OLR Bill Analysis

HB 5115

AN ACT ESTABLISHING A PERSONAL INCOME TAX DEDUCTION FOR CERTAIN LOSSES INCURRED AS A RESULT OF CRYPTOCURRENCY INVESTMENT FRAUD OR WIRE FRAUD.

SUMMARY

This bill creates a personal income tax deduction for the amount of a theft loss from cryptocurrency investment fraud or wire fraud that is deductible for federal income tax purposes.

Federal law allows an income tax deduction for certain losses sustained during a taxable year that are uncompensated, such as by insurance. Specifically, for individuals with losses that are not connected with a trade or business, it allows a deduction for:

1. losses incurred in a transaction entered into for profit (26 U.S.C. § 165(c)(2)) and

2. certain other losses not connected to a transaction entered into for profit that are referred to as personal casualty losses (26 U.S.C. §§ 165(c)(3) & (h)(3)(B)).

These two types of losses include losses from theft. By law, "theft" includes larceny, embezzlement, and robbery. The amount of a loss is generally the fair market value of the property when it was stolen (26 C.F.R. §§ 1.165-7 & 1.165-8).

There are several requirements to sustain a theft loss claim. Generally, to do so, a taxpayer must establish that the loss was from an illegal taking of property done with criminal intent that was illegal under the law of the jurisdiction in which it occurred (Internal Revenue Service Revenue Ruling 2009-9).

EFFECTIVE DATE: January 1, 2027, and applicable to tax years beginning on or after that date.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea	34	Nay	20	(03/30/2026)