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Casualty Losses and Tax Relief Measures in the Wake of Hurricanes Harvey, Irma and Maria

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I. Tax Relief Measures for Business Taxpayers

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A. Casualty Loss Deduction

- Sec. 165 allows businesses to take a casualty loss deduction for an uninsured and unreimbursed disaster-related loss sustained during the tax year.
- With respect to a federally declared disaster, taxpayers in the disaster area may choose to take a deduction on their federal tax return for the year the loss occurred or on the return for the prior year.
- If a 2016 federal tax return has already been filed, the taxpayer should consider whether to file an amended return to accelerate substantial casualty loss deductions.
- Report casualty and theft losses on Form 4684.

Casualty Loss Deduction (cont.)

- For business or income-producing property that was completely destroyed, the loss is limited to the adjusted basis of the property at the time of the casualty event.
- For business and income-producing property that sustained partial damage, the calculated loss is the lesser of the adjusted basis of the property or the decline in the fair market value of the property as measured before and after the casualty event.

Casualty Loss Deduction (cont.)

- The costs of restoring damaged business property are not deductible but generally must be capitalized to the extent of the adjusted tax basis of the property destroyed in the casualty. Sec. 263(a).
- Most casualty losses require a competent appraisal to determine the before and after fair market values of the property. Reg. 1.165-7(a)(2)(i).
- If the loss deduction is more than taxable income, taxpayer may have a net operating loss (NOL).

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