United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

H.R. 9500, *Tax Relief for Fraud Victims Act*

Background:

- Under current law, **the deduction for personal casualty and theft losses is largely suspended**, unless the loss is attributable to a federally (or in some instances, state) declared disaster.
    - This creates different treatment for taxpayers who suffer losses due to a disaster versus taxpayers who suffer casualty and theft losses, despite the fact that these taxpayers are similarly situated.
- As a result, **many victims of private-sector fraud** – like Ponzi schemes, identity theft, or investment scams – **have no ability to deduct their significant financial losses,** essentially taxing them on the money that was stolen from them.

H.R. 9500, *Tax Relief for Fraud Victims Act*:

- **Repeals limitation on personal casualty losses**, striking the requirement that a loss must be linked to a federally or state declared disaster.
- **Provides flexible reporting for fraud victims**, allowing taxpayers to elect to treat a theft loss as sustained in the year the loss occurred, rather than the year it was discovered.
- **Extends timeframe for victims to file claims for credits or refunds related to theft losses**, ensuring complex fraud cases do not outrun the IRS's standard 3-year window.
- **Provides special rules for distributions** from retirement plans related to fraudulent theft losses, **allowing victims to repay these distributions into an account and seek refunds for taxes previously paid on these distributions**.
- Lastly, **allows fraud-related theft losses to be retroactively deductible** if incurred after December 31, 2020, and **distributions from qualified retirement plans** made after that date **are not subject to additional tax on early distributions**.
- Altogether, **this bill restores fairness** by ensuring the tax code does not penalize victims of crime by treating stolen funds as income **and provides a critical lifeline for seniors and investors** impacted by sophisticated scams by allowing them to recover a portion of those losses through tax deductions.

Endorsed by: AARP; Investment Adviser Association (IAA); Small Business & Entrepreneurship Council (SBE Council); Financial Services Institute (FSI); CFP Board; American Association of Retired Persons (AARP); National Association of Consumer Advocates; 60 Plus Association; National Association of Home Builders (NAHB); Intuit