

Most homes are under-insured in disasters

Replacing or repairing your home and its contents after fire, vandalism or theft could prove an expensive undertaking. Therefore, no family money

Good records helpful in event of theft

Common sense dictates that quick reporting of burglaries maximizes the chances of recovery. If your home is the one out of six that will be robbed this year, you should support your insurance claims with detailed records which can also support tax deductions taken for unrecovered theft losses.

In most cases, you can't deduct the total value of possessions stolen, but you can lessen the final amount of your loss. Start by reporting the robbery to both the police department and your insurance company. Their records of your report are helpful, especially if the theft loss is questioned. Generally, deductions aren't allowed for misplaced or lost valuables.

Keeping a complete, up-to-date inventory of your possessions and their value makes reporting easier. In addition, many insurance companies provide special inventory forms for descriptions, purchase dates and pieces of the items in your home. This should be updated whenever you acquire new possessions or when something you own appreciates in value. The list should not be kept with your valuables where it, too, might be taken.

Once you've determined for all missing items, you can determine the total amount of your loss. The amount of the tax deduction you take depends on the worth of the item and the amount of any reimbursement you receive from insurance and any other source. You must subtract an additional \$100 for each theft before you claim a tax deduction. So if you have a theft loss of

\$600, and the insurance company reimburses \$400, your deduction is \$100.

THE FORMULA To determine the deduction use the lower of the fair market value and the adjusted basis of the property. From this total, subtract the insurance reimbursement and \$100.

The fair market value of the item is the price at which it could be sold. Your deduction might be limited for uninsured loss on theft of valuable property with low purchase price. That's because the lower of the fair market value and the cost basis is used.

In addition, you can report and deduct all losses in the year which they occur. But if you deduct a theft loss in one year and receive compensation the next year, you must report the compensation as income.

Even if your property is recovered, you might still be eligible for a tax deduction if the property lost value while it was missing. The deduction, in such cases, is the difference in fair market value after the theft and either the fair market value before the theft or your cost basis. For example, if your stolen car is returned a year later with an extra 20,000 miles of use, its value is probably lower. You can take a theft-loss deduction for the difference.

Repair and replacement costs, however, are not deductible. So if the car is denied you can't deduct what it would cost to fix it.

Police say one theft occurs every 10 seconds, and they concede only 70 percent are preventable.

management program is complete unless it includes a sensible plan to protect against such losses.

Most people know insurance can protect against emergencies, but do you know how much your home and possessions are worth — and how much it would cost to replace them?

Inflation may well have driven up prices on your silverware, electronic appliances and art objects, which are the items thieves covet most, so that you are woefully underinsured. Before you take any other steps, check your insurance to be sure the coverage is adequate.

Information on policies and their costs are available from insurance firms, but the coverage and replacement of lost items has tax implications that should be considered as part of your money-management plans.

Insurance people will tell you there are two ways to cut insurance costs. First, shop around. Companies that sell directly to consumers usually offer lower premiums. But, on the other hand, agents who handle two or more companies might be able to recommend a package better suited to your needs. Whomever you buy from should be familiar with replacement costs.

The second way involves accepting larger risks yourself by agreeing to higher deductibles. While a \$100 or \$250 deductible is standard, higher deductibles will lower your premiums.

If you are in a high tax bracket, you could also benefit from higher deductibles. Unreimbursed losses are tax deductions, while insurance premiums are not. So, if you are in the 50-percent bracket and pay \$1,000 insurance premium, with a \$100 deductible, your

entire premium is paid in before-tax dollars as an out-of-pocket, non-deductible expense.

To decide how much insurance you need, figure the total replacement value of your home, not the current market value, which is likely to be less. Insurance experts urge you to insure for the full replacement value, but policies are available to cover a percentage of the replacement value.

For example, if your home costs \$50,000 to replace, a 100-percent coverage would reimburse you for the full \$80,000. If your home were insured for only \$48,000 or 60 percent of its replacement value, you would receive \$32,000 less than you need to rebuild your home after a total loss.

Full coverage has another feature you should think about. As long as you insure at least 80 percent of the total

replacement value, chances are that your policy will cover partial losses in full. So, in a situation where the partial loss totals \$15,000, 80-percent insurance will provide reimbursement of \$15,000 and not \$12,000.

Personal property inside your home is covered as a percentage of your insurance. But the actual cash value is usually the guiding factor, not the replacement cost. Actual cash value is calculated as the original cost minus depreciation, which lessens your coverage.

Try to keep pace with inflation once you have determined how much insurance you need. Inflation-guard endorsements increase the amount of your coverage each quarter. Of course, any additional protection will increase your premium, but insufficient insurance can be costlier in the end.

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