# Casualty Loss Tax Deduction

In the wake of Hurricane Harvey, many Houstonians have suffered significant losses including their homes and vehicles. Some of these residents may have the appropriate insurance coverage to help recover from these losses, but many do not. In either case, taxpayers may utilize the casualty loss deduction on their tax return to help recoup some of their losses. This article is to help taxpayers understand more about the casualty loss deduction, how the deduction is calculated and when to claim the deduction in order to maximize their benefit.

**Casualty Loss Background**

Publication 547 issued by the Internal Revenue Service defines a casualty as "the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected or unusual." Some examples of casualty events include earthquakes, fires, floods, hurricanes, tornados, and more. Casualty losses are reported on Form 4684, Casualties and Thefts; section A is used for personal use property (i.e. personal residence and contents within) and section B is used for business and income-producing property (i.e. rental properties). The resulting loss from Form 4684 will flow to Schedule A for 1040 filers, Itemized Deductions, line 20.

Because these losses can be significant in nature, it is advisable for taxpayers to get the appropriate appraisal done to attach to Form 4684, Casualties and Thefts, and establish the amount of the casualty loss. The appraisal should show the fair market value of the property prior to the casualty event and immediately after.

**Casualty Loss Calculation**

The amount of the casualty loss is the lesser of the adjusted basis of the property prior to the casualty loss or the decrease in the property's fair market value due to the casualty. To determine the deduction reported on Schedule A, we must determine the casualty loss and reduce it by the amount of insurance proceeds received or expected to receive. Once the loss is reduced by the insurance proceeds received, it is then reduced by $100 as well as 10% of the taxpayer's adjusted gross income (AGI). The result is the amount that is deducted on Schedule A, Itemized Deductions, line 20.

**When to take Casualty Deduction**

Typically, casualty losses are deducted in the year in which they occur. However, if a casualty loss occurs in a federally declared disaster area, then the taxpayer may elect to declare the loss in the preceding year. Federally declared disaster areas are listed on FEMA's website at www.fema.gov. When determining which year to claim the loss in, it is important to consider which year the taxpayer has a lower AGI, which will help maximize the deduction. Should the taxpayer choose to claim the casualty loss in the year preceding the event and a return has already been filed, the return may be amended to include the loss and refund taxes paid.

Further legislation could be issued by Internal Revenue Service that may address the contents in this article. We recommend taxpayers that believe they have suffered significant losses due to Hurricane Harvey to discuss this matter with their tax advisor to properly claim the deduction and maximize their benefit. Please contact Kelly Broadbent, CPA at Melton & Melton, LLP should you have additional questions 281-759-1120.