What you need to know about dis[illegible] related casualties and your personal [illegible]

In addition to the tragedy of lost lives and injuries, Superstorm Sandy caused billions of dollars in property damage. Sadly, disasters occur every year in America. If you're unlucky enough to suffer a disaster-related casualty, there are some important things you should consider discussing with your professional tax advisor about the federal income tax implications, including deductions for personal casualty losses. Here are some commonly asked questions:

Can I deduct my losses on my taxes?

Generally, **casualty losses** are deductible during the taxable year that the loss occurred.

What is a casualty [illegible]?

It is the damage, destruc[illegible] property resulting from a[illegible] that is sudden, unexpected [illegible]sual. A sudden event is one that [illegible] not gradual or progressive. An un[illegible] is one th[illegible]ily unanti[illegible] unin[illegible] unusual event is [illegible] is [illegible]ay-to-day [illegible] an[illegible] is [illegible]pical [illegible] hic[illegible] w[illegible]ty losses ca[illegible] number [illegible]erent causes, including earthq[illegible] floods and storms such as [illegible] tornadoes. Deductible [illegible] also can result from government-ordered demolition or relocation of a home that is unsafe to use because of a disaster.

What losses are not deductible?

A casualty loss is not deductibl[illegible] damage or destruction is ca[illegible] progressive deterioration [illegible] of damage from corr[illegible] wall. [illegible] property due to p[illegible] deterior[illegible] generally not deduc[illegible] because the [illegible]age res[illegible]adily operatin[illegible] norm[illegible]ther than [illegible]ent.

What [illegible]me[illegible] is [illegible]ssar[illegible] dea[illegible]

[illegible]ould [illegible]ow the type of [illegible]/car acc[illegible]ire, s[illegible]m, theft, et[illegible]en it occurr[illegible] that the loss was a [illegible]lt of t[illegible] casualty; that you [illegible]ere the [illegible]er of the property or, if you [illegible]he prop[illegible] from someone else, that [illegible]e contractually liable to the owner f[illegible]e damage; and whether a claim for reimbursement exists for which there is a reasonable expectation of recovery. It is important that you have records that will prove your deduction. If you do not have the actual records to support your deduction, you can use other satisfactory evidence to support it.

How do I dete[illegible] the [illegible]eduction a[illegible]?

[illegible]ermin[illegible]duction for a casualty [illegible]ust first figure your loss. [illegible]nt of your loss using the fo[illegible]ps:

1) Determine your adjusted basis in the property before the casualty or theft.

2) Determine the decrease in fair market value (FMV) of the property as a result of the casualty or theft.

Fair market value is the price for which you could sell your property to a willing buyer when neither of you has to sell or buy and both of you know all the relevant facts. The decrease in FMV used to figure the amount of a casualty or theft loss is the difference between the property's fair market value immediately before and immediately after the casualty or theft.

(continued on reverse)

(continued from front)

3) From the smaller of the amounts you determined in (1) and (2), subtract any insurance or other reimbursement you received or expect to receive. For personal-use property and property used in performing services as an employee, make sure you apply the deduction limits to determine the amount of your deductible loss. In figuring a casualty loss on personal-use real property, the entire property (including any improvements, such as buildings, trees and shrubs) is treated as one item. Figure the loss using the smaller of the following: the decrease in FMV of the entire property or the adjusted basis of the entire property.

Is there anything that would reduce my deduction amount?

If you receive an insurance or other type of reimbursement, you must subtract the reimbursement when you figure your loss. You do not have a casualty or theft loss to the extent you are reimbursed. Moreover, if your property is covered b[illegible] you must file a timely in[illegible] reimbursement of your lo[illegible]erw[illegible] cannot deduct this loss as a[illegible]y or the[illegible]

There are, however, some limiting deduction limit rules for personal-use and employee property that may substantially diminish your deduction. The deduction for casualty and theft losses of employee property and personal-use property is limited. A loss o[illegible] employee property is subject to the 2[illegible] rule, and with certain exceptions, a loss [illegible] property you own for your pers[illegible]e is subject to the $100 and 10 [illegible] Under the $100 rule, yo[illegible] casualty or theft loss b[illegible] when [illegible] your deduction. A[illegible]ule to p[illegible] use property after y[illegible] amount of y[illegible] loss. [illegible]cent rule, you [illegible]uce yo[illegible]lty or the[illegible]cent o[illegible]d gross i[illegible] rule to [illegible] use prop[illegible]er y[illegible]e each [illegible] $100 (the [illegible]ule)[illegible]e 2 percent [illegible]u mu[illegible]ce y[illegible]sualty or [illegible] 2[illegible]t of yo[illegible]djusted gross [illegible]com[illegible] to property you used [illegible]forming[illegible] an employee after [illegible]figured [illegible]moun[illegible]f your loss an[illegible] to your job[illegible]penses and most other [illegible]ous i[illegible]mized deductions. As [illegible]result o[illegible]se rul[illegible], many disaster victims [illegible]ualify f[illegible] any personal casualty loss [illegible]fs.

For ex[illegible]und[illegible]destroye[illegible] your pl[illegible]o lost so[illegible] boating equ[illegible]e storm[illegible]s was $5,000 o[illegible]d $[illegible] the equipment. [illegible]pany reimbursed you $4,[illegible]amage to your boat. You had no i[illegible]nce coverage on [illegible]e equipment ([illegible]on you). Your casualty [illegible] from a[illegible]ent and the $100 [illegible]li[illegible]igure your loss before [illegible]percent rule as follows: boat $[illegible]act insurance $4,500, loss after reimb[illegible]ment: $ 500. Equipment $1,200, loss after reimbursement $1,200. Total loss: $1,700. Subtract $100. Loss before 10 percent rule: $1,600.

Where can I get additional information on this?

For additional details, see IRS Publication 547 (Casualties, Disasters and Thefts) at www.irs.gov. If you have big losses or big insurance payments, strongly consider hiring a tax professional to review these complicated rules and prepare your return. It could be money well-spent. Meanwhile, we wish you the best of luck in the recovery process.