

Getting Your Taxes Done in 2006 — Determining If You Have A Tax Deductible Casualty Loss

If you were directly impacted by one of the Hurricanes last year, one of the most significant challenges you will face when completing your taxes in 2006 is determining whether you have a deductible casualty loss. To properly determine the deductibility of a casualty loss you must answer a series of questions and secure documentation to support your answers. The following information will assist you in determining whether you have a deductible casualty loss and if you should take the time to secure additional information to support your loss:

1. Were you affected by Hurricanes Katrina, Rita, or Wilma? If yes, you may be eligible for some special tax benefits. See Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma, for more information.
2. Did you experience a loss of personal (furniture, car) or real (home) property as a result of the hurricanes? (If yes, make a list of the property lost or damaged).
3. What was the fair market value of the property you lost prior in the hurricane? In the case of casualty loss computations, the term fair market value means the price you could get for your property from a willing buyer if neither of you had to sell nor buy and both of you knew all the relevant facts. In determining the fair market value of your property the following items are not considered:
 - a. Your cost to replace the property lost
 - b. Your cost of cleaning up or making repairs
 - c. The sentimental value of the property lost
4. Did you, or do you, expect to receive any insurance reimbursement for your lost property? (You should generally first file a claim for reimbursement)
5. Is the difference between the fair market value and the reimbursement more than the Standard Deduction you are allowed based on your filing status?
 - a. Single and Married Filing Separate is \$5,000
 - b. Joint is \$10,000, and
 - c. Head of Household is \$7,300

Example: You paid \$5,000 for a car several years ago; an independent appraisal document suggests the fair market value of the car at time of the casualty is \$2,000. It was completely destroyed and you expect to get \$1,500 insurance reimbursement. You have a \$500 casualty loss on the car and if you have lost no other property due to the hurricane, your loss does not exceed any of the three Standard Deductions mentioned above and you would not appear to be eligible to claim a casualty loss for tax purposes (assuming you have no other allowable itemized deductions).

If you determine that your loss after reimbursement will exceed or help you exceed your standard deduction then you will need to take further action by trying to document the amount. The information on the next page will help you gather the information to determine and support your casualty loss.



Information and Documentation Needed to Determine The Amount of Your Casualty Loss

If you determined through preliminary analysis that you are potentially entitled to a casualty loss, use the following list of available IRS resources related to casualty losses and the list of documentation you should secure to help you calculate your casualty loss:

IRS Resources Related to Casualty Losses

- Publication 547, Casualties, Disasters and Thefts — Provides details on how to figure and claim a disaster loss. [Pub. 547 online](#)
- Publication 584, Casualty, Disaster, and Theft Loss Workbook. [Pub 584 online](#)
- Publication 2194, Disaster Losses Kit for Individuals [Pub 2194 online](#)

Casualty Loss Documentation

- A complete list of personal and non-real estate items (such as furniture, cars, etc.) lost in the disaster. Publication 584 will assist you in compiling these items.
- The fair market value of your home and real estate before the casualty.
- Any contractor estimates and repairs or replacement costs to damaged property (which will provide support for the extent of the loss)
- Insurance reimbursement documentation, if applicable.
- If available, copies of your federal tax returns for the last three years.
- All types of Federal Emergency Management Agency's reimbursement documentation, if applicable.
- If you did not itemize deductions on your last year return, copies of your prior year state tax withholdings, real property taxes, personal property taxes, home mortgage interest and charitable contributions paid in the prior year.

For assistance with securing copies of prior year tax returns or transcripts, call the IRS special hurricane hotline at 1-866-562-5227.