the butchering occurs. The victim no longer can contact the perpetrator, log on to the "trading platform," or learn the status of past investments and supposed gains. And nearly always, the money disappears, and the fraudster vanishes without a trace.

Victims of pig butchering may see in hindsight the red flags of fraud they should have noted earlier. Being hard on oneself is natural, but our experience is that even ultra-sophisticated individuals can be victimized by clever fraudsters. For example, in a recent and notorious case, an experienced and respected bank president fell for a pig butchering scam that resulted in over $47 million in losses. [4] While it may be cold comfort to victims, the government's collected information reveals this type of fraud is both frequent and growing in terms of the losses reported and number of victims impacted.

Is There Any Hope? The Tax Consequences Resulting from a Pig Butchering Scam and the Possibility of a Theft Loss Deduction Under IRC § 165

Ultimately, once the victim sees the scheme for the fraud it was and all efforts to recover the stolen monies have been exhausted, the hard financial losses, and commonly the emotional distress, remain. If there is even an ounce of consolation involved, it is that tax counsel and advisors may be able to work with a victim to claim a theft loss deduction under § 165 of the Internal Revenue Code (IRC).

Under IRC § 165(c), taxpayers may deduct any loss sustained in the taxable year resulting from theft if they are not otherwise compensated for the theft and there is no possibility of recovery. For pig butchering scams, this is particularly useful because, under § 165(c)(2), the theft loss deduction must involve a "transaction

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entered into for profit." Again, most pig butchering scams are investment schemes where the taxpayer believes they were funding a legitimate investment opportunity or account. Thus, the taxpayer's investment purpose was for profit, meeting the requirement provided by § 165(c). To contrast, scams not involving a for-profit motive will not qualify for the theft loss deduction under § 165(c).[5] If available, the § 165(c) deduction allows the victim to report reduced total taxable income while also disclosing to the IRS the reason for the deduction, generally through a Form 8275 disclosure.

It is important for taxpayers who have fallen victim to a pig butchering scam to document the events and transactions. This includes capturing the record of all communications with the fraudster, documenting the funds invested and the for-profit expectations of the taxpayer, and memorializing all civil and law enforcement activities taken in the fruitless effort to recover the funds. Moreover, working with tax professionals who understand how these schemes work and who have dealt with the IRS on claiming a theft loss deduction may just be the one proactive step still open to the recently butchered victim, as there are statutory and regulatory guidelines that must be met to successfully claim the deduction.

In today's ever growing cyber fraud environment, it is important to understand the IRC's § 165 and to explore its potential application and tax savings as a means to bring a degree of financial mitigation to the taxpayer, who unfortunately finds him or herself to have been a recently butchered pig.

Please reach out to the author of this article if you have questions or concerns as it relates financial fraud and the potential tax relief offered under IRC § 165. You can also visit our Tax Law Defined® Blog for more insight into the latest developments in federal, state and local tax planning and tax administration.

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[1] *See* Federal Bureau of Investigation, 2024 IC3 Annual Report at 9, *available at* https://www.ic3.gov/AnnualReport/Reports/2024_IC3Report.pdf (last visited Nov. 12, 2025).

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[2] Federal Trade Commission, *New FTC Data Show a Big Jump in Reported Losses to Fraud to $12.5 Billion in 2024, available at* https://www.ftc.gov/news-events/news/press-releases/2025/03/new-ftc-data-show-big-jump-reported-losses-fraud-125-billion-2024 (Mar. 10, 2025) ("Consumers reporting losing more money to investment scams—$5.7 billion—than any other category in 2024.").

[3] *See e.g.*, Dylan Tokar, *Millions Stolen, Death Threats: Should the Banks Do More to Fight 'Pig Butchering'?*, Wall St. J. (July 19, 2025).

[4] *See e.g.,* Jason Alatidd, *Kansas bank CEO, 'pig that was butchered,' sentenced to prison after crypto scam*, Topeka Capital-Journal, *available at* https://www.cjonline.com/story/news/crime/2024/08/20/kansas-banker-shan-hanes-sentenced-to-prison-after-embezzlement-scam/74865509007/ (Aug. 24, 2024).

[5] The IRS Office of Chief Counsel has provided guidance that "romance scams," or scams where a taxpayer gives money to another with a romantic intent and then losses the money as a result of fraud, *are not* for profit and therefore would not be deductible as a theft loss under § 165(c). *See* Chief Counsel Advice (CCA) 202511015.

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