

Claiming a Casualty Loss on Your Tax Return

A Tax Guide for 2010 Flood Victims - Issue 7

Federal disaster area counties: Benton, Cannon, Carroll, Cheatham, Chester, Clay, Crockett, Davidson, Decatur, Dyer, DeKalb, Dickson, Fayette, Gibson, Giles, Hardeman, Hardin, Haywood, Henderson, Hickman, Houston, Jackson, Humphreys, Lauderdale, Lawrence, Lewis, Macon, Madison, Marshall, Maury, McNairy, Montgomery, Obion, Perry, Putnam, Robertson, Rutherford, Shelby, Smith, Stewart, Sumner, Tipton, Trousdale, Wayne, Williamson and Wilson.

Special tax rules apply to everyone living in these 46 counties. This part may help you if you had storm or flood damage. Don't live in one of these counties? Then talk to a tax expert or go to the IRS web site at www.irs.gov.

Did the flood damage your home, household goods, cars, trucks or personal property? You can claim a casualty loss on your income tax return. **Casualty loss** means your property or belongings were damaged by wind, fire, tornado or flood. You have a loss because the flood made your property or belongings worth less money.

There are several steps to finding out how much you can claim. We have divided it into 3 parts:

Part 1 - How to Find Out How Much Loss You Can Claim

Part 2 - Proving What You Paid for Your Property

Part 3 - Proving How Much Value the Property Lost (Fair Market Value of Loss)

Part 1 – How to Find Out How Much Loss You Can Claim

Before you claim a flood loss on your tax return, you **must have proof** of:

- The cost of your property, cars and personal belongings (see Part 2)
- What your property and belongings were worth before and after the flood (see Part 3)
- How much insurance paid you for the flood damage



Find out how much flood loss you can claim

The IRS puts a limit on how much flood loss you can claim. Here is how it works.

1. What did you pay for your property? (See Part 2)
2. What is the value of your property before the flood? Take that number and subtract the property's value after the flood. The answer is how much you lost in property value because of the flood. You will learn more about fair value in Part 3.
3. Now compare the 2 numbers (what you paid and the loss in value). The **smaller** number is the most flood loss you can claim on your tax return.
4. Now subtract insurance or other payments from the loss.



Here are some examples:

Example 1: Jill bought her home for \$150,000. Before the flood, Jill's home was worth \$190,000. After the flood it was worth \$90,000. This means her home lost \$100,000 in value. She has to pick the lowest number between what she paid (\$150,000) and change in value (\$100,000). Therefore, she can claim a \$100,000 loss. That is the amount of value her property lost. But Jill also got an insurance payment of \$50,000. She must subtract that from the \$100,000 loss. On her tax return, Jill can claim the other \$50,000 as her flood loss.

Example 2: Jack bought his house for only \$80,000. Before the flood, Jack's house was worth \$150,000. After the flood, it was worth \$50,000. Jack's house lost \$100,000 in value. He has to pick the lowest number between what he paid (\$80,000) and the change in value (\$100,000). He has an \$80,000 loss. That is what he paid for the house. Jack did not get an insurance payment. He can claim all of the \$80,000 on his tax return.

For your tax return, you will need to use **IRS Form 4684 – Casualties and Thefts**. It has you enter all these numbers and explains how to figure the loss.

Part 2 - Proving The Cost of Your Property

The IRS calls what you paid for your property the "adjusted basis". **Adjusted basis** means the original cost of your property plus the cost of any improvements.

You can claim your home, land, cars, trucks, RVs, boats, furniture, TV, computer and clothes. In most cases, you **must have proof** of what you paid.

Where to find proof of what you paid for your home

The best proof is copies of the original records. Use your copies to prove your cost. Don't have your papers? These places may document which you can use to prove how much you paid:

1. **Real Estate Agent** who handled the closing of your home
2. **Mortgage Company** that loaned you money to buy your home
3. **HUD One Settlement Statement**
4. **Warranty Deed** at the county recorder's office
5. **County Tax Assessors Office has tax records.** You may be able to find them



on your county's web site.

6. **Bank Records** may have your cancelled down payment check. Bank records are often on line.
7. **Online real estate sites**, like www.zillow.com, sometimes include original purchase price information.

Add the **cost of improvements**. Improvements are things you did to make your home worth

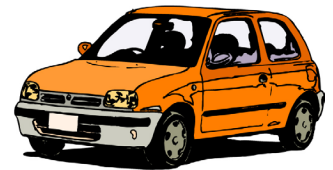


more. **Examples:** adding a deck, remodeling a kitchen or putting on a new roof. If you have receipts, use them. If not, try bank records, a second mortgage or the contractors who did the work.

Where to find proof of what you paid for your car, truck, boat, RV, etc.

If you don't have your copy of the papers, try these places:

1. **Car Dealer** where you bought the car or truck
2. Making car payments? The **finance company** will have a copy of the original loan.
3. **Bank Records** may have your cancelled checks for the down payment and monthly payments. Bank records are often on line.
4. **Insurance Company** - Some ask what you paid for the car when you get insurance.

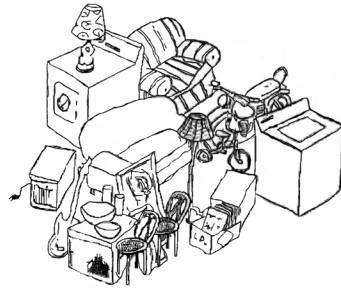


Where to find proof of what you paid for personal property

Personal property is things you own. **Examples:**

- Refrigerator
- Stove
- Dishwasher

- Microwave
- Furniture
- TVs
- Computers
- Clothes
- Mixers, blenders, toasters, etc.
- Lawn mowers
- DVD and VCR players
- DVDs and VCR tapes
- Stereos and MP3 players
- Tools
- Sheets, towels, blankets, quilts, comforters
- Dishes, pots and pans



This can be hundreds of things. Start with the ones that cost the most, like your TV. Here are some places to find what you paid:

1. **Credit Card Statements** show things you charged. Some companies let you see 2 or more years of your statement on the web.
2. **Large stores** like Home Depot or Best Buy may keep detailed records of what you bought.
3. **Bank Records** show cancelled checks and monthly payments. Bank records are often on line.

Part 3 – Proving the Property’s Value (Fair Market Value of Loss)

Fair Market Value means what you can sell your property for. This isn’t the same as what it would cost you to replace it with a new one. **Example:** You can sell your 6-year-old car for \$5,000. But it will cost you a lot more than that to buy a new car.

Did your property or belongings have flood damage? Then it is worth less money after the flood because of the



damage. The **fair value of the loss** is how much the value of your house went down.

How do you prove what your property was worth?

The best way is to pay for an appraisal. An **appraisal** is when an expert decides what the property is worth.

You may believe the flood loss to your home was \$50,000. But the IRS may not agree. A good appraisal is often the best proof. If you end up in court, the judge will want an appraisal.



Take pictures of your home, your car and any personal belongings that were damaged.

Can’t afford an appraisal?

Then check these places to find out what your property is worth:

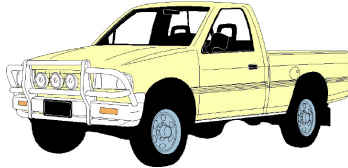
1. Did you refinance your home? Did the **mortgage company** want an appraisal? Then this appraisal may help prove the value before the flood. Call them and ask for a copy.
2. Your **county property assessor** makes tax appraisals every few years. This may show what your property was worth before the flood.
3. Were you insured? **Insurance companies** won’t insure property for more than it’s worth. Ask if they have proof of what your property was worth before the flood.
4. Filing an insurance claim for flood damage? The **insurance adjuster’s report** may say what the property is worth. If insurance pays all the loss, you can’t claim it on your taxes. But they may pay nothing or only part of the loss. If so, use the insurance report as proof for your tax claim.
5. Some **county property assessors** will do new tax appraisals because of the flood. Call and ask if your county is doing new

appraisals. This will show what your property is worth after the flood.

Proving what your car or truck was worth

Try these places:

- Kelley's Blue Book (www.kbb.com)
- NADA (www.nada.com)
- Edmunds (www.edmunds.com)
- Insurance Adjuster for your insurance company



Proving what your personal belongings were worth

It is harder to prove what furniture, stoves, refrigerators, clothing and other belongings are worth. **Take pictures** to prove the flood damage. Also try:

1. Old catalogs may help show what the items cost
2. Check prices at local thrift stores. Find items like the ones you own. This shows what your belongings are worth now.

What if you file the tax return without having proof?

The IRS often will ask for proof. Hoping to get a refund? They may not send your refund until they have the proof. So get your proof first. You have time to get proof. You have until June 29, 2010 to file your 2009 tax return. Need more time? File IRS Form 4868 and get until October 15, 2010 to file your 2009 return. You can also amend your 2009 income tax return. Or you can claim the loss on your 2010 return.

Legal Aid Society

of Middle Tennessee and the Cumberland

1-800-238-1443 It's a free call.

On the internet at **www.las.org**

NOTE: Robert B. Nadler, a lawyer with Legal Aid Society, wrote this information. It cannot take the place of advice from a lawyer. Each case is different and needs individual legal advice.