



### Hurricane and Earthquake Yield Valuable Tax Deductions

If you had suggested that the North-east would see an earthquake of 5.9 magnitude and a hurricane with 100 mile per hour winds attack the North-east, in the same week no less, people would say you're crazy. But that is exactly what we have had to contend with in the past week. Many of us have had flooded property, downed trees, loss of power, and other physical property damage. Additionally, we have also had to deal with a massive clean up and the inability to communicate via phone or e-mail. Estimates of losses from both of these events are in the billions of dollars.

It is hard to imagine that with all of the partisan bickering occurring in Washington, there may be a silver lining to these natural disasters within the tax code. There is a section in the IRS Code (165) which allows individuals a tax deduction for casualty and theft losses. Many states also allow a tax deduction for these unfortunate events.

A casualty loss is one that arises from an event due to some sudden, unexpected or unusual cause. Taxpayers are allowed a tax deduction for non-business property losses arising from events such as fire, storm, hurricane, flood, earthquake, or sonic boom. While our area has recently experienced several of these events, the amount of the losses are the important things for taxpayers to track at this time.

The amount of a non-business casualty loss is calculated as the difference between the fair market value (FMV) of the property immediately before the casualty event and the fair market value of the property immediately after the casualty event. From that loss, insurance reimbursements must be subtracted. If after insurance reimbursements, there remains a loss, the tax law and its generosity kicks in. The amount of your loss after insurance reimbursement is reportable as a casualty loss and itemized deduction on your tax return. There are however, limitations.

This reportable loss must exceed ten percent of your adjusted gross income as well as a deductible of \$100.

We also remind you that your loss does not simply include physical property damage but also may include the contents of the refrigerator and freezer due to loss of power, which is not ordinarily covered by insurance, as well as the resulting clean-up cost for fallen trees, branches, etc. We always recommend that you take a walk around your property and list all of the items damaged and the resulting cost to repair. It is required to keep receipts and cancelled checks for all of your costs of recovery and to properly document your tax deductible casualty loss.



#### **RECEIVE HELP NOW!**

**If your loss occurs in a Federally Declared Disaster Area, you have the option of claiming a casualty loss in the immediately preceding tax year or in the year of the loss. We can file an amended tax return for you for 2010 to claim this loss, if applicable.**

#### **For Example:**

Water floods your home and destroys everything within your basement. You have limited flood insurance as it was not only difficult to obtain, but costly as well. The value of the contents of your basement, including carpeting, furniture, televisions, office equipment, toys, etc. is \$50,000. You receive a nominal insurance reimbursement of \$10,000. Your adjusted gross income for 2011 is \$200,000. Your tax deductible casualty loss is calculated as follows:

|   |                 |
|---|-----------------|
| FMV of property immediately before casualty:      | \$50,000        |
| Less: insurance reimbursement:                    | <u>- 10,000</u> |
| Net Reportable Loss after insurance reimbursement | 40,000          |
| Less: 10% of AGI (200,000 x 10%)                  | - 20,000        |
| Less: deductible                                  | <u>- \$ 100</u> |
| Deductible Casualty Loss                          | <u>\$19,900</u> |

