

# Tax breaks ease pain of disasters

Catastrophes such as floods, hurricanes and tornadoes may do more than wreak havoc on your house. They can also throw you into a financial turmoil. To help put victims of catastrophes on the road to recovery, Congress offers some valuable tax breaks.

The Michigan Association of CPAs explains that you can qualify for an itemized deduction on your tax return if the damage to your property was caused by a sudden, unexpected or unusual event, such as lightning, storms, fires and even car accidents. For example, if during a storm a tree falls on your roof, the damage would be considered a deductible casualty loss because the event was sudden.

Deductions are not allowed, however, for damage that results from normal wear and tear or conditions that occur steadily over a period of time, such as rust or corrosion. So, for example, if your 20-year-old roof started to leak on a typical rainy day, the cost incurred to repair or replace the roof would not be considered a deductible casualty loss because the damage to the roof doesn't meet the suddenness requirement. The damage in this case would be

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viewed as the result of gradual and progressive deterioration. The tax law also disallows casualty losses for items such as jewelry or money that you simply misplace. Also, you cannot claim a casualty loss for investment losses resulting from a drop in the value of securities you own.

Casualty losses are allowed in the event of a bank failure. If your bank is insolvent or bankrupt and you lose money because your deposits weren't insured, you can choose to treat the loss as a casualty loss in the year when the loss amount can be reasonably estimated.

Even if you qualify for a casualty loss deduction, you can't write

off your entire loss. You must first reduce your loss by any reimbursement you receive from your insurance company. The amount of any uninsured loss must then be reduced by \$100. If you're unfortunate enough to be hit by more than one flood or casualty during the year, keep in mind that the \$100 rule applies to each separate casualty event.

You then can deduct only losses for the year that exceed 10 percent of your adjusted gross income (AGI). For example, suppose your roof and windows are destroyed in a storm and it costs you \$5,000 to replace them. For tax purposes, you would first reduce the \$5,000 by \$100. If your AGI is \$40,000, you can then deduct only that portion of the loss exceeding 10 percent of your AGI, or \$4,000. In this case, you may deduct \$900. The 10-percent rule applies to your total losses during the year, after each one has been trimmed by \$100.

In estimating the damage to your property, don't automatically assume that you can deduct its replacement cost. For tax purposes, the amount of your loss is the lesser of the difference between the fair market value of the

property immediately before and after the casualty, or the adjusted basis of the property before the casualty.

Here's an example. A fire in your house destroyed computer equipment you had bought for your children. You spent \$6,000 on the computer system six years ago. However, its fair market value before the casualty was only \$3,000. You are therefore entitled to a deduction of \$3,000 less \$100, assuming this amount exceeds 10 percent of your AGI.

Generally, you must claim your loss on your tax return for the year in which the loss occurred. However, if you suffer property damage in a federally-declared disaster area, you may obtain an immediate tax refund by amending the previous year's tax return.

Finally, the MACPA points out that it's your responsibility to prove the extent of your loss in the event of an IRS audit. Before and after photographs of the property, repair bills, insurance reports and written appraisals should be carefully filed. It's also wise to hold on to any newspaper accounts of the accident or event that caused your loss.

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