



Casualty Loss Deductions



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A casualty loss can result from the damage, destruction or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado or fire. A casualty does not include normal wear and tear or progressive deterioration.

SITUATION

Elroy paid \$150,000 for his home (\$20,000 for the land and \$130,000 for the house) and spent an additional \$40,000 for a dock on the lake. This year a flood destroyed the dock and eroded the backyard of his home.



An appraiser valued the property as a whole at \$200,000 before the flood, but only \$150,000 after the flood. Therefore, the starting point for determining Elroy's casualty loss deduction is \$50,000.

CALCULATION

Decrease in Fair Market Value	\$	50,000
Reduction		(100)
		<hr/>
		49,900
Less: 10% of AGI (\$100,000)		(10,000)
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Available for Loss	\$	<u>39,900</u>

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Generally you may deduct casualty losses relating to your home, household items and vehicles on your Federal income tax return. The loss must be reduced 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.

If your property is personal-use property or is not completely destroyed, the amount of your casualty loss is the lesser of:

- The adjusted basis of your property, or
- The decrease in fair market value of your property as a result of the casualty

If your property is business or income-producing property, such as rental property, and is completely destroyed, and the fair market value of the property before the casualty is less than the adjusted basis of the property, then the amount of your loss is your adjusted basis.

Individuals are required to claim their casualty losses on Form 4684 and take the loss as an itemized deduction on Schedule A of Form 1040. For property held by you for personal use, once you have subtracted any salvage value and any insurance or other reimbursement, you must subtract \$100 from each casualty event that occurred during the year. Then add up all those amounts and subtract 10% of your adjusted gross income from that total to calculate your allowable casualty losses for the year.

Casualty losses are generally deductible in the year the casualty occurred. However, if you have a casualty loss from a federally declared disaster that occurred in an area warranting public or individual assistance (or both), you can choose to treat the loss as having occurred in the year immediately preceding the tax year in which the disaster happened, and you can deduct the loss on your return or amended return for that preceding tax year.