Casualty Losses

What is a casualty loss?

A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected or unusual. Some examples of these events would be fires, floods and storms including hurricanes and tornados. Expenses incurred can include physical damage to property as well as relocation costs. Generally these expenses are deductible in the taxable year that the loss occurred.

How do I claim the loss?

You must be able to prove the loss occurred and support the amount deducted in order to claim it on your tax return. Here are the key items to identify:

- The type of casualty (car accident, fire, storm, etc.) and when it occurred.
- That the loss was a direct result of the casualty.
- That you were the owner of the property, or if you leased the property from someone else, that you were contractually liable to the owner for the damage.
- Whether a claim for reimbursement exists for which there is a reasonable expectation of recovery.

Where is this loss reported?

A casualty loss is reported on Form 4684 and Schedule A of your individual tax return.

Form 4684 provides the framework for calculating the amount of the deductible loss. For this calculation, you must provide the following amounts:

1) Your adjusted basis in the property before the casualty loss.
2) The decrease in the fair market value of the property as a result of the casualty loss.
3) Using the smaller of the amounts from items 1) and 2), subtract any insurance or other reimbursement you have received or expect to receive.

Gain from reimbursement: If your reimbursement is more than your adjusted basis in the property, you have a gain. If you have a gain, you must ordinarily report the gain on your destroyed property if you receive money as reimbursement.

Business or income-producing property: If you have business or income-producing property, such as rental property, and it is completely destroyed, the decrease in FMV is not considered. Your loss is figured by taking your adjusted basis in the property and subtracting any salvage value and insurance reimbursements received or expected to be received.

Additional calculation rules: Your casualty loss must be reduced by $100 after the initial calculation described above. Then, the loss is also reduced by 10% of your adjusted gross income.

How will this impact my tax liability?

After being calculated on Form 4684, the amount of your casualty loss is then reported with your other itemized deductions on Schedule A.

NOTE: Qualified disaster relief payments you receive for expenses you incurred as a result of a federal declared disaster are not taxable income to you.