Topic Number 515 - Casualty, Disaster, and Theft Losses (Including Federally Declared Disaster Areas)

Generally, you may deduct casualty and theft losses relating to your home, household items, and vehicles on your federal income tax return. You may not deduct casualty and theft losses covered by insurance, unless you file a timely claim for reimbursement and you reduce the loss by the amount of any reimbursement or expected reimbursement.

Disaster Area Losses – A federally declared disaster is a disaster that occurred in an area declared by the President to be eligible for federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. It includes a major disaster or emergency declaration under the Act. See Publication 547, *Casualties, Disasters, and Thefts*, for more information.

Casualty Losses - A casualty loss can result from the damage, destruction, or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake, or volcanic eruption. A casualty doesn't include normal wear and tear or progressive deterioration.

If your property is personal-use property or isn't completely destroyed, the amount of your casualty loss is the lesser of:

- The adjusted basis of your property, or
- The decrease in fair market value of your property as a result of the casualty

If your property is business or income-producing property, such as rental property, and is completely destroyed, then the amount of your loss is your adjusted basis.

Theft Losses - A theft is the taking and removal of money or property with the intent to deprive the owner of it. The taking must be illegal under the law of the state where it occurred and must have been done with criminal intent.

The amount of your theft loss is generally the adjusted basis of your property because the fair market value of your property immediately after the theft is considered to be zero.

Insurance or Other Reimbursements

You must reduce the loss, whether it's a casualty or theft loss, by any salvage value and by any insurance or other reimbursement you receive or expect to receive. The adjusted basis of your property is usually your cost, increased or decreased by certain events such as improvements or depreciation. For more information about the basis of property, refer to Topic No. 703, Publication 547, *Casualties, Disasters, and Thefts*, and Publication 551, *Basis of Assets*. You may determine the decrease in fair market value by appraisal, or if certain conditions are met, by the cost of repairing the property. For more information, refer to Publication 547.

Claiming the Loss

Individuals are required to claim their casualty and theft losses as an itemized deduction on Form 1040, Schedule A.pdf, *Itemized Deductions*, (or Schedule A in Form 1040NR.pdf, if you're a nonresident alien). For property held by you for personal use, you must subtract $100 from each casualty or theft event that occurred during the year after you've subtracted any salvage value and any insurance or other reimbursement. Then add up all those amounts and subtract 10% of your adjusted gross income from that total to calculate your allowable casualty and theft losses for the year. Report casualty and theft losses on Form 4684.pdf, *Casualties and Thefts*. Use Section A for personal-use property and Section B for business or income-producing property. If personal-use property was damaged, destroyed or stolen, you may wish to refer to Publication 584, *Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)*. For losses involving business-use property, refer to Publication 584-B.pdf*, Business Casualty, Disaster, and Theft Loss Workbook*. These workbooks are helpful in claiming the losses on Form 4684; keep them with your tax records.

When to Deduct

Casualty losses are deductible in the year you sustain the loss, which is generally in the year the casualty occurred. You have not sustained a loss if you have a reasonable prospect of recovery through a claim for reimbursement. If you have a casualty loss from a federally declared disaster that occurred in an area warranting public or individual assistance (or both), you can choose to treat the casualty loss as having occurred in the year immediately preceding the tax year in which you sustained the disaster loss, and you can deduct the loss on your return or amended return for that preceding tax year. See Revenue Procedure 2016-53 for guidance on the time and manner of making and revoking an election under Code Section 165(i). Review Disaster Assistance and Emergency Relief for Individuals and Businesses for information regarding timeframes and additional information to your specific qualifying event.

Theft losses are generally deductible in the year you discover the property was stolen unless you have a reasonable prospect of recovery through a claim for reimbursement. In that case, no deduction is available until the taxable year in which you can determine with reasonable certainty whether or not you'll receive such reimbursement.

Losses from Ponzi-type investment schemes - Special rules may apply to theft losses from Ponzi-type investment schemes. For more information, see the Form 4684 Instructions, *Casualties and Thefts*. Additionally, review Help for Victims of Ponzi Investment Schemes and Publication 547.

When Your Loss Deduction Exceeds Your Income

If your loss deduction is more than your income, you may have a net operating loss (NOL). You don't have to be in business to have an NOL from a casualty. For more information, refer to Publication 536, *Net Operating Losses (NOLs) for Individuals, Estates, and Trusts*.