Rebuilding after the flood

TAX CONSEQUENCES

Casualty Losses – Special Treatment for Federal Disaster Tax Relief

The tax code generally provides for a deduction for individuals as a result of a casualty. A casualty is the damage, destruction, or loss of property resulting from an identifiable event due to some sudden, unexpected, or unusual cause. Each loss is calculated separately and subject to a $100 floor and net losses for the tax year are deductible only to the extent they exceed 10% of the taxpayer's adjusted gross income.

Additionally, an individual cannot claim a casualty loss deduction for damage to insured property unless a timely insurance claim is filed, and a casualty loss is only deductible to the extent it is not compensated for by insurance or otherwise.

Casualty loss deductions are generally required to be taken in the year in which the loss occurred; however, affected taxpayers in a federally declared disaster area have the option of claiming disaster-related casualty losses on their federal income tax return for **either** the year in which the event occurred, **or** the prior year.

Claiming the deductions for disaster losses related to the severe storms and flooding that occurred in 2016 on your 2015 tax return could benefit you. Possible benefits include:

- Quicker tax refund than waiting to claim on your 2016 tax return
- Depending on your personal tax situation, a refund from 2015 may be larger than a refund from 2016
- Reduce your required estimated tax payments for 2016 if based on prior year safe harbor.

The casualty loss is generally the lesser of your adjusted basis or the decrease in the fair market value of the property immediately before and after the flood, reduced by any recovery received. Insurance claims will provide much of the needed information for these calculations. For tax purposes, the loss deduction is limited to $100 plus 10% of your adjusted gross income. If your losses are uninsured:

- Real estate should be appraised, but the costs of restoration may be used as a good faith estimate of the decline in value in lieu of an appraisal.
- For vehicles, Kelly Blue Book (or similar publications) may be a reference for value.
- For personal items (clothing, furniture, etc.) good faith estimates of value may be used. Photos, lists and receipts can be helpful in supporting your loss calculation.

If you have replacement value insurance, the insurance proceeds may be greater than your basis in your property resulting in a gain. Casualty gains may be deferred if insurance proceeds are reinvested in replacement property. Incidental costs related to your recovery such as rent for a temporary residence, vehicle rent, and dining out are not allowed as part of your tax casualty loss.

We are here to help. If you have questions about how this may affect you, contact your Hannis T. Bourgeois advisor for assistance.