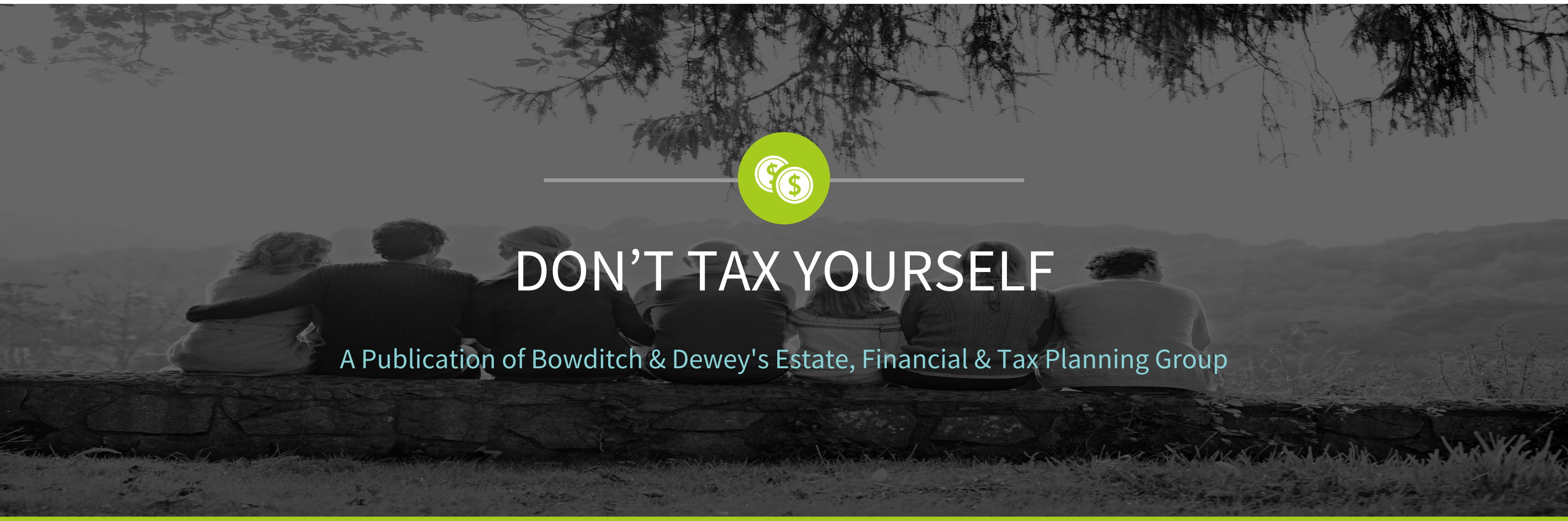

Rebuilding After Hurricanes Harvey and Irma: Recovery Through Tax Deductions

BY SCOTT C. CASHMAN • SEPTEMBER 14, 2017

It is estimated that less than 20% of those affected by Hurricane Harvey, and a week later Hurricane Irma, had flood insurance. Home owner's and renter's insurance policies exclude damage caused by floods. Those affected could be facing catastrophic financial losses. For many, personal savings and federal loan programs may be the only resource available to rebuild. However, the federal tax code may provide many of the victims with some recovery through the tax deduction allowed for casualty and disaster losses.

Taxpayers may deduct on their federal tax returns uninsured casualty and disaster losses sustained for their home, household items, and vehicles. A casualty loss is defined as 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.

Amount of Loss

If the damaged property is personal-use property or isn't completely destroyed, the amount of the casualty loss is the lesser of:

- The adjusted basis of your property (generally the cost), or
- The decrease in fair market value of the property as a result of the casualty

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

The value of any losses are reduced by insurance reimbursements and salvage value.

Claiming the Loss

Individual taxpayers can claim casualty losses as an itemized deduction on Form 1040, Schedule A and Form 4684. Losses for property held for personal use are reduced by $100 from each casualty event that occurred during the year. The loss is further reduced by 10% of adjusted gross income.

When to Deduct

Casualty losses are generally deductible in the year the casualty occurred. However, if the loss is from a federally declared disaster, taxpayers can choose to treat the casualty loss as having occurred in the year immediately preceding the tax year in which the disaster happened, and it can be deducted on the tax return or amended return for the preceding tax year. In the case of Harvey or Irma victims, this means the 2016 tax return. If the 2016 tax return has already been filed, which is likely the case for many victims, an amended tax return can be filed.

Though a casualty loss deduction will not make the victims whole, it may, along with other relief, go a long way toward rebuilding.