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## K R P   N E W S   B U L L E T I N

# Deductions For Casualty Losses

Throughout 2011, the United States has been impacted by a number of natural disasters resulting in significant losses for businesses and individuals. Unfortunately, Siouland has suffered its share of these losses related to the flooding of the Missouri and other rivers in the area. 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.

A decline in value a property experienced as a result of a casualty must be evaluated. This calculation is not as definite as the determination of basis. It is important to note that only the decline in value that is a direct result of the casualty is allowed as a casualty loss. Declines in value that are attributable to general market decline (i.e. temporary buyer resistance, threat of future casualties) are not deductible as a casualty loss.

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 obtained to determine the decline in value, the appraisal must distinguish between the decline in value as it relates to damage directly resulting from the casualty and general market decline, as any decline due to the latter is not deductible as part of the casualty loss.

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.

Certain expenses are excluded from the casualty loss deduction altogether. These types of expenses, which are generally preventative in nature, do not qualify as casualty losses because they are deemed not to be damage that is a direct result of the casualty event. Examples of such expenses are temporary housing, moving and storage costs, insurance premiums on policies covering damaged property, and construction (and removal) of temporary or permanent flood walls.

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:

King, Reinsch, Prosser & Co., L.L.P.  
712-258-5550  
krpinfo@krpcpa.com

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

**For more information about King, Reinsch, Prosser & Co., L.L.P., please visit our website at [www.krpcpa.com](http://www.krpcpa.com).**

It is important to make a detailed list of all personal property that you abandoned. Please see IRS Publication 584 and 584-B for schedules (for individuals and businesses, respectively) that can be used to list property and support the amount of casualty loss to be reported on Form 4684. These Publications can be found in electronic format on our website.

The treatment and timing of a casualty loss deduction may vary based on your specific circumstances and whether the property was personal or business-use property.

Currently, there is legislation pending in Congress related to casualty losses occurring in federally-declared disaster areas. If passed, taxpayers who have suffered casualty losses in such disaster areas would benefit from the elimination of certain limitations on casualty losses and would have the ability to deduct the casualty loss on their 2010 tax return (by filing an amended return).

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