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CASUALTY LOSSES
By: PATTY WARD, EA

Many people in the Midwest recently sustained casualty losses due to storms, flooding and tornadoes. Taxpayers who suffered casualty losses may be able to deduct their losses on their tax returns. The amount of the casualty loss is the lesser of:

- your cost basis in the property before the casualty occurred, OR
- the decrease in the fair market value of the property.

This amount must then be reduced by any insurance reimbursement that you either received or expect to receive.

There are limitations on the amount of the casualty loss you can claim. If you are claiming a loss for personal use property, such as a residence, you must first reduce the loss by $100 per incident and then reduce that amount by 10% of your adjusted gross income. If one incident causes damage to more than one piece of property (say, a house and a car), there is only one $100 reduction. Losses on business use property are not subject to the $100 or 10% reduction.

If you deduct a casualty loss in one year based on an expected insurance reimbursement and the actual reimbursement in the next year is more or less than expected, you may have income or an additional casualty loss to report in that year.

For those taxpayers who reside in an area that is a federally declared disaster area, the casualty loss deduction can either be taken on the tax return for the year the loss occurred or on the return for the prior year.

If you or someone you know has suffered from a casualty loss, give us a call and we'll help you determine if you have a casualty loss deduction and how to maximize it.