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Tax Tips to Help Households Mitigate the Financial Impact of a Natural Disaster

No one is immune to the dangers of a natural disaster, be it a hurricane, wildfire, or earthquake, just to name a few possible calamities. Once the smoke clears and/or the flood waters recede, the difficult work of rebuilding lives and businesses can begin.

Insurance can help defray some of the costs associated with restoring and replacing damaged and destroyed property. The IRS may institute special programs and provisions designed to bring added relief to victims living in affected areas. Nevertheless, a little preparation and an understanding of relevant tax code will be critical to helping you mitigate the financial impact of a natural disaster.

Disaster-related losses are claimed on IRS Form 4684, Casualties and Thefts, where casualty is defined as, "the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual." These losses can be deductible on your tax return — if you follow the rules and provide the appropriate documentation.

The National Association of Enrolled Agents offers the following tax tips to help prevent a natural disaster from turning into a financial disaster for your household.

Tip One: Prepare for a Rainy (Or Fiery) Day
When it comes to protecting yourself from virtually any type of disaster, remember the old adage, "an ounce of prevention is worth a pound of cure." In addition to the usual advice of stocking up on water and batteries, take time now to make an inventory of the valuables in your home. Having an inventory prepared before disaster strikes will be invaluable in helping you document losses for insurance and tax purposes. FEMA has a useful checklist to get you started on this task.

You must be able to prove your losses, so having photos, or video, of everything you own is critical both before and after the storm. Photographing or videotaping each room in your home or business will help document what was there and what condition it was in before the storm. Take photos of property and structures outside your home too since damage to your vehicles, landscaping and other possessions may also be deductible.

If you plan to evacuate your home, consider taking important documents with you or move them to a safer location, like a bank safe deposit box or a waterproof or fireproof container. For critical electronic records or data, consider uploading those files to a secure cloud-based service.

Tip Two: Document Losses Before Cleanup Begins
Be sure to photograph the inside and outside of the house or business and as much personal property damage as possible. It is important to do this before the cleanup process has begun as you may not remember what you threw away. Consult IRS Publication 584, Casualty and Disaster Loss Workbook, to help you conduct and organize a written room-by-room inventory of damage. A disaster loss is tax deductible to the amount over any insurance reimbursement, with two limitations: you must deduct $100 per event; you must further reduce the total of all

personal use property losses by 10 percent of the taxpayer's adjusted gross income. These limitations may be waived in federally-declared disaster areas.

Tax deductions for homes and buildings with structural damage require a qualified appraisal and records of the repairs to restore the building to its previous condition. Keep in mind that all claims for damage must first be submitted to the property owner's insurance carrier, even if the property is not covered, in order to take a casualty loss deduction. Homeowners insurance will cover some personal goods in many cases, whether or not the home is covered for the type of disaster that occurred.

Tip Three: Monitor the IRS Website for Special Bulletins
The IRS may extend tax filing deadlines, permit easier access to victims' funds held in workplace retirement plans, and make other provisions designed to provide financial relief to those affected by a natural disaster. Monitor the IRS Newsroom page to stay abreast of any special announcements that may impact your rights.

Tip Four: Decide When to Deduct a Casualty Loss
Typically, casualty losses are deductible during the taxable year that the loss occurred. However, the IRS may permit you to decide whether to claim your loss in the year that it occurred or in the previous year's return. This could make a huge difference if, for example, both your house and your employer were wiped out by the same storm and you no longer have a workplace to return to. Under this scenario, your income and the taxes you paid in the previous year could be much higher than in the present year; thus, your refund would be greater in the non-disaster year than an offset of tax owed in the current, disaster year.

Tip Five: Consult a Tax Expert
Studying the tax code and relevant IRS bulletins may be too big a burden for those coping with all of the challenges brought on by a disaster. Get help from a licensed tax expert to make sure you take advantage of every relevant tax provision available to you. Visit the free "Find a Tax Expert" directory at eatax.org to find an enrolled agent near you. Enrolled agents are the only federally-licensed tax practitioners who specialize in taxation and have unlimited rights to represent taxpayers before the IRS.

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