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TAX PRACTICE GROUP

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A Message from Michael and Kerri

Deducting losses from a disaster

Whether a taxpayer incurs losses from a natural disaster (such as a hurricane, tornado, flood or earthquake) or suffers losses from a fire, accident, theft or vandalism, they may be able to deduct the losses incurred on their federal return through a casualty loss deduction. A casualty loss must be sudden, unexpected or a loss experienced from an unusual event. A casualty loss cannot be taken on normal wear and tear or damage from aging. There are some limitations taxpayers should be aware of before deducting these losses.

If the property damaged was insured, you must file a timely claim for reimbursement of your loss. The loss claimed as a casualty loss must be reduced by any insurance reimbursement. If you do not file a timely claim, you may not deduct the loss as a casualty loss. Taxpayers no longer have an option to take a casualty loss in place of filing a claim with the insurance company.

You must deduct the loss in the year it occurred. An exception to this rule exists for losses from a federally declared disaster area. If this occurs, a deduction can be taken on a return immediately preceding the year of the loss through an amended return.

There are limitations that a taxpayer needs to take into consideration prior to deducting a casualty loss, such as the $100 rule and the 10% rule. Some of the casualty loss rules for business or income property are different than the rules for property held for business.

Please don't hesitate to call us if we can assist with identifying and maximizing these potential tax savings.

All the Best,

Michael S. Resnick Kerri

Michael Resnick and Kerri Rawcliffe
Tax Practice Group
Batchelor, Frechette, McCrory, Michael & Co.

TIPS

- If personal use property, the taxpayer must determine their adjusted basis in the property prior to the casualty. They must also determine the decrease in fair market value, which is the fair market value immediately before the casualty, less the fair market value immediately after the casualty. The loss is calculated as the lesser of the two.
- If personal use property, you must subtract $100 from each casualty loss during the year after deducting any salvage value or insurance reimbursement. The total of all casualty losses in a given year must be reduced by 10% of the taxpayer's adjusted gross income.
- Personal casualty loss deductions are calculated on Form 4684 and deductible on schedule A on Form 1040. Taxpayers who do not itemize their deductions may not be able to take the loss.

Kerri Rawcliffe, Brooke Rossi, and An Le, Senior Vice President at Citizens Bank.

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Other key points to consider when developing your comprehensive tax strategy:

» Businesses that experience a casualty loss are not allowed to consider future loss in profits when calculating their deductible loss.

» Losses incurred from termite damage do not qualify for the casualty loss deduction. These losses would not meet the "suddenness" test necessary to qualify for the deduction.

» Taxpayers may deduct losses to their home, household items or even to a vehicle, whether or not the taxpayer was at fault in the case of an automobile accident.

» Deducting the casualty loss on a return immediately preceding the year the loss incurred may produce a larger tax refund. This can only be done through a declaration of a federal disaster area.

» When a loss involves several items, such as a home destroyed by a fire or flood, the taxpayer must calculate a loss on each item rather than providing an overall estimate.

Return Service Requested