AFTER THE STORM: HOW DO I CLAIM A CASUALTY LOSS?

Expert insights and step-by-step advice on how to claim a casualty loss after unexpected disasters like Hurricanes Harvey, Irma and Maria.

The aftermath of unexpected natural disasters like Hurricanes Harvey, Irma and Maria can be devastating in many ways, impacting individuals, families and communities for years to come. While recovery efforts can take quite a bit of time, there are some immediate steps affected families can take now to try to recover their economic losses. This includes claiming a casualty loss deduction on their federal income tax return.

At The Mather Group, we want to make sure those who need to utilize this tax relief option have all the resources and information they need—including a step-by-step guide on calculating the loss, where and how to deduct, and what documentation you’ll need to provide to your tax preparer.

WHAT IS A CASUALTY LOSS?

A casualty loss can result from the damage, destruction, or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake, or volcanic eruption. A casualty does not include normal wear and tear or progressive deterioration.
CASUALTY LOSS QUICK REFERENCE GUIDE

Use the step-by-step guide below to navigate the casualty loss claim process. If you see a word in bold, check the “Terms to Know” on Page 3 for a deeper dive into the topic.

1. **STEP ONE: GATHER REQUIRED DOCUMENTATION**

   To deduct a casualty loss, you must be able to support the deduction amount and provide information on the type of casualty, when it occurred, proof the loss was a direct result of the casualty, proof you were the owner of the property (or if you leased the property, you were contractually liable to the owner for damage) and whether a reimbursement claim exists with reasonable expectation of recovery. You’ll also need to provide your tax preparer with the following information for each item of personal property that was damaged:

   - The **adjusted basis** of the property (e.g., receipts from improvements)
   - The **fair market value (FMV)** of the property before the casualty occurred (e.g., appraisal report)
   - The FMV of the property after the casualty occurred (e.g., appraisal report)
   - The amount of insurance or other reimbursement received

2. **STEP TWO: CALCULATE THE LOSS**

   To deduct a casualty loss relating to your home, household items and vehicles, you must first calculate the economic loss from the casualty or theft. Generally speaking, losses should be figured separately for each personal property item damaged or destroyed. However, in figuring a loss to personal-use real estate you own, all improvements (such as buildings, trees and the land containing the improvements) are considered together. Here’s how to calculate the loss:

   1. Determine your adjusted basis in the property before the casualty or theft.
   2. Determine the decrease in FMV of the property as a result of the casualty or theft. An appraisal of the property may be required. See Page 3 for more information on the appraisal process.
   3. The amount of your loss is the lesser of your adjusted basis or the decrease in FMV of your property because of the damage. From that smaller amount, subtract any insurance or other reimbursements you received or expect to receive.
   4. Combine the separate property losses to figure the total loss. Then, reduce the total loss by the sum of $100 plus 10% of your adjusted gross income (AGI). If you’re in an area affected by Hurricane Harvey, Irma or Maria, new legislation has been passed that requires a total loss reduction of only $500. The figure you receive after this calculation is considered your “deductible loss.”

3. **STEP THREE: KNOW WHEN & WHERE TO DEDUCT**

   Casualty losses typically should be deducted in the year the casualty occurs. However, in the case of a federally-declared disaster, you do have the option to treat the casualty loss as having occurred in the prior year by filing an amended tax return for that year. To claim a casualty loss on your federal income tax return, you must itemize your deductions using Form 1040, Schedule A, Itemized Deductions. Please note, if you’re in an area affected by Hurricane Harvey, Irma or Maria, new legislation has been approved allowing you to deduct your casualty losses even if you do not itemize. You simply increase your standard deduction by the deductible loss you’ve calculated.
**ADJUSTED BASIS**

Adjusted basis is a measure of your investment in the property. For property you purchase, your basis is generally its purchase price. However, certain events may have happened during the time you owned the property that will result in increases or decreases to the purchase price to determine the adjusted basis. Examples of events that would increase the basis above the purchase price would be additions or permanent improvements. Examples of events that would decrease the adjusted basis would be earlier casualty losses and depreciation deductions. It will be necessary that you locate and retain documentation (i.e., receipts) proving your adjusted basis in the property.

**FAIR MARKET VALUE**

Fair market value (FMV) is the price you could sell your property to a willing buyer, assuming neither of you has to sell nor buy and both of you know all the relevant facts. The decrease in FMV used to figure the amount of a casualty or theft loss is the difference between the property’s FMV immediately before and immediately after the casualty or theft.

To figure the decrease in FMV because of a casualty, you generally need a competent appraisal. An appraisal to determine the difference between the FMV of the property immediately before a casualty and immediately afterwards should be made by a competent appraiser. The appraiser must recognize the effects of any general market decline that may occur along with the casualty. This information is needed to limit any deduction to the actual loss resulting from damage to the property.

**INSURANCE AND OTHER REIMBURSEMENTS**

If you receive an insurance or other type of reimbursement, you must subtract the reimbursement when you figure your loss. You do not have a casualty or theft loss to the extent you are reimbursed.

If you expect to be reimbursed for part or all of your loss, you must subtract the expected reimbursement when you figure your loss. You must reduce your loss even if you do not receive payment until a later tax year.

If your property is a business or income-producing property (such as rental property) and is completely destroyed, the amount of your loss is your adjusted basis.

**PERSONAL PROPERTY**

Personal property is any property that is not real property. If your personal property is stolen or is damaged or destroyed by a casualty, you must figure your loss separately for each item of property.
CASUALTY LOSS RESTRICTIONS

Make sure you’re aware of costs that are not considered part of a casualty loss, as well as exclusions on deductions.

PROPERTY COVERED BY INSURANCE

You may not deduct casualty losses for property covered by insurance, unless you file a timely claim for reimbursement and you reduce the loss by the amount of any reimbursement or expected reimbursement. However, if the amount of the loss on the insured property is equal to or less than your deductible you are not required to file a claim to deduct the loss.

INSURANCE PAYMENTS FOR LIVING EXPENSES

You do not reduce your casualty loss by insurance payments you receive to cover living expenses if you lose the use of your main home because of a casualty, or if government authorities do not allow access to your main home because of a casualty or threat of one.

CLEAN-UP & REPAIR COSTS

Costs associated with repairing damaged property or cleaning up after a casualty are not considered part of a casualty loss. You can use the cost of cleaning up or of making repairs after a casualty as a measure of the decrease in FMV if you meet all the following conditions:

- The repairs are actually made
- The repairs are necessary to bring the property back to its condition before the casualty
- The amount spent for repairs is not excessive
- The repairs take care of the damage only
- The value of the property after the repairs is not, due to the repairs, more than the value of the property before the casualty

NEED MORE HELP?

Contact The Mather Group for a complementary tax analysis based on your specific situation to see if you qualify for a casualty loss claim.

ADDITIONAL TAX RELIEF IS AVAILABLE

If you reside in an area designated by FEMA as qualifying for individual assistance, the IRS has extended the due date for extended 2016 income tax returns to January 31, 2018. The IRS has also extended the due date for third and fourth quarter estimated tax payments to January 31, 2018. More tax relief information can be found here.