Sample article for organizations to use to reach customers (964 word count)

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Helpful tips for deducting casualty and theft losses

Generally, you may deduct casualty and theft losses relating to your home, household items, and vehicles on your federal income tax return. You may not deduct casualty and theft losses covered by insurance, unless you file a timely claim for reimbursement and you reduce the loss by the amount of any reimbursement or expected reimbursement.

Disaster Area Losses — A federally declared disaster is a disaster that occurred in an area declared by the president to be eligible for federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. It includes a major disaster or emergency declaration under the Act. See Publication 547, Casualties, Disasters, and Thefts, for more information.

Insurance or Other Reimbursements

You must reduce the loss, whether it is a casualty or theft loss, by any salvage value and by any insurance or other reimbursement you receive or expect to receive. The adjusted basis of your property is usually your cost, increased or decreased by certain events such as improvements or depreciation. For more information about the basis of property, refer to Publication 551, Basis of Assets. You may determine the decrease in fair market value by appraisal, or if certain conditions are met, by the cost of repairing the property.

Here are some helpful tips about deducting casualty losses:

- **Casualty loss —** You may be able to deduct losses based on the damage done to your property during a disaster. A casualty is a sudden, unexpected or unusual event. This may include natural disasters like hurricanes, tornadoes, floods and earthquakes. It can also include losses from fires, accidents, thefts or vandalism.

- **Normal wear and tear —** A casualty loss does not include losses from normal wear and tear. It does not include progressive deterioration from age or termite damage.

- **Covered by insurance —** If you insured your property, you must file a timely claim for reimbursement of your loss. If you don’t, you cannot deduct the loss as a casualty or theft. You must reduce your loss by the amount of the reimbursement you received or expect to receive.

- **When to deduct —** As a general rule, you must deduct a casualty loss in the year it occurred. However, if you have a loss from a federally declared disaster area, you may have a choice of when to deduct the loss. You can choose to deduct the loss on your return for the year the loss occurred or on an amended return for the immediately preceding tax year. Claiming a disaster loss on the prior year's return may result in a lower tax for that year, often producing a refund.

- **Amount of loss —** You figure the amount of your loss using the following steps:

    - Determine your adjusted basis in the property before the casualty. For property you buy, your basis is usually its cost to you. For property you acquire in some other way, such as inheriting it or getting it as a gift, you must figure your basis in another way. For more see Publication 551, Basis of Assets.

    - Determine the decrease in fair market value, or FMV, of the property as a result of the casualty. FMV is the price for which you could sell your property to a willing buyer. The decrease in FMV is the difference between the property's FMV immediately before and immediately after the casualty.

    - Subtract any insurance or other reimbursement you received or expect to receive from the smaller of those two amounts.

- **$100 rule —** After you have figured your casualty loss on personal-use property, you must reduce that loss by $100. This reduction applies to each casualty loss event during the year. It does not matter how many pieces of property are involved in an event.

- **10 percent rule —** You must reduce the total of all your casualty or theft losses on personal-use property for the year by 10 percent of your adjusted gross income.

- **Future income —** Do not consider the loss of future profits or income due to the casualty as you figure your loss.

- **Form 4684 —** Complete Form 4684, Casualties and Thefts, to report your casualty loss on your federal tax return. You claim the deductible amount on Schedule A (Form 1040), Itemized Deductions.

- **Business or income property —** Some of the casualty loss rules for business or income property are different than the rules for property held for personal use.

- **Theft losses —** A theft is the taking and removal of money or property with the intent to deprive the owner of it. The taking must be illegal under the law of the state where it occurred and must have been done with criminal intent. The amount of your theft loss is generally the adjusted basis of your property because the fair market value of your property immediately after the theft is considered to be zero.

You can call the IRS disaster hotline at 866-562-5227 for special help with disaster-related tax issues. For more on this topic and the special rules for federally declared disaster area losses see Publication 547. You can get it and IRS tax forms on IRS.gov/forms at any time.

Posted: July 1, 2016

NOTE TO EDITOR: Below are links to help taxpayers find the information they need.

Additional IRS Resources:

- Disaster Assistance and Emergency Relief for Individuals and Businesses
- Tax Topic 515 - Casualty, Disaster and Theft Losses
- Frequently Asked Questions for Disaster Victims
- Tax Relief in Disaster Situations
- Publication 2194, Disaster Resource Guide for Individuals and Businesses
- Publication 584, Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- Publication 584-B, Business Casualty, Disaster, and Theft Loss Workbook