



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224

OFFICE OF THE CHIEF COUNSEL

April 18, 2011

Number: **2011-0036**
Release Date: 6/24/2011

CC:ITA:B04
CONEX-110699-11

UIL: 61.00-00

The Honorable Charles E. Grassley
United States Senator
150 1st Avenue NE, Suite 325
Cedar Rapids, IA 52401

Attention:

Dear Senator Grassley:

I am responding to your inquiry dated March 03, 2011, submitted on behalf of your constituents, [redacted] and [redacted], and [redacted] took a casualty loss deduction on their federal income tax return for the destruction by flood of rental property they owned. In 2010, they received a lump-sum payment for the loss on their rental property. [redacted] and [redacted] asked about the tax treatment of the lump-sum payment they received.

On three occasions, [redacted], of this office, spoke with [redacted] about her concerns. They discussed the casualty loss deduction rules and the tax treatment of the subsequent lump-sum payment. [redacted] was satisfied with the conversations. Additionally, the Internal Revenue Service has addressed this issue on-line at www.IRS.gov under FAQs for Disaster Victims - Taxable State Recovery Payments. I am enclosing a copy of these FAQs.

I hope this information is helpful. If you have any questions, please contact me or [redacted] at [redacted].

Sincerely,

Michael J. Montemurro
Branch Chief, Branch 4
(Income Tax & Accounting)

Enclosures