

Income Tax Deductions for Property Loss

Steps to take after the disaster

Property losses from natural disasters 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 tax owed for the year the disaster occurred.

Records

A variety of records are required when claiming a theft or casualty loss resulting from a disaster.

- The kind of disaster and when it occurred
- The damage was as direct result of the disaster
- Ownership of the property
- Income tax basis in the property (usually the original cost of the property plus the cost of any improvements before the loss, minus depreciation claimed for income tax purposes.
- 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, cancelled checks, deeds, purchasing contracts and professional appraisals are good supporting evidence for casualty losses.

Appraisals

Badly damaged business or personal property should be appraised as soon as possible. A professional estimate of value will serve as evidence for casualty loss claims. The appraisal fees are deductible.

Itemizing Tax Deductions

Casualty losses are deductible when deductions are itemized. Losses from fire, storm, theft or property destroyed by some sudden external force. The deduction must be reduced by any reimbursements or payments to rebuild or restore property.

Homeowners can claim a casualty loss deduction for the difference between the fair market value of the property before the disaster and after, subtracting insurance proceeds for other reimbursements received to rebuild or restore a home, 10% of adjusted gross income and \$100 per disaster event. To document the before-and after-event value of a 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.

Grants, gifts specifically designed to repair or replace property must be deducted as well. If reimbursement has not been received at the time of filing, homeowners are expected to estimate the amount of the reimbursement.

Consult a local tax advisor and refer to current Internal Revenue Service instructions for figuring tax loss deductions. Use IRS Tax Form 4684 and information sheet to file casualty loss.

Additional Resources

- Internal Revenue Service
800-829-3676
www.irs.gov
- Local Emergency Government office
- American Red Cross
- Federal Emergency Management Agency (FEMA)