Tax Minimizers of Oregon Inc.

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Everyday Advice

Of all debts, men are least willing to pay their taxes.

– Ralph Waldo Emerson

When nature strikes, the tax code offers relief

Hurricanes, earthquakes, tornadoes, wildfires, floods and storms – these natural disasters are responsible for many lives lost, as well as billions of dollars in destruction.

Truth be told, few parts of the country escape the risk of natural disaster. If you're an unlucky victim, you may receive help from insurance and federal disaster aid. But the tax code also offers some relief. You may be able to take an itemized deduction for part of your loss. In tax terms, it's considered a "casualty loss," and it can also apply to events such as a car crash, a house fire or theft. Here are the basics:

Sudden, unexpected events

Casualty loss can result from the damage, destruction or loss of your property from unexpected and unusual events. This means that losses due to slow deterioration over the years (e.g., rot, rust or insect damage) don't qualify.

Reimbursements and tax deductions

Your tax deduction won't equal your total loss. You'll need to subtract any insurance or other reimbursement when determining the value of your loss. That includes reimbursement payments that may not be made until the next tax year. Some of the most common types of reimbursement are employer emergency disaster funds, cash gifts and insurance payments for living expenses.

After you subtract reimbursements and/or insurance payments, you'll also need to deduct $100 for each total loss event (not each piece of property that was lost in one event) and 10 percent of your adjusted gross income.

Basis adjustment

Your loss may also be limited by your adjusted basis in the property. That's generally what you paid for it, plus or minus any additions and improvements, or previous losses – including prior casualty losses and depreciation deductions.

Disaster classification

In a widespread disaster, the area may be classified as a "federally declared disaster area." If that happens, you have two choices. You can claim your casualty loss against the current year's taxes. Or you can amend the previous year's return and claim your loss against that year's taxes. If you do this, the loss will be treated as if it happened in the previous year. It may result in a lower tax for that year that could produce a refund, but it may also change the amount of your deduction.

If you suffered a casualty loss, please contact us. We'll help you claim the maximum possible tax benefit. ♦

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