In theory, you can claim tax deductions for personal casualty losses to the extent they are not covered by insurance. For federal tax purposes, you suffer a casualty loss when your property's fair market value is reduced or obliterated by a sudden event such as a hurricane, flood, storm, fire or earthquake. Property losses due to theft or vandalism also count as casualty losses.

In reality, your personal casualty loss deduction will probably be significantly less than what you expect — or may be nothing at all. Here's why:

- You must reduce the loss amount (after offsetting it by applicable insurance proceeds) by $100.
- You must further reduce your loss by 10 percent of your adjusted gross income (AGI) for the year you would claim the loss on your tax return.

(Basically, AGI includes all your positive taxable income items with offsets for specified deductible items such as IRA contributions, alimony paid and self-employed retirement plan contributions.)

- You get no deduction if you do not itemize.

Example: You incur a $30,000 personal casualty loss this year and have AGI of $150,000. You itemize deductions so your allowable deduction is only $14,900 ($30,000 minus $100 minus $15,000). But if your loss is $15,100 or less, you get no write-off at all.

Special Rule for Federal Disaster Areas

Despite the restrictions explained above, let's assume you have a deductible personal casualty loss from Hurricane Sandy. The loss was caused by an event in a federally declared disaster area so a special rule allows you to claim your deduction either this year (when the casualty occurred) or last year (the year before the casualty occurred).

That means Hurricane Sandy victims can file amended 2011 returns to claim personal casualty deductions last year and get tax refunds. This rule allows disaster victims to obtain quick federal income tax savings instead of having to wait until after filing next year.

Note: This special deduction is only available for losses in federally declared disaster areas. You can find a listing of these areas on page 2. See “IRS Provides Victims a Variety of Tax Relief.”

Business Casualty Loss Write-Offs

If you have disaster losses to business property, you don't need to worry about the $100 or the 10 percent-of-AGI subtraction rules. You can deduct the full amount of the uninsured loss as a business expense on your entity's tax return or on the appropriate Form 1040 schedule if you operate as a sole proprietor. As with personal casualties,
you can opt to claim 2011 deductions for 2012 losses in a federally declared disaster area.

**Beware of Taxable Involuntary Conversion Gains**

If you have insurance coverage for disaster-related property damage — under a homeowners, renters, or business policy — you might actually have a taxable gain instead of a deductible loss. *Reason:* If the insurance proceeds exceed the tax basis of the damaged or destroyed property, you have a taxable profit under tax law. This is true even if the insurer doesn’t fully compensate you for the pre-casualty value of the property. These are called involuntary conversion gains because the casualty causes your property to suddenly be converted into cash from insurance proceeds.

**Example:** Your vacation home was destroyed by the hurricane. The insurance company pays $500,000 for the loss. Your tax basis is only $200,000 because you bought the property years ago. For tax purposes, you have a $300,000 involuntary conversion gain.

**Note:** Property tax basis usually equals original cost, minus any depreciation write-offs for business or rental usage, plus the cost of improvements. A tax pro can answer your questions about basis.

When you have an involuntary conversion gain, you generally must report it as taxable income unless you:

1. Make sufficient expenditures to repair/replace the property; and
2. Make a special tax election to defer the gain.

If you make the gain-deferral election, you’ll have a taxable gain only to the extent the insurance proceeds exceed what you spend to repair/replace the property. The expenses generally must occur within the period beginning on the damage or destruction date and ending two years after the close of the tax year in which you have the involuntary conversion gain.

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**IRS Provides Victims a Variety of Tax Relief**

Following disaster declarations issued by the Federal Emergency Management Agency (FEMA), the IRS announced that affected taxpayers in Connecticut, New Jersey, New York and several other states will receive tax relief.

The tax relief postpones various tax filing and payment deadlines that occurred starting in late October of 2012. As a result:

- Affected individuals and businesses have until February 1, 2013 to file these returns and pay any taxes due. This includes the fourth quarter individual estimated tax payment, normally due January 15, 2013. It includes payroll and excise tax returns and accompanying payments for the third and fourth quarters, normally due on October 31, 2012 and January 31, 2013 respectively. It also applies to tax-exempt organizations required to file Form 990 returns with an original or extended deadline falling during this period.
- The IRS will abate any interest, late-payment or late-filing penalty that would otherwise apply. The IRS automatically provides this relief to taxpayers located in the disaster area. Taxpayers need not contact the IRS to get this relief.
- Beyond the relief provided by law to taxpayers in FEMA-designated counties, the IRS will work with taxpayers who reside outside the disaster area but whose tax professional, books or records are located in areas affected by Hurricane Sandy.
- All workers assisting the relief activities in covered disaster areas who are affiliated with a recognized government or philanthropic organization are eligible for relief.
- Taxpayers who live outside of the impacted area and think they may qualify for this relief can contact the IRS at 866-562-5227.
- Details on available relief can be found at www.irs.gov on the Sandy Relief page. For more information on disaster recovery, individuals should visit www.disasterassistance.gov.

**IRS filing and payment relief applies to localities including:**

- **New Jersey:** Atlantic, Bergen, Burlington, Camden, Cape May, Cumberland, Essex, Gloucester, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Sussex, Union and Warren.

- **New York:** Bronx, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Sullivan, Suffolk, Ulster and Westchester.

- **Connecticut:** Fairfield, Middlesex, New Haven, and New London Counties and the Mashantucket Pequot Tribal Nation and Mohegan Tribal Nation within New London County.

- **Rhode Island:** Newport and Washington Counties.
When disasters such as Hurricane Sandy occur, a need for a forensic accountant and an attorney can arise. Although many of the insurance claims that result from such a storm are relatively straightforward, policy claims for business interruption insurance may require detailed proof of the losses.

**Business interruption insurance typically pays for income that is lost while operations are suspended after a natural or man-made disaster. However, these claims can be difficult and even contentious if there are differences of interpretation about calculations, projections or the meaning of policy provisions.**

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**Insurance Basics**

Most insurance claims involve determining what costs and replacement values of equipment and materials were lost or damaged in the disaster, proving the losses and values and submitting a claim.

Business interruption insurance typically pays for income that is lost and expenses that are incurred while operations are suspended. A business interruption policy typically covers expenses including:

- **Profits** — that would have been earned if it were not for the loss (usually limited to 12 months).
- **Continuing costs** — operating expenses and other fixed costs that still are being incurred by the business. (These expenses must be ordinary and necessary, such as salaries and related payroll costs during the interruption period.)
- **Replacement** of inventory and machinery.
- **Temporary location** — the extra expenses for moving to, and operating from, a temporary location. (The expenses for permanent relocation, if necessary, may also be included.)

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**Power Loss?**

If your business could not operate due to the loss of power, there might be coverage under what is typically referred to as “off-premises service interruption,” according to the Insurance Information Institute. This is typically optional coverage offered as an endorsement to a property policy. In this case, the business does not have to incur damage to its facility, but the power outage must be caused by damage from a covered peril under the policy such as wind, fire, electrical breakdown, etc. Speak with your insurance agent, broker or claims adjuster about coverage that may exist.
Other expenses — reimbursement for reasonable expenses (beyond the continuing costs) that allow the business to continue operating while the damage is being repaired.

Important: This type of insurance is arguably one of the most complicated on the market today, and submitting a claim is time consuming and takes careful consideration. Claims can be delayed or denied if there are differences of interpretation about loss calculations, income projections or the meaning of policy provisions.

How Accountants and Attorneys Can Help
A business may approach its accountant or attorney for advice on how to approach a claim for business interruption coverage, especially if the business has already filed a claim and is experiencing push back or denial from the insurance company. The business may also need professional help to get the insurer's attention — especially after a major disaster when insurance companies can be overwhelmed with claims.

A forensic accountant and an attorney can work with the business to determine the losses and prove them in a claim. When it comes to business interruption claims, it is important to properly calculate losses upfront. Forensic accountants, particularly those experienced in business valuation and litigation, have skills that are important in determining losses for business interruption claims such as forecasting, modeling and properly presenting damages and losses. Working with an attorney, who can aid in the legal interpretation of the policy, a forensic accountant can quickly and efficiently assemble the information and calculations needed for a viable business interruption claim. Filing a well-crafted claim can help speed up resolution with the insurance company.

Filing a business interruption claim requires companies to assemble financial records, such as receipts, utility bills, salaries, vendor information and more. The insurer will want to know how much income the business was generating before and after the loss. The business must analyze, identify and segregate revenues and expenses, as well as review its profit projections to help ensure they are accurate and solid enough to hold up to a potential dispute. Consult with an accounting firm and attorney for assistance to help ensure a successful claim.

More Breaks Individuals and Businesses Need to Know About

Whether you're personally a victim of Sandy or some of your employees are, there are some other disaster-related breaks and tax-saving opportunities you should be aware of.

Disaster Treatment of Payments to Sandy Victims
The IRS has alerted employers and other taxpayers that because Hurricane Sandy is designated as a qualified disaster for federal tax purposes, qualified disaster relief payments made to individuals by their employer or any person can be excluded from those individuals' taxable income.

Qualified disaster relief payments include amounts to cover necessary personal, family, living or funeral expenses that were not covered by insurance. They also include expenses to repair or rehabilitate personal residences or repair or replace the contents to the extent that they were not covered by insurance. Again, these payments would not be included in the individual recipient's gross income.

The IRS also announced that the designation of Hurricane Sandy as a qualified disaster means that employer-sponsored private foundations may provide disaster relief to employee-victims in areas affected by the hurricane without affecting their tax-exempt status.

Like all charitable organizations, employer-sponsored private foundations should follow the guidance in Publication 3833, Disaster Relief: Providing Assistance through Charitable Organizations, in providing assistance to employees or their family members affected by Hurricane Sandy.

Retirement Plan Payments
The IRS announced that 401(k)s and similar employer-sponsored retirement plans can make loans and hardship distributions to Hurricane Sandy victims and family members.

401(k) plan participants, employees of public schools and tax-exempt organizations with 403(b) tax-sheltered annuities, and state and local government

“Aafter a major disaster, it can take more time than many people anticipate getting a business back on track. Depending on the policy, there is generally either a 48-hour or 72-hour waiting period before business interruption coverage kicks in.”

— Insurance Information Institute
employees with 457(b) deferred-compensation plans may be eligible to take advantage of streamlined loan procedures and liberalized hardship distribution rules. (IRA participants are barred from taking out loans, but they may be eligible to receive distributions under liberalized procedures.)

Retirement plans can provide this relief to employees and certain members of their families who live or work in the disaster area. To qualify for this relief, hardship withdrawals must be made by February 1, 2013.

The IRS is also relaxing rules that normally apply to retirement plan loans and hardship distributions. As a result, eligible retirement plan participants will be able to access their money faster with less red tape. In addition, the six-month ban on 401(k) and 403(b) contributions that normally affects employees who take hardship distributions will not apply.

This relief means that a retirement plan can allow a Hurricane Sandy victim to take a hardship distribution or borrow up to the specified statutory limits. It also means that a person who lives outside the disaster area can take out a retirement plan loan or hardship distribution and use it to assist a son, daughter, parent, grandparent or other dependent in the disaster area.

Plans will be allowed to make loans or hardship distributions before the plan is formally amended to provide for them. In addition, the plan can ignore the limits that normally apply to hardship distributions, and allow them, for example, to be used for food and shelter. If a plan requires certain documentation before a distribution is made, the plan can relax this requirement.

Ordinarily, retirement plan loan proceeds are tax-free if repaid over a period of five years or less. Under current law, hardship distributions are generally taxable. Also, a 10 percent early-withdrawal tax usually applies.

**Property Tax**

Homeowners and commercial property owners who suffered damage from Hurricane Sandy might qualify for lower property tax assessments. Contact your local assessors to inquire if your assessment should be reduced. It could result in lower property taxes next year.

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**Homeowners Insurance Tips after a Casualty**

*Call your insurance company as soon as possible to report the damage, because insurance policies place a time limit on filing claims. Ask for the required forms to be sent to you. Find out if the insurer will be sending an adjuster to your home to inspect the property and when. Keep records of the time and date of your call, as well as the names of insurance company employees you speak with.*

Here are eight more tips:

1. **Ask questions.** Does my policy cover this damage? What is my deductible? What is the procedure for obtaining estimates to repair the damage or replace the property that was destroyed? How long will the processing of my claim take?

2. **Find out what living expenses are covered.** If your home sustains so much damage that you cannot live there while it’s being repaired, homeowners insurance generally pays some living expenses. There are limits on the amount covered but typical expenses include the cost of a hotel and restaurant meals. Keep receipts to submit to the insurance company.

3. **Take photos or videotape the damage** as soon as possible in case the claim is questioned or the insurance adjuster cannot come to your area right away.

4. **Compile a list of lost or damaged items** to help substantiate your claim. Give this inventory to the insurance company, along with any photos, receipts, invoices and other documentation you have. The list should be as complete as possible, including item descriptions, purchase dates or approximate age, cost at time of purchase and estimated replacement cost.

5. **Make temporary repairs.** To protect your home from more damage, make reasonable temporary repairs such as covering broken windows and damaged roofs. (Don’t make major non-emergency repairs until an insurance adjuster can see and assess the damage.) Save receipts to submit them to your insurance company for reimbursement.

6. **If the damage is the result of theft or vandalism, report the crime to the police.** Be sure to get a copy of the police report.

7. **Don’t accept an unfair settlement.** After your insurance company receives the necessary information, it will accept or reject your claim and offer a settlement. If you don’t agree with the amount, you don’t have to accept it. Ask your agent for an explanation. In many cases, insurers will negotiate until both parties agree.

If you can’t reach an acceptable agreement, you can appeal to the company’s chief claims office. There may also be
Don’t Get Caught in the Hurricane Sandy Rumor Mill

Misinformation about Hurricane Sandy relief is running rampant. Many untruths are being circulated on the Internet, especially on social media websites.

Here are some of the rumors, according to the Federal Emergency Management Agency (FEMA), and whether they are true or false.

**Rumor #1:** FEMA and/or the American Red Cross are distributing cash cards to individuals affected by Hurricane Sandy.

This is **FALSE**.

If you are a survivor in a declared disaster county and have losses other than food, including damage to your home, personal property, or vehicle, you can apply for assistance online at www.disasterassistance.gov or on a mobile device by texting DRC and a ZIP Code to 43362 (4FEMA). You can also call 1-800-621-FEMA (3362).

If you want more information about Red Cross assistance, call 1-800-RED-CROSS or visit www.redcross.org.

**Rumor #2:** FEMA is hiring personnel in New York.

This is **TRUE**.

There may still be full-time, temporary positions available. The jobs are wide-ranging, from Community Relations Specialists providing outreach to the disaster-stricken communities, to administrative assistants. For a listing of the positions available, visit www.newyork.us.jobs and search for FEMA.

**Rumor #3:** FEMA is paying $1,000 to go to New York and New Jersey to clean up debris.

This is **FALSE**.

**Rumor #4:** Food stamps are being given out to residents of New York and New Jersey as a part of FEMA assistance.

This is **FALSE**.

FEMA’s Individuals and Households Program does not provide food assistance or a $300 food voucher. If you have an emergency need for food, please call 211. If you reside in the NYC area, you may find information about food distribution locations by visiting www.nyc.gov. If you are a survivor in a declared county and have losses other than food, including
AFTER HURRICANE SANDY

damage to your home, personal property, or vehicle, please apply for assistance online, on a mobile device or by phone at the addresses/numbers provided in #1.

Rumor #5: New York City residents should immediately pay for services provided under the NYC Rapid Repairs or Sheltering and Temporary Essential Power (STEP) program, and FEMA will reimburse them for assessment costs and guarantee additional cash payments of $10,000 to be used for rapid repairs to their homes.

This is FALSE.

Individuals claiming to be “City Assessment Contractors” assessing houses under these programs have been promising such reimbursement throughout Staten Island. But STEP and NYC Rapid Repairs assessments are free of charge. They do not provide money to individuals. STEP is meant to provide temporary measures so storm survivors may shelter-in-place in their homes. Remember, all contractors providing assessments are coordinated through your city/county officials and must provide identification prior to viewing your home. Contact local officials for more information about the STEP program.

STEP assists state and local government in performing work and services essential to saving lives, protecting public health and safety, and protecting property. STEP helps restore power, heat and hot water by funding certain emergency measures to residences that could regain power through emergency repairs. STEP can help residents safely remain in their homes pending more permanent repairs.

If you live in the five boroughs of New York City, call 311 to access information about the program. If you live in Nassau County, call 1-888-684-4267. Your county or city will decide what elements of the STEP program are available for your residence. You can contact them for more information.

Finally, Focus on What Really Matters

Hurricane Sandy victims need financial, insurance and legal information. But they also need to know people care about their well-being. Often, the emotional toll is the most devastating aftermath of a disaster. FEMA provides these points:

■ Be aware that everyone who witnesses or experiences a disaster is affected somehow.
■ Anxiety about safety for yourself and your loved ones is normal.
■ Profound sadness, grief and anger are also common reactions.
■ Recovery can be speeded up when you acknowledge your feelings.
■ Healing is more likely when you focus on your strengths and abilities.
■ It is healthy to accept help from community programs and resources.

Children and the elderly may need special attention. For peace of mind, consider limiting their exposure to news coverage of disaster events. The barrage of media coverage can cause despair and fear.

Don’t hesitate to seek counseling, through faith-based organizations, voluntary agencies, professional counselors, or possibly through FEMA and state and local government sources.

Once you begin to recover, it is critical to update your family’s disaster plan, and replenish emergency supplies that may have been depleted. Protect yourself and your family by being prepared for the unexpected.

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