

Income Tax Deductions For Property Loss

STEPS TO TAKE AFTER A DISASTER

Property losses from natural disaster are tax deductible. Such deductions, which are allowed for partial or total loss of personal or business property, could greatly reduce the amount of federal income taxes owed for the year the disaster occurred.

RECORDS

If you claim a theft or casualty loss resulting from a disaster you may be asked to show:

- ◆ The kind of disaster and when it occurred;
- ◆ That the damage was a direct result of the disaster;
- ◆ That you were the owner of the property;
- ◆ Your income tax basis in the property. In general, this is the original cost of the property plus the cost of any improvements before the loss, minus depreciation claimed for income tax purposes (for business and rental property);
- ◆ Fair market value before and after the disaster;
- ◆ Any insurance benefits or other compensation received including free repairs, restoration and clean-up from any disaster relief agencies.

Before-and-after photographs, receipts, canceled checks, deeds, purchase contracts and professional appraisals are good supporting evidence for casualty claims.

APPRAISAL

If either personal or business property has been damaged extensively, you should have the property appraised as soon as possible following the disaster. A professional estimate of value will serve as evidence for casualty loss claims. The fee charged is also a deductible item.

ITEMIZING TAX DEDUCTIONS

If you itemize your tax deductions, you may deduct casualty losses from fire, storm, theft or property destroyed by some sudden external force. However, you must reduce the deduction by any reimbursements or payments received to rebuild or restore property.

Specifically, homeowners can claim a casualty loss deduction for the difference between the fair market value of their property before the disaster and after, subtracting insurance proceeds (or other reimbursements they receive to rebuild or restore a home), 10 percent of adjusted gross income and \$100 per disaster event. To document the before- and after-market value of your home, use the most recent assessed value from property taxes for the before-disaster market value and a current appraisal for the after-disaster market value.

If renters make repairs on the property or offer repayment for part of the loss, that too is considered reimbursement and must be subtracted to determine the amount of casualty loss that can be claimed. Grants or other gifts that are specifically designed to repair or replace property must be deducted as well. Homeowners who haven't received a reimbursement, but expect to, will be required to make an estimate of the reimbursement and subtract it. Those who find they overestimated their reimbursements can amend their casualty loss claim in another tax year.

HOW TO FIGURE DEDUCTIONS

The rules for figuring deductions on business or non-business property losses are the same.

Subtract the reduced market value after the disaster from the fair market value before the disaster. For example, on personal property:

Fair market value before	\$75,000
Fair market value after	30,000
Reduction in value (Line 1 minus Line 2)	45,000
Income tax basis (the original cost of property, \$40,000, plus the cost of any pre-disaster improvements, \$15,000)	55,000
Casualty loss (lesser of Line 3 or 4)	\$45,000

The casualty loss deduction is the lesser of the reduction in value or the income tax basis. In the above example, the casualty loss deduction would be \$45,000.

If a business or income-producing property is completely destroyed by a casualty, special rules apply. In such cases, the loss is the income tax basis reduced by any salvage value, insurance or other compensation. If insurance is more than the income tax basis, a taxable gain results.

Additional resources:

Your county Extension office; the Internal Revenue Service, (800) 829-3676 for forms, (800) 829-1041 for the Casualty Loss Department; your local emergency government office, the American Red Cross, the Federal Emergency Management Agency

For more details, contact your local tax representative for advice on figuring these tax loss deductions. To file for casualty loss, use IRS Tax Form 4684 and request an instruction sheet.

Related publications:

IRS Tax Form 4684 and instruction sheet