



H.R. 9495, *The Stop Terror-Financing and Tax Penalties on American Hostages Act*

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Background:

- In the wake of Hamas' brutal attack in Israel on October 7, we have seen significant actions in the United States demonstrating support for terrorist organizations. Much of that action has been funded by tax-exempt organizations in the U.S. with some reports of **material support** flowing from tax-exempt groups to designated terrorist organizations.
- At the same time, Hamas is actively holding hostages in Gaza – some of which are American citizens. Americans are held hostage or wrongfully detained across the globe every year.
- However, when these individuals return to the U.S. after being rescued or freed from captivity, they have reported being **subjected to tax bills**, including penalties and interest on taxes that went unpaid while they were held hostage or wrongfully detained abroad.

Issue(s):

- Current law is inadequate for sufficiently cutting off the use of U.S. tax-exempt organizations to support terrorism, and current processes are inadequate, time-consuming, and bureaucratic – often preventing federal authorities from acting.
 - Under current law, an entity's tax-exempt status may be suspended if it is designated by the U.S. Department of State as a terrorist organization, but **current law does not allow the IRS to suspend the tax-exempt status** of organizations identified as having provided material support or resources to a designated terrorist or terrorist-supporting organization.
- Under current law, the Internal Revenue Service (IRS) can provide tax relief to American citizens who are held hostage or wrongfully detained abroad, but that authority is limited in several key ways that adversely impacts hostages or individuals wrongfully detained abroad and their families.
 - Under current law, the **IRS does not have the authority to extend relief to taxpayers beyond one year**, nor does it have a basis for proactively suspending or abating interest for taxpayers who have been wrongfully detained abroad. These limitations also apply to a hostage's spouse.

The Stop-Terror Financing and Tax Penalties on American Hostages Act:

- Aids hostages held abroad and their families by providing the IRS with tools to ensure that American citizens who have been taken hostage or wrongfully detained and their families **do not incur penalties for late tax payments** while they are in captivity.
- This bill also mirrors *H.R. 6408* – a bill that passed the House with overwhelming bipartisan support this April – and addresses abuse of the U.S. tax-exempt sector to support terrorism by **prohibiting organizations from maintaining tax-exempt status** if they are found to have provided material support or resources to a terrorist or terrorist-supporting organization within a three-year period.
 - This bill also establishes procedures for the Secretary of the Treasury to provide notice to those organizations, for organizations to refute the designation, or for the designation to be rescinded.