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## K R P   N E W S   B U L L E T I N

# Deductions For Casualty Losses

During the last couple of months, the United States has suffered a number of natural disasters, including tornados and flooding. These disasters have caused damage to property resulting in losses in the millions of dollars. In the midst of such losses, the tax code provides some relief in the form of the casualty loss deduction.

In general, a deduction on your income tax return is allowed for a loss sustained if the loss arises from storm, flood, fire, or other casualty. The first step in calculating the deduction establishes the amount of the actual loss sustained.

The loss sustained is the lesser of a taxpayer's basis in the property (usually the purchase price) or the decline in value the property experiences as a result of the casualty. This loss must be reduced by any amount of insurance or other reimbursement you expect to receive for the casualty. Any documentation pertaining to the basis of property, including improvements or depreciation should be stored in a safe place.

Second, a decline in value a property experiences as a result of a casualty must be evaluated. This calculation is not as definite as the determination of basis. The value of property is identified for these purposes as the price at which a willing seller would sell to a willing buyer with full disclosure.

If available, appraisals are very useful in determining the difference between the value of the property immediately before a casualty and the value immediately afterwards. If property has recently been purchased, appraisals used in the purchase process may be a good measure of the value of the property prior to a casualty.

If an appraisal is not available, a taxpayer may be able to determine the decline in value based on the cost of cleaning up or making repairs to the property. The cost of cleaning up and making repairs are not part of a casualty loss. Rather, these costs may be used as a measure of the decline in value if repairs are actually made; the repairs are necessary to bring the property back to its prior condition; the amount spent on repairs is not excessive; the repairs take care of the damage only; and the value of the property after the repairs is not more than the value of the property before the casualty.

Accurate records are essential to the calculation and substantiation of the deduction, therefore it is important to preserve documents that contain the information required. A casualty loss is reported on Form 4684, *Casualties and Thefts*. In order to complete this form, a taxpayer will need the following information for each separate property for which a casualty loss deduction is claimed:

1. Date of casualty
2. Description of property damaged
  - Type
  - Location (city/town, county, state)
  - Date acquired
3. Basis of property
4. Insurance or other reimbursement (whether or not a claim was filed)
5. Value of property immediately before casualty
6. Value of property immediately after casualty

It is important to make a detailed list of all personal property that you abandoned.



The treatment and timing of a casualty loss deduction may vary based on your specific circumstances. However, any taxpayer whose property was damaged or lost in a federally declared disaster area may elect to take a deduction now by amending their 2010 tax return. You would be able to access those funds now; or, you can take the deduction in your 2011 income tax return.

Other conditions may also apply, so in order to process a casualty loss deduction accurately. Give us a call so that we can discuss your particular tax situation.

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