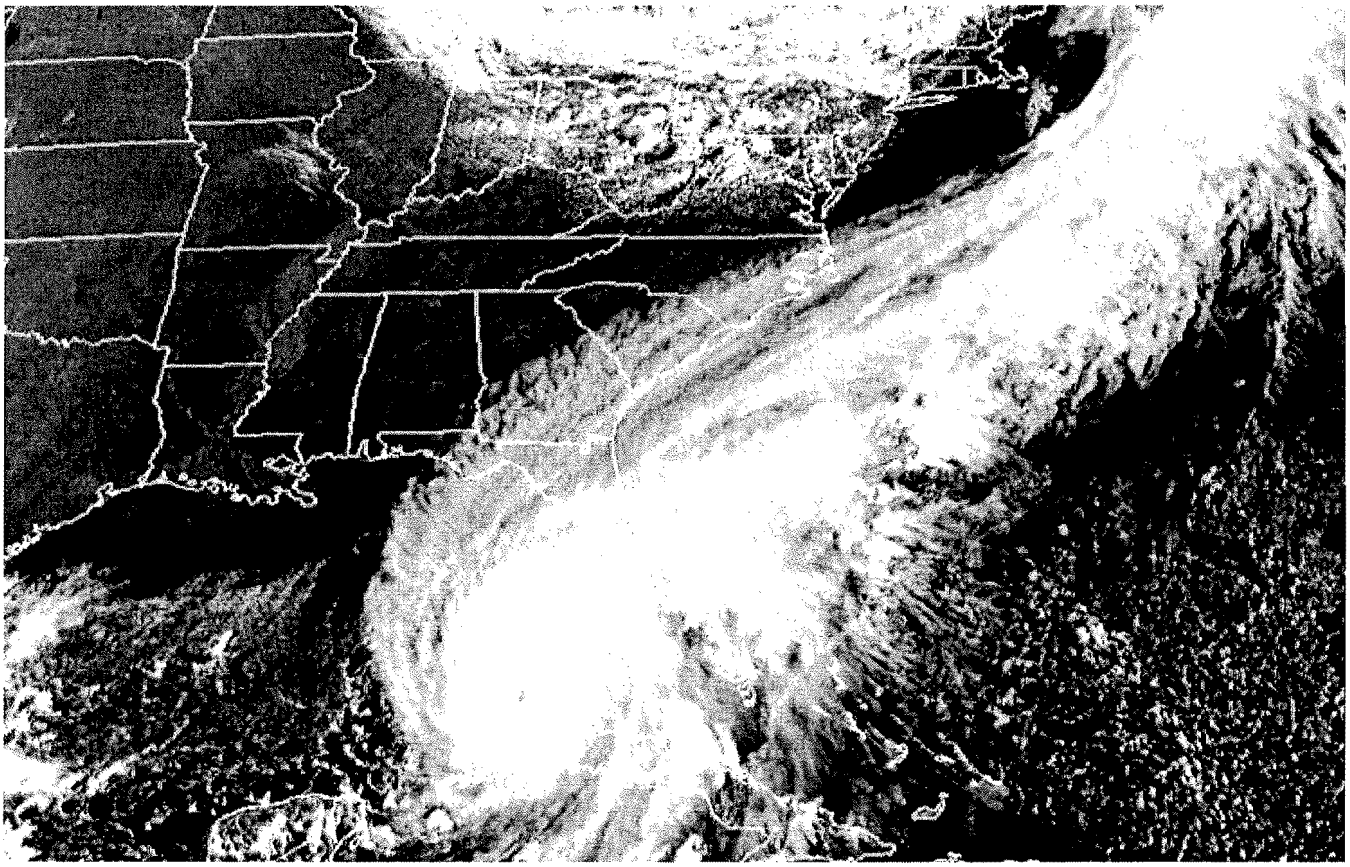
CPA
Practice Advisor

TAX

Hurricane Ian and Taxes: How CPAs and Tax Pros Can Help Their Clients

With the IRS providing tax relief for victims of Hurricane Ian, CPAs and other advisors are likely to get hit with questions. Here's everything you need to know to help your impacted clients get the financial relief they need.

Daniel F. Rahill, CPA, JD, LL.M., CGMA • Oct. 13, 2022



In the wake of the damage caused by Hurricane Ian, the IRS announced that victims impacted by the disaster now have until Feb. 15, 2023, to file various individual and business tax returns and make payments. Qualifying

individuals and households include those that reside or have a business anywhere in the states of Florida, South Carolina, and Georgia.

Many CPAs and other financial advisors likely have clients that own properties or businesses in these states. To help you navigate any questions that arise from these clients, here's a rundown on the postponed deadlines, available tax relief, and more.

Postponed Tax Deadlines

Deadlines falling on or after Sept. 23, 2022, and before Feb. 15, 2023, are postponed through Feb. 15, 2023. This includes individuals who had a valid extension of Oct. 17, 2022, to file their 2021 return. However, the actual tax payments originally due on April 15 aren't eligible for any relief. The Feb. 15, 2023, deadline also applies to:

- Quarterly estimated tax payments originally due on Jan. 17, 2023.
- Quarterly payroll and excise tax returns originally due on Oct. 31, 2022, and Jan. 31, 2023.
- Businesses with an original or extended due date, including calendar-year corporations whose 2021 extensions run out on Oct. 17, 2022.
- Form 5500 Series returns that were originally due on or after Sept. 15, 2022, and before Feb. 15, 2023 (in the manner described in Section 8 of Rev. Proc. 2018-58).
- Like-kind exchange properties for certain taxpayers who aren't otherwise affected taxpayers (this may include acts required to be performed before or after the period above).

The postponement, however, doesn't apply to information returns in the W-2, 1094, 1095, 1097, 1098, or 1099 series; Forms 1042-S, 3921, 3922, or 8027; or employment and excise tax deposits. However, penalties on payroll and excise tax deposits due on or after Sept. 23, 2022, and before Oct. 11, 2022, will be abated as long as the tax deposits were made by Oct. 11, 2022.

If an affected taxpayer receives a late filing or late payment penalty notice from the IRS that has an original or extended filing and payment or deposit due date that falls within the postponement period, the taxpayer should call the telephone number on the notice to have the IRS abate the penalty.

The IRS tries to automatically identify taxpayers located in the covered disaster area and applies filing and payment relief. But affected taxpayers who reside elsewhere or have a business located outside the covered disaster area should call the IRS disaster hotline at 866-562-5227 to request this tax relief.

How to Report Your Client's Casualty Losses

Individuals in a federally declared disaster area whose homes or personal belongings are destroyed or damaged by a hurricane may deduct personal property losses that aren't covered by insurance or other reimbursements. For those impacted by Hurricane Ian, the loss must stem from the declared disaster areas in Florida, South Carolina, and Georgia.

For property that's partially destroyed, the amount of your client's hurricane loss is the smaller of the following two amounts:

1. **Adjusted basis:** You must determine the "adjusted basis" in your client's property before the hurricane. Typically, the adjusted basis is the amount your client paid for the property. It increases over time for any additions or improvements made and decreases through depreciation.

2. **The decline in fair market value:** You must determine how the "fair market value" of your client's property declined as a result of the casualty. The IRS considers the fair market value the price at which a property could be sold to a willing buyer in the open market. For example, if the property would've sold at $25,000 before the casualty but now sells for $10,000 after the casualty, then the decline in fair market value is $15,000.

Once you've determined the smaller loss amount, any insurance or reimbursement received or expected to be received needs to be subtracted,

resulting in a final casualty loss figure for tax purposes.

Generally, any hurricane losses that occur within the taxable year are reported on federal income tax return Form 4864, Casualties and Thefts. The IRS requires a taxpayer to subtract $100 from their reported losses involving personal-use property. The total of all casualty losses for the year must then be reduced by 10% of the taxpayer's adjusted gross income. To report the total loss on your client's tax return, you must itemize deductions on Form 1040, Schedule A and include the deduction on this form.

If you have a **qualified disaster loss, however,** you may elect to deduct the loss without itemizing your deductions. Your net casualty loss doesn't need to exceed 10% of your adjusted gross income to qualify for the deduction, but you would reduce each casualty loss by $500 after any salvage value and any other reimbursement.

A taxpayer can claim a hurricane loss resulting from a federally declared disaster on their tax return foreither the year the disaster occurred or the year preceding the disaster. However, there's limited time for claiming the casualty loss on the prior year's tax return. A taxpayer has six months from the original due date for the prior year's return to be amended and deduct the loss. For example, a taxpayer would only have until Oct. 18, 2022, to amend a 2021 tax return for a casualty loss that occurs in 2022.

Qualified Disaster Relief Payments

A qualified disaster relief payment is any amount paid to or for the benefit of a person to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses that are a result of a qualified disaster.

Employers can pay qualified disaster relief payments to employees under Internal Revenue Code Section 139 and treat them as deductible expenses for the employer that the employee or independent contractor won'thave to include in income. The employer will be able to deduct the expense and won't

have to pay employment taxes, workers compensation, unemployment compensation, or pension contributions on the amount paid.

This provision can apply to payments made to an owner or relatives of the owner of an S corporation or a C corporation. It may not apply to payments made by a partnership to a partner, but if the partner puts their partnership interest into an S corporation before the payment is made, then it may qualify.

In addition, amounts paid to reimburse or pay for reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence or the repair or replacement of the contents of a personal residence or vacation home that's attributable to the disaster may also qualify as long as the loss isn't reimbursed by insurance or other sources. Additionally, the amounts received as Section 139 payments can't be deducted as casualty losses.

Anyone impacted by a hurricane knows that the property damage and destruction is just part of the challenge; rebuilding can take a tremendous emotional and financial toll. During these difficult times, CPAs and other advisors can help ease their clients' financial burdens by calculating and providing necessary documentation to ensure they receive all available tax relief.

======

Illinois CPA Society member Daniel F. Rahill, CPA, JD, LL.M., CGMA, is a managing director at Wintrust Wealth Management. He's also a former chair of the Illinois CPA Society Board of Directors and a current board member of the American Academy of Attorney-CPAs.

Tax • Taxes • Internal Revenue Service (IRS) • Article • hurricane • Hurricane Ian • hurricane tax relief • hurricane taxes • Income Taxes • Internal Revenue Service • Taxes

as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

A Guide to Casualty Loss Rules for Those Impacted by Hurricane Ian

By W.G. Spoor October 5, 2022

If you were affected by Hurricane Ian, here's what you need to know about Casualty Loss rules and your taxes.

What is a casualty loss?

A casualty loss results from a sudden, unexpected or unusual event. In computing casualty losses, it is necessary to determine the type of property involved since the tax treatments for personal property and business-use property differ.

How does someone claim a qualified personal casualty loss?

A casualty loss deduction for non-business property is claimed as an itemized deduction. Casualty losses can be deducted either: (1) on the original return for the year of the loss, or (2) on an amended return filed for the tax year immediately preceding the year in which the disaster occurred (Sec. 165(i)(1)). Victims should consider reducing their remaining current-year estimated tax payments or withholding in anticipation of a current-year casualty loss deduction.

Can a taxpayer deduct a personal casualty loss?

To deduct a casualty loss, the taxpayer must first calculate the loss and then determine any limits on the amount of the loss that may be deducted.

Claiming the Loss

Individuals may claim their casualty and theft losses as an itemized deduction on Schedule A. For property held by you for personal use, you must subtract $100 from each casualty or theft event that occurred during the year after you've subtracted any salvage value and any insurance or other reimbursement. Then add up all those amounts and subtract 10% of your adjusted gross income from that total to calculate your allowable casualty and theft losses for the year.

If you have a qualified disaster loss you may elect to deduct the loss without itemizing your deductions. Your net casualty loss doesn't need to exceed 10% of your adjusted gross income to qualify for the deduction, but you would reduce each casualty loss by $500 after any salvage value and any other reimbursement. Hurricane Ian should qualify as a qualified disaster loss, although he IRS instructions have not been updated yet.

How does a taxpayer determine the amount of the casualty loss?

adjusted basis in the property before the event (Regs. Sec. 1.165-7(b)(1)).

How is the decrease in FMV determined?

The decrease in FMV is the difference between the property's value immediately before and after the casualty (Regs. Sec. 1.165-7(b)(1)(i)).

To calculate the decrease in FMV caused by a casualty, determine the actual price that the property could have sold for immediately before and after the loss. The worksheets in IRS Publication 584, Casualty, Disaster and Theft Loss Workbook, and IRS Publication 584B, Business Casualty, Disaster and Theft Loss Workbook, provide assistance with the loss calculation.

The IRS issued Rev. Proc. 2018-08 and Rev. Proc. 2018-09 to provide safe harbors for the calculation of the decline in the FMV of the property.

Find guidance for estimating real property casualty losses in the FAQs of SSTS No. 4, Use of Estimates – Casualty Losses of Real and Personal Property.

How is the adjusted basis determined?

The basis for casualty loss purposes is the same as the basis that would be used for calculating gain or loss on the sale of the property. Various events may take place that change the basis of ownership during the period the property is owned. Some events, such as additions or permanent improvements to the property, increase the basis. IRS Publication 551, Basis of Assets, provides more information on calculating basis.

How does insurance and other reimbursements affect the calculation of the casualty loss?

Only losses that exceed what was reimbursed by insurance are deductible. If the reimbursement exceeds the tentative loss, the taxpayer may have taxable income. If the property is covered by insurance, file a timely insurance claim for reimbursement of a loss. Otherwise, no deduction as a casualty loss is allowed.

What changes related to casualty losses resulted from the Tax Cuts and Jobs Act?

For tax years beginning after Dec. 31, 2017, and ending before Jan. 1, 2026, personal casualty losses will be allowed as a deduction only to the extent they are attributable to a federally declared disaster (Sec. 165(h)(5)). The president of the United States makes the determination on the federally declared disaster by determining that the area warrants assistance by the federal government.

Back to posts

Advice

Email

Subscribe

St. Petersburg Location
377 Executive Center Drive West
Suite 100
St. Petersburg, FL 33702
(727) 888-9200

Tampa Location
1501 W Cleveland Street
Suite 300
Tampa, FL 33606
(813) 351-2411

Email
info@jebic.com

Fax
727-565-3116

NOVEMBER 1, 2022

How to Claim Losses on Your Tax Return Due to Hurricane Ian

Authored by Amanda Wilhelm, CPA | Director, SC&H Financial Advisors, Inc.

Hurricane Ian destroyed a great deal of property along the East Coast with estimates of damage in the multiple billions. If you own property in Florida, North Carolina, or South Carolina, you may be wondering what you can do to recover your losses brought upon by Ian.

It is possible that you qualify for federal disaster aid, including tax relief. Read on to discover the details and what you need to consider in order to recover some of your losses.

What Is Considered a Hurricane Loss by the IRS?

In the event of a hurricane, you may claim a casualty loss on your tax return if your home or belongings are damaged or destroyed. Casualty losses differ from normal wear and tear or deterioration. The IRS classifies casualty loss as the damage or destruction from any sudden, unusual, or unexpected event, like:

- Floods
- Tornadoes
- Fires
- Earthquakes
- Hurricanes

For tax years 2018 to 2025, in order to claim a casualty loss from hurricane damage, your prope be in an area that is declared a federal disaster. Hurricane Ian was quickly declared as a disaster by

President Biden, and the IRS has announced that tax relief is available for victims of this hurricane in Florida, North Carolina, and South Carolina.

How to Determine the Amount of Loss

To determine the amount of casualty loss to claim, you must first perform two calculations: the adjusted basis and the decline in fair market value.

1. **Adjusted basis:** First, you need to calculate the adjusted basis of your property before the damage. This means the amount you originally paid for the property, along with any associated commissions, taxes, or other expenses connected to the purchase. This basis will decrease through natural deterioration or can increase if you have improved the property. *If you didn't pay for the property but received it as a gift or inheritance, you may need to calculate the adjusted basis differently and should* ***contact one of our tax professionals***.

2. **Decline in fair market value:** According to the IRS, fair market value means the price at which a willing buyer would purchase your property on the market. The decline in fair market value is the difference between what a buyer would pay before and after the damage from the hurricane.

Once you have both the adjusted basis and the decline in fair market value, choose the smaller amount as your hurricane loss. Once you subtract any reimbursement or insurance payments from this number, you will have the total loss to use on your tax return.

How to Report a Casualty Loss to the IRS

To report the losses from Hurricane Ian, use IRS Form 4864, "Casualties and Thefts." This form will take you through the process of completing your claim step by step.

Here are some things to know about claiming losses.

- If the property is not used for business or as an investment, it is classified as personal-use property. With personal-use property, you must subtract $100 from the casualty losses you reported. You must also subtract 10% of your adjusted gross income (AGI) from the total of all your casualty losses for the year.
- Once you have completed Form 4864 and calculated the total of casualty losses, you mu e this deduction on Form 1040, Schedule A. Itemized deductions are qualified expenses th e your taxable income.

- For some losses, these rules will not apply, and you should consult a tax professional to assist you with calculating them.

When Should You Claim a Casualty Loss on Your Tax Return?

You have two choices when you're claiming losses on your tax return. You can claim the loss on either:

1. The disaster year
2. The year preceding the disaster

If you choose to treat your damage as having occurred in the previous year, you can claim the loss on the return or an amended return for that year, which may either reduce your taxes for the previous year or generate a tax refund. You will have six months from the prior year's return to amend it.

The aftermath of a hurricane can be a very stressful situation to navigate. If you need help, **SC&H is here to guide you** through this difficult time so you can recover as much as possible.

Author - Michael A. Izott

NOVEMBER 16, 2022

IRS Releases Guidance for Hurricane Ian Tax Relief

As we all know, Hurricane Ian was one of most devastating and deadliest storms in U.S. history. It also ranks as one of the most expensive, with countless victims experiencing losses now estimated at over $80 billion. For the many Weiss clients among those affected, [illegible] guidance from the IRS concerning losses and relief is especially newsworthy. Weiss Senior Tax Manager Michael Izott offers the following summary:

Casualty Loss

The Internal Revenue Code allows taxpayers in federally declared disaster areas to claim disaster-related casualty losses (i.e., qualified disaster loss) either in the year of the disaster or in the prior year. Consult with your Weiss tax advisor to determine which outcome is more favorable under your specific circumstances.

Individuals may deduct personal property losses that are not covered by insurance or other reimbursements, such as payments from the taxpayer's employer. The affected taxpayer must take into account reimbursements from federal or state programs to restore lost property.

Note that a qualified disaster loss also includes personal-use property that was subject to theft in the disaster area for the covered period.

Although the 2022 instructions have yet to be finalized, the IRS has historically allowed claim for qualified disaster loss for those who do not itemize deductions. Additionally, unlike other casualty losses, a qualified disaster loss does not need to exceed 10% of your adjusted gross income to qualify for deduction; however, the typical $100 limit per casualty is increased to $500. For those who do not itemize deductions, an increased Standard Deduction is available for qualified disaster losses. We await the 2022 instructions for final guidance on the loss limitations for the 2022 tax year. In the meantime, keep track of your unreimbursed property losses.

Deferred Gain on Casualty Loss

If insurance or other reimbursement is greater than the cost or other basis of your personal, trade, or business property, you have a taxable gain. If the replacement property is similar to the property destroyed in the disaster, no gain is recognized and the basis in the new property is the same as your basis in the destroyed property. However, you must recognize gain if you receive unlike property (including money) as reimbursement. The rules allow the gain to be postponed or eliminated if the reimbursement is used to acquire like property within 2 years.

If you own or rent your primary residence within the Disaster area, special relief is available. The rules are more favorable for losses related to your primary residence. You may postpone gain from the receipt of insurance or other reimbursement for your primary residence for 4 years (expanded from 2 years for other personal, trade, or business property).

Furthermore, for contents of the home that are not scheduled on your insurance policy (so-called "unscheduled property") there is no tax gain recognized for insurance proceeds for those contents. For scheduled property (such as a coin collection or fine art) insurance proceeds that pay for replacement property are taxable only to the extent that such payments exceed the cost of the replacement property.

The tax planning and timing of this election is critical. Work with your Weiss tax advisor at the earliest opportunity to make the appropriate elections to postpone these insurance gains.

Administrative Fees

Taxpayers who have lost tax records may request copies of previously filed tax returns and the IRS will waive the normal fees for those who reside, or whose records reside, in the affected Disaster area.

Although [illegible] provides relief for affected taxpayers, and the Internal Revenue Service assures us that affected taxpayers will be afforded relief, we expect that taxpayers will receive many notices related to late or missing tax filings and payments. Please work with your Weiss tax advisor to communicate with the IRS so that your tax accounts are well maintained with the IRS through the period covered by the Disaster relief.

About Weiss & Company

Innovative and flexible like the best boutique firms, with the broad selection of services of larger firms, Weiss & Company delivers solutions precisely tailored to your needs.

Categories

Accounting & Controllership Services

Advisory

Audit & Assurance

Covid-19

Employee Benefit Plan Audits

Experienced Professional Testimonials

Family Office

Intern/First Year Testimonials

Tags

Stay Connected

Newsletter Signup

For the latest financial news you can use, subscribe to our company newsletter, The Weiss Advisor

SIGN UP NOW

[illegible]

[illegible] which provides relief provisions related to FEMA disaster declaration number [illegible], was released in October, 2022 and covers tax deadlines falling on or after September 23, 2022 and before February 15, 2023.

Individuals, households, and businesses, including tax-exempt businesses, affected by Hurricane Ian that reside or have businesses anywhere in the state of Florida qualify for relief. All Florida counties are covered by the notice.

Taxpayers who are not in the covered disaster area, but whose books and records are maintained in Florida, are likewise eligible for relief.

For example, due to the extended deadlines, individual taxpayers who had a valid extension until October 17, 2022 to file their 2021 return will now have until February 15, 2023 to file. Note that tax payments related to the 2021 return were due April 18, 2022 and are therefore not covered by this extension.

Likewise, businesses with an original or extended due date, such as a calendar-year corporation whose 2021 extensions expired on October 17, 2022, also have the additional time.

However, tax payments that were due within the September 23, 2022 to February 15, 2023 time window do qualify for the extended due date of February 15, 2023. Consequently, the following tax payments are granted a new February 15, 2023 deadline:

2022 Q4 Estimated Tax Payments normally due January 17, 2023

Quarterly Payroll Tax Returns normally due October 31, 2022 and January 31, 2023

Excise Tax Returns normally due on October 31, 2022 and January 31, 2023

Taxpayers who receive a late-filing or late-payment penalty notice due to the extended due date can [illegible] to abate the penalty.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Weiss & Company LLP

Certified Public Accountants & Advisors

ARTICLES

CONTACT US

First name*

Last name*

Email*

How can we help you?*

Submit

SIGN UP FOR OUR NEWSLETTER

RECENT ARTICLES

UPDATE: IRS Delays Reporting Requirement for Transactions Involving Venmo and other Payment Apps by Savannah Snow, CPA

Podcast – BPB Knows Gift Planning for International Families

IRS Announces Inflation-Adjusted Individual Tax Rates for

TAX TREATMENT OF CASUALTY LOSSES AND CASUALTY GAINS FROM HURRICANES IAN, FIONA BY ARTHUR J. LIEBERMAN

Posted on November 02, 2022 by Art Lieberman

Taxpayers are often unaware of how the tax code treats property damage and losses they sustain from natural disasters, such as the recent hurricanes across Florida, the Carolinas and Puerto Rico. Many taxpayers are also surprised to learn that when insurance proceeds or other recoveries exceed the tax basis of damaged property, they may incur a taxable casualty gain. Under these circumstances, it is possible for taxpayers to defer, and in some cases avoid, these tax liabilities when they follow the letter of the law.

WHEN SHOULD TAXPAYERS CLAIM DISASTER LOSSES

Taxpayers that suffer personal or business casualty losses in a jurisdiction that the federal government declares to be a disaster area (i.e., eligible for federal disaster relief by FEMA) have two options for potentially deducting uninsured and unreimbursed casualty losses. They may either 1) claim the losses on a tax return for the year in which the losses occurred (e.g., 2022 for victims of Hurricane Ian and Hurricane Fiona), or 2) elect to deduct the casualty losses on an original or amended return for the tax year immediately preceding the disaster (e.g., 2021 for victims of Hurricane Ian and Hurricane Fiona).

CATEGORIES

The best option for you will depend on your filing status, your taxable income and other deductions available to you. Claiming a disaster loss in the year *before* the casualty event occurred will typically result in an expedited tax refund that you may use to pay for immediate repairs and rebuilding expenses. However, deducting the loss in the year in which it occurred may be more favorable if you expect to be in a higher tax bracket that year.

Generally, the IRS provides those affected by federally declared disasters with some form of tax relief. For example, victims of hurricane Fiona in Puerto Rico and Hurricane Ian across Florida, North Carolina and South Carolina now have until February 15, 2023, to meet various tax-filing and -payment obligations with original deadlines occurring between September 17, 2022, (for Hurricane Fiona) or September 23, 2022, for Hurricane Ian) and February 15, 2023. This is welcome news for eligible taxpayers and their tax advisors who now have more time to evaluate their options and decide if they should claim disaster losses on their 2022 tax returns without having to go back and amend their 2021 returns.

CALCULATING CASUALTY LOSSES

For personal-use property, such as a primary residence, taxpayers may calculate their casualty losses by subtracting any insurance proceeds or other forms of reimbursement they receive (or expect to receive) from *the lesser of:*

- The decrease in the property's fair market value (FMV) as a result of the casualty; or
- The adjusted basis in the property before the disaster event, which can be calculated as the owner's original cost to acquire the property plus closing costs and capitalized improvements, minus depreciation deductions, previously received insurance and other reimbursements and previous casualty loss deductions.

Generally, you may deduct casualty losses related to personal-use property as an itemized deduction, but you must first reduce these casualty losses by:

- 10 percent of your adjusted gross income, and
- $100 per casualty event.

An exception to this rule exists for casualty losses to businesses and income-producing properties. Under these circumstances, you may determine your deductible losses by subtracting from that amount any insurance proceeds or other forms of reimbursement you receive (or expect to receive) as well as any salvage value from the property's adjusted basis before the casualty event.

TREATMENT OF VARIOUS PAYMENTS AND REIMBURSEMENTS

Insurance proceeds taxpayers receive for insured losses generally reduce the amount of casualty loss deductions they may claim. However, this is not usually t

case when taxpayers receive insurance payments to cover the living expenses they incur due to the loss of use of their primary homes or their inability to access their homes due to government restrictions.

Disaster-related assistance that taxpayers receive in the form of food, medical supplies and other forms of assistance typically do not reduce the amount of casualty losses they may claim, unless those items replace lost or destroyed property. Still, taxpayers who receive certain qualified disaster-relief payments related to repairs or replacement of destroyed property (e.g., home repair assistance and home replacement assistance payments received from FEMA under the Individuals and Households Program) must reduce the amount of any casualty loss related to the damaged or destroyed residence.

Taxpayers who recover deductible casualty losses in earlier years must report those recovery amounts as gross income in the year of receipt. However, this applies only to the extent that the original casualty-loss deduction actually reduced the taxpayer's income tax in the year in which it was reported. If the amount of the future year recovery is greater than the amount of the original casualty loss deduction, the taxpayer must generally reduce the basis in the property by the amount of the excess. Additionally, if a required basis reduction exceeds the taxpayer's remaining basis in the property, the taxpayer may recognize a taxable gain. As discussed in more detail below, some or all of this gain may be excluded or deferred under other provisions of the tax code.

SUBSTANTIATING CASUALTY LOSS DEDUCTIONS

Property owners have two options for determining the FMV before and immediately after a casualty event. They may hire a professional and competent appraiser who will assess the affected property in comparison with other similar properties. The appraiser should take into consideration the effects of any general market decline that may occur along with the casualty in order to limit the casualty loss deduction to the actual loss resulting from damage to the property.

Alternatively, taxpayers may rely on receipts for repairs to damaged property as evidence of a loss, as long as those repairs meet the following criteria:

- The repairs are necessary to restore the property to its condition before the casualty,
- The repairs are only for the damage suffered by the casualty,
- The amount spent on repairs is not excessive, and
- The value of the property after the repairs is not, due to the repairs, more than its value immediately before the casualty.

Taxpayers who have insurance must file a timely formal claim with their insurance providers, regardless of whether it puts them at risk of increased premiums or dropped coverage in the future.

It is recommended that taxpayers expecting to claim casualty losses take photos and/or videos of damaged property (e.g., roofs, windows, landscaping, fences, screening, etc.) as soon as possible after incurring a loss. Such photos and videos may be helpful if the IRS requests proof that property incurred damages as a direct result of a casualty event (such as a flood or a hurricane), as opposed to some form of "progressive deterioration" of property that may have occurred over time, such as steady weakening of a building due to normal wind and weather conditions.

Keeping good records of all repairs and insurance reimbursements is also important. Taxpayers should be prepared to demonstrate their ownership of the property, the amounts of original basis and adjusted basis in the property, the property's fair market value before the casualty event and the loss in value resulting from the casualty event.

BE MINDFUL OF CASUALTY GAINS THAT MAY BE TAXABLE

When taxpayers receive insurance proceeds or other payments that exceed their adjusted tax basis in damaged and/or destroyed property, they are generally treated as having realized a gain for tax purposes (known as gain from an involuntary conversion). This result will likely surprise many taxpayers who may feel that they had not gained anything economically. The tax code provides some assistance by allowing property owners to defer some or all of these casualty gains under the involuntary conversion rules. Also, where the property that suffered the casualty loss is a taxpayer's principal residence, there is an opportunity for the taxpayer to completely avoid some or all of the gain.

To postpone recognition of tax on gain from an involuntary conversion, taxpayers may make a timely Section 1033 election to use insurance proceeds to restore a property, reinvest in qualified replacement property that is similar or related in use, or replace involuntarily converted property held for business or investment with "like-kind" property. Generally, taxpayers can defer a realized gain only to the extent that they actually reinvest the proceeds in qualified replacement or like-kind property within two years after the close of the first tax year in which they realize any part of the casualty gain, or three years for real property held for productive use in a trade or business and for investment that has been condemned by local authorities due to storm damage. However, the replacement period is further extended to four years for a taxpayer's principal residence located in a federally declared disaster area. The IRS can also grant an additional discretionary extension of replacement period (usually limited to a period of one year or less) if the taxpayer applies for an extension before the end of the regular replacement period.

If the property damaged by the casualty is the taxpayer's principal residence, he or she generally may exclude from gross income casualty gains of up to $250,000 ($500,000 for married couples) under the rules that apply to sales or exchanges of principal residences. However, if the casualty gain on a home exceeds the amount of the principal residence exclusion, the taxpayer defer the excess amount unde the involuntary conversion rules discussed above.