

Itemized Deductions

Casualty and Theft Losses



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ACCOUNTANTS AND ENROLLED AGENTS

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Federally-Declared Disaster Areas

A personal casualty loss is deductible (subject to limitations) only if such loss is attributable to a federally-declared disaster.

A federally-declared disaster is any disaster determined by the President of the United States to warrant assistance by the federal government. For areas that have been determined to be federally-declared disaster areas, go to www.fema.gov/disasters.

Exception: A personal casualty loss not attributable to a federally-declared disaster may offset a personal casualty gain.

Deductible Losses

Calculating a Loss

To determine the deduction for a casualty or theft loss, first calculate the loss.

Amount of loss. Use the following steps to calculate the loss.

- 1) Determine the adjusted basis in the property before the loss.
- 2) Determine the decrease in fair market value (FMV) of the property as a result of the casualty or theft.
- 3) From the smaller of the amounts determined in (1) and (2), subtract any insurance or other reimbursement received or expected to be received.

Business and income producing property. The decrease in FMV is not considered in calculating the loss for property that is stolen or completely destroyed.

Loss Limitations

\$100 limit. Reduce each casualty or theft loss event by \$100. If multiple pieces of property are damaged in a single event, a single \$100 reduction applies.

10% AGI limit. Reduce the total of all casualty or theft losses by 10% of the taxpayer's AGI. Apply this limit after reducing each loss event by \$100.

Qualified disaster losses. Qualified disaster losses are personal casualty losses resulting from federally-declared disasters that occurred in 2016, as well as certain 2017 qualified disasters, including Hurricane Harvey and Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, and the California wildfires. Qualified disaster losses also include the following federally-declared disasters that occurred:

- Between January 1, 2018 through January 19, 2020, and
- Between January 1, 2020 through February 25, 2021 except for a major disaster declared because of COVID-19.

Special tax relief applies to qualified disaster losses.

When to Deduct Losses

Generally, casualty or theft losses are deductible in the later of:

- The tax year the casualty occurred or the theft was discovered.
- The tax year the reimbursement amount (if any) can reasonably be determined, or it is determined that no additional reimbursement will be received.

However, a disaster loss may be treated differently.

Election to deduct disaster loss in preceding year. You may elect to deduct a casualty loss from a federally-declared disaster in the tax year immediately preceding the disaster year. Election must be made within six months after the regular due date (without extensions) for filing the original return for the disaster year.