



# **TAX LAW CHANGES**

**TAX YEAR: 2024**

# Tax Legislation

**For the time since 2016, there were no new tax bills passed in 2024 at the federal level.**

- A tax bill that expanded the Child Tax Credit and expanded business credits bill passed the House on January 31, 2024, but it never passed the Senate contrary to what you may see on the internet.
- It is not likely that Congress will pass anything in the lame duck session, so it is not anticipated that anything new will affect the 2024 tax return.

# Tax Legislation

However, there are some provisions of **previously passed legislation** that effect 2024.

- Some provisions of the Tax Cuts and Jobs Act are phasing out.
- Inflation Reduction Act of 2022 and SECURE 2.0 Act of 2022 have provisions that became effective in 2024 (which makes these provisions “new”).

# CPI Adjustments – 2024

Each year under provisions in Tax Cuts and Jobs Act and other tax laws, certain thresholds are adjusted based on changes to the CPI.

**Some years these adjustments can have a more pronounced impact on the tax returns verses other years. This will be one of those years.**

This occurs when the rate of adjustment is greater than the rise in incomes due to inflation.

# CPI Adjustments – 2024

The Standard Deduction, Tax Brackets, CTC and EITC adjusts yearly based on the changes in the **previous year** over year CPI.

The adjustment period for 2024 was **October 1, 2022 – September 30, 2023**. The inflation during that time was **5.4%**.

Average income is expected to rise in 2024 by approximately **3.5%**.

# CPI Adjustments – 2024

Last year (2023) the brackets adjusted by 7.1% which was due to the higher inflation that occurred in 2022.

***The increase in the tax brackets for 2025 will be will 2.5% due to the lower inflation that has occurred in the past year.***

According to projections income should increase in 2025 at a rate greater than 2.5%.

# Standard Deduction Adjustments

Here are the new adjusted Standard Deduction amounts for 2024 (& 2025).

	2023	2024	2025
Single/MFS	\$13,850	<b>\$14,600</b>	\$15,000
HOH	\$20,800	<b>\$21,900</b>	\$22,500
MFJ	\$27,700	<b>\$29,200</b>	\$30,000

# Tax Brackets – 2023

## 2023 tax brackets

Tax rate	Single filers	Married couples filing jointly	Married couples filing separately	Head of household
10%	\$11,000 or less	\$22,000 or less	\$11,000 or less	\$15,700 or less
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	\$11,001 to \$44,725	\$15,701 to \$59,850
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	\$44,726 to \$95,375	\$59,851 to \$95,350
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	\$95,376 to \$182,100	\$95,351 to \$182,100
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	\$182,101 to \$231,250	\$182,101 to \$231,250
35%	\$231,251 to \$578,125	\$462,501 to \$693,750	\$231,251 to \$346,875	\$231,251 to \$578,100
37%	\$578,126 or more	\$693,751 or more	\$346,876 or more	\$578,101 or more



# Tax Brackets – 2024

## 2024 tax brackets

Tax rate	Single filers	Married couples filing jointly	Married couples filing separately	Head of household
10%	\$11,600 or less	\$23,200 or less	\$11,600 or less	\$16,550 or less
12%	\$11,601 to \$47,150	\$23,201 to \$94,300	\$11,601 to \$47,150	\$16,551 to \$63,100
22%	\$47,151 to \$100,525	\$94,301 to \$201,050	\$47,151 to \$100,525	\$63,101 to \$100,500
24%	\$100,526 to \$191,950	\$201,051 to \$383,900	\$100,526 to \$191,950	\$100,501 to \$191,950
32%	\$191,951 to \$243,725	\$383,901 to \$487,450	\$191,951 to \$243,725	\$191,951 to \$243,700
35%	\$243,726 to \$609,350	\$487,451 to \$731,200	\$243,276 to \$365,600	\$243,701 to \$609,350
37%	\$609,351 or more	\$731,201 or more	\$365,601 or more	\$609,351 or more

# Tax Brackets – 2024

So, what does this CPI adjustment to the Standard Deduction and Tax Brackets mean for taxpayers?

For a Single Taxpayer with comparable AGI in 2023 and 2024 of \$30,000 – a **reduction** in year over year tax liability of \$102 (\$1,718 in 2023 vs. \$1,616 in 2024).

# Tax Brackets – 2024

So, what does this CPI adjustment to the Standard Deduction and Tax Brackets mean for taxpayers?

For a Married Taxpayer with comparable AGI in 2023 and 2024 of \$150,000 – a **reduction** in year over year tax liability of **\$839** (\$17,521 in 2023 vs. \$16,682 in 2024).

# CPI Adjustments – Child Tax Credit – 2024

Under Tax Cuts and Jobs Act, the refundable amount of the Child Tax Credit also adjusts based on the C-CPI. (The non-refundable CTC of \$2,000 does not adjust.) This adjustment is in **\$100** increments.

Due to inflation, the refundable amount increases this year to **\$1,700** (up from \$1,600 for 2023, \$1,500 for 2022 and \$1,400 for 2018-2020).

***We already know that the refundable portion of the CTC will not increase in 2025 based on CPI adjustments.***

# Earned Income Tax Credit

**Taxpayers cannot claim the earned income credit when they have investment income that exceeds an annual limit.**

**In 2021, the investment income limitation was significantly increased to \$10,000.**

- This was a permanent change to EITC, and the \$10,000 amount is adjusted in future years based on the CPI.
- For 2023 and 2024 the investment income limitation is \$11,000

# Earned Income Tax Credit

Here are the new adjusted EITC maximum amounts for 2024 (& 2025).

	2023	2024	2025
No Children	\$600	<b>\$632</b>	\$649
One Child	\$3,995	<b>\$4,213</b>	\$4,328
Two Children	\$6,604	<b>\$6,960</b>	\$7,152
Three or More	\$7,430	<b>\$7,830</b>	\$8,046

# Form 1040

## 2024 – **No significant changes** to the Form 1040

- Only change is a **new checkbox** has been added to the filing status for treating a non-resident alien or dual-status alien as a U.S. Resident.
- It has been the case where a dual status individual married to a U.S. citizen or to a U.S. resident may elect to file a joint income tax return with their spouse. Now there is a place on the return to indicate that election.

# Form 1040 – Schedule 1

## 2024 – Schedule 1 (Form 1040), Additional Income and Adjustments to Income

- New line has been added for Digital Assets being treated as ordinary income.
- This would occur if you receive a digital asset as payment for goods or services or through an airdrop.



# Form 1040 – Schedule 2

## 2024 – Schedule 2 (Form 1040), Additional Taxes

- Part I of this schedule has some of the more significant changes due to the repayment requirements for the following:
  - The **transfer** of **vehicle credits** to dealerships for both new and used vehicles. (This applies to certain electric vehicles only)
  - The **recapture** of investment tax credits. (If a business no longer uses an asset that they received an investment tax credit for, they may have to forfeit part or all of the credit received)

# Form 1040 – Schedule 3

## 2024 – Schedule 3 (Form 1040), Additional Credits and Payments

- Part II of this schedule has following changes:
  - Line 13b is now for Section 1341 repayment of claim of right amount. The wording is more specific that it is for the Section 1341 amount and not the total amount to income repaid. ( If you paid back income of \$3,000 or more reported in a previous year, due to having been paid in error, you can deduct that amount in the current tax year.)
  - Line 13c has been added to cover Net Payment Election which are made on Form 3800. (To claim credit carried over from prior year)

# Required Minimum Distributions

## Required Minimum Distributions

- Required minimum distributions (RMDs) are the minimum amounts you must withdraw from your retirement accounts each year. The amount is calculated each year based on life expectancy tables.
- In addition to regular income taxes, failure to take a Required Minimum Distributions subjects the distribution to a penalty of **25% in 2024**
- **Previously this penalty was 50%.**

# Required Minimum Distributions

**Effective January 1, 2024, Required Minimum Distributions** are required from all retirement accounts (except ROTH accounts) at the following ages.

- RMD were suspended in **2020** as part of COVID relief.
- 70 ½ if the taxpayer was born before July 1, 1949
- 72 if the taxpayer was born July 1, 1949, to December 31, 1950
- **73 for any taxpayer born between 1951 and 1959.**
- **75 for any taxpayer born in 1960 or later.**

# 529 Plans

**Effective January 1, 2024**, unused funds in 529 Plans are now eligible for a rollover to a ROTH IRA.

- **Lifetime limit:** You can roll over up to **\$35,000** in your lifetime.
- **Annual contribution limit:** The amount you roll over must be within the annual contribution limit for the Roth IRA. For 2024, the limit is \$7,000, or \$8,000 for those 50 and older.
- **Beneficiary:** The Roth IRA must be in the **same name** as the 529 plan beneficiary.

# 529 Plans

**Effective January 1, 2024**, unused funds are now eligible for a rollover to a ROTH IRA.

- **Account age:** The 529 plan must have been in existence for at least **15 years**.
- **Rollover funds:** The funds rolled over must have been in the 529 plan for at least **five years**.
- **Earned income:** The beneficiary must have earned income equal to at least the amount transferred in any year.

# New Credits – Clean Vehicles

## Electric Vehicle Credit – New Vehicles (starting in 2023)

1. The final assembly of the vehicle must occur in **North America**.
2. Quotas have been eliminated – making models manufactured by **GM, Tesla and Toyota eligible**.
3. The credit is a maximum of **\$7,500** consisting of two parts:
  - a. \$3,750 for meeting certain manufacturing criteria
  - b. \$3,750 for meeting certain battery component criteria

# New Credits – Clean Vehicles

## Electric Vehicle Credit for 2023 – New Vehicles (starting in 2023)

1. The credit is now limited to Taxpayers with income threshold of **\$150,000** for a single filing taxpayer, **\$225,000** for HOH and **\$300,000** for joint filers.
2. The credit is only available on vehicles with a manufacturer suggested retail price of **\$55,000** for new cars and **\$80,000** for pickup trucks, SUVs, and vans



# New Credits – Clean Vehicles

## Electric Vehicle Credit for 2024 through 2032 – New Vehicles

1. Starting in **2024** at least **40% of the battery components** must come from North America or specified US Trading Partners. This rises to 100% by 2029.
2. Starting in **2024** the credit can be **advanced at the point of sale** and paid directly to the seller, but it will need to be reconciled on the tax return as a non-refundable credit. Any **excess advance credit will need to be repaid**. However, most high-income taxpayer **will lease the vehicle** so the credit will transfer to the dealer without having to be repaid!

# Form 172

## **Form 172 – Net Operating Losses (NOLs) (Corporate Returns)**

This is a new form that replaces the schedules that was previously were found on Form 1045 – Application for Tentative Refund.

- Form 172 will provide more detail on any Net Operating Loss including tracking by year.
- Form 1045 will also now be eligible for e-file.

# Form 3800

## Form 3800 – General Business Credits

There has been a **significant change in Form 3800** due to taxpayers now being allowed (including tax-exempt entities) to make an **elective payment election** for applicable credits rather than carryover towards some future tax liability.

- Twelve General Business Credits qualify for this treatment.

Here is the link to learn more: <https://www.irs.gov/instructions/i3800>

# Bonus Depreciation

**Bonus Depreciation** is an accelerated tax deduction that allows businesses to deduct a large percentage of the purchase price of eligible assets upfront.

- Bonus Depreciation started in 2002 as a temporary deduction to encourage investment after 9/11.
- Since 2002, it has been extended different years and at times has lapse.
- Historically bonus depreciation was a 50% deduction.

# Bonus Depreciation

With the passage of Tax Cuts and Jobs Act in 2017, Bonus Depreciation was extended through 2026 with the following amounts as the deduction:

Sept. 27, 2017	–	December 31, 2022	-	100%
January 1, 2023	–	December 31, 2023	-	80%
<b>January 1, 2024</b>	–	<b>December 31, 2024</b>	-	<b>60% (this year)</b>
January 1, 2025	–	December 31, 2025	-	40%
January 1, 2026	–	December 31, 2026	-	20%
After January 1, 2027			-	0%

# Tax Cuts and Jobs Act

**Many of the provisions of Tax Cuts and Jobs Act** were enacted on a temporary basis and are set to expire at the end of 2025. These provisions are: (These are still in effect for the 2024 tax season)

- Increased Standard Deduction
- Elimination of Personal Exemptions
- Lower Marginal Tax Rates
- State and Local Tax Deduction and other changes to Itemized Deductions
- Child Tax Credit (it will revert to \$1,000 with \$400 refundable)
- Qualified Business Income Deduction
- Alternative Minimum Tax Exemption



# Disaster Relief Provisions

## Disaster Relief Provisions

1. **Filing Deadlines** have been extended
2. **Qualified Disaster Distributions** – eligibility to report certain withdrawals from retirement accounts over a three-year period.
3. **Qualified Disaster Loss Rules** – what you can claim on your tax return.



# Disaster Relief – Filing Deadlines

As a result of Hurricanes, Debbie, Helene and Milton, the IRS has extended the filing deadline **until May 1, 2025**, to file various federal individual and business tax returns and make tax payments for residents of the following states:

- Alabama
- Florida
- Georgia
- North Carolina
- South Carolina
- Eight Counties in Tennessee
- Six Counties in Virginia



# Disaster Relief – Filing Deadlines

Effectuated tax returns are the following:

- **Any individual or business** that has a **2024 return** normally due during **March or April 2025**. (Basically, all returns except for a 990)
- Any individual, business or tax-exempt organization that has a **valid extension** to file their **2023 federal return**. The IRS noted, however, that **payments on these returns on extension are not eligible** for the extra time because they were due last spring before the hurricane occurred.

# Casualty and Theft Losses

Under current rules, **ONLY** if the loss is caused by a **federally declared disaster**, may you deduct personal casualty losses relating to your home, household items, and/or vehicles on your federal income tax return.

- However, the type of disaster designation the event is given impacts how it will be treated on the tax return.

# Casualty and Theft Losses

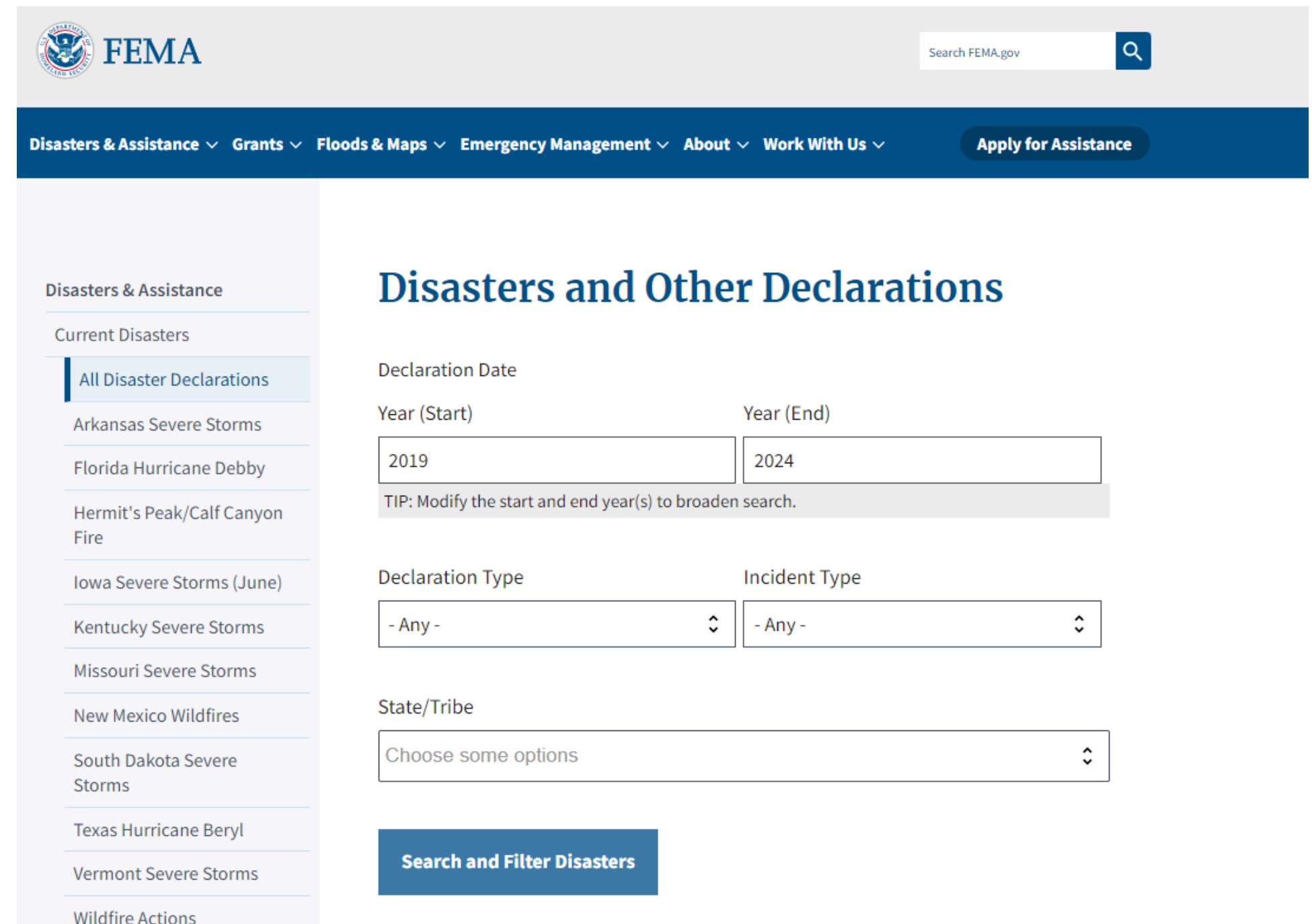
There are two types of disaster declarations provided for in the Stafford Act:

- **Emergency declarations**
- **Major Disaster declarations.**

Both types require authorized by the President, but the amount of assistance differs based on the severity of the event.

# FEMA Designations

At the FEMA site a taxpayer can find if an incident has been declared a disaster which will allow the taxpayer to claim a casualty loss.



The screenshot displays the FEMA website's search interface for disaster declarations. The header includes the FEMA logo, a search bar, and navigation links. The main content area is titled 'Disasters and Other Declarations' and features a sidebar with a list of disaster events. The search filters include Declaration Date (Year (Start) and Year (End)), Declaration Type, Incident Type, and State/Tribe. A 'Search and Filter Disasters' button is located at the bottom of the search filters.

**FEMA**

Search FEMA.gov

Disasters & Assistance ▾ Grants ▾ Floods & Maps ▾ Emergency Management ▾ About ▾ Work With Us ▾ [Apply for Assistance](#)

**Disasters and Other Declarations**

Disasters & Assistance

Current Disasters

- All Disaster Declarations
- Arkansas Severe Storms
- Florida Hurricane Debby
- Hermit's Peak/Calf Canyon Fire
- Iowa Severe Storms (June)
- Kentucky Severe Storms
- Missouri Severe Storms
- New Mexico Wildfires
- South Dakota Severe Storms
- Texas Hurricane Beryl
- Vermont Severe Storms
- Wildfire Actions

Declaration Date

Year (Start) Year (End)

2019 2024

TIP: Modify the start and end year(s) to broaden search.

Declaration Type Incident Type

- Any - - Any -

State/Tribe

Choose some options

[Search and Filter Disasters](#)

# FEMA Designations

At this site, the user also can find the type of disaster (whether it is a Major Disaster or one of the other FEMA designations).

For example, the Fire declarations do not qualify for any casualty loss treatment.

The screenshot shows the FEMA website's search interface for disaster declarations. The header includes the FEMA logo, a search bar, and navigation links. The main content area is titled 'Disasters and Other Declarations' and features a sidebar with a list of disaster events. The main search area includes filters for 'Declaration Date' (Year (Start) and Year (End)), 'Declaration Type' (with a dropdown menu open showing options like Major Disaster Declaration, Emergency Declaration, etc.), and 'Incident Type'. A 'Search and Filter Disasters' button is at the bottom of the filters.

**FEMA**

Search FEMA.gov

Disasters & Assistance ▾ Grants ▾ Floods & Maps ▾ Emergency Management ▾ About ▾ Work With Us ▾ [Apply for Assistance](#)

**Disasters and Other Declarations**

Declaration Date

Year (Start) Year (End)

2019 2024

TIP: Modify the start and end year(s) to broaden search.

Declaration Type Incident Type

- Any - - Any -

- Any -

Major Disaster Declaration

Emergency Declaration

Fire Management Assistance Declaration

Fire Suppression Authorization

[Search and Filter Disasters](#)

**Disasters & Assistance**

Current Disasters

[All Disaster Declarations](#)

[Arkansas Severe Storms](#)

[Florida Hurricane Debby](#)

[Hermit's Peak/Calf Canyon Fire](#)

[Iowa Severe Storms \(June\)](#)

[Kentucky Severe Storms](#)

[Missouri Severe Storms](#)

[New Mexico Wildfires](#)

[South Dakota Severe Storms](#)

[Texas Hurricane Beryl](#)

[Vermont Severe Storms](#)

[Wildfire Actions](#)

# FEMA Designations

This is Hurricane Helene in Georgia.  
Each state affected has a different FEMA designation.  
On this page you can find the actual Designated Area impacted.

## Georgia Hurricane Helene

DR-4830-GA



### Quick Links

- **Recovery resources:** [State & Local](#) | [National](#)
- **Connect:** [Social Media](#) | [Mobile App & Text](#)
- **24/7 counseling:** [Disaster Distress Helpline](#)

**Incident Period:** Sep 24, 2024 and continuing.

**Declaration Date:** Sep 30, 2024

 [English](#) [Español](#) [简体中文](#) [한국어](#) [Tiếng Việt](#)

### On This Page

[Help for Individuals & Families](#)

[Disaster Recovery Centers](#)

[Local Resources](#)

[How to Help](#)

[Funding Obligations](#)

### More About This Disaster

#### Designated Areas

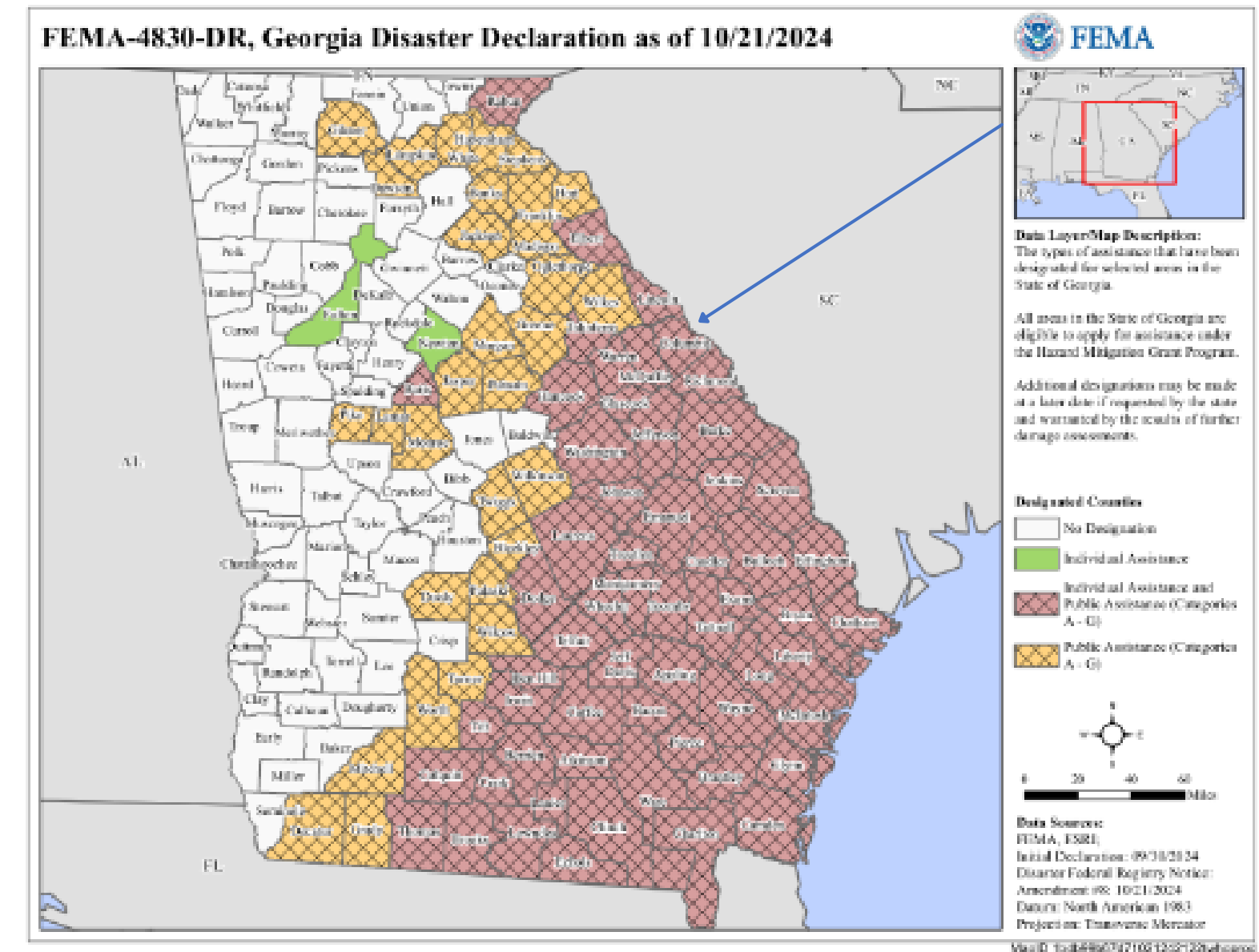
[Individual Assistance](#) | [Public Assistance](#) | [How a Disaster Gets Declared](#)



# FEMA Designations

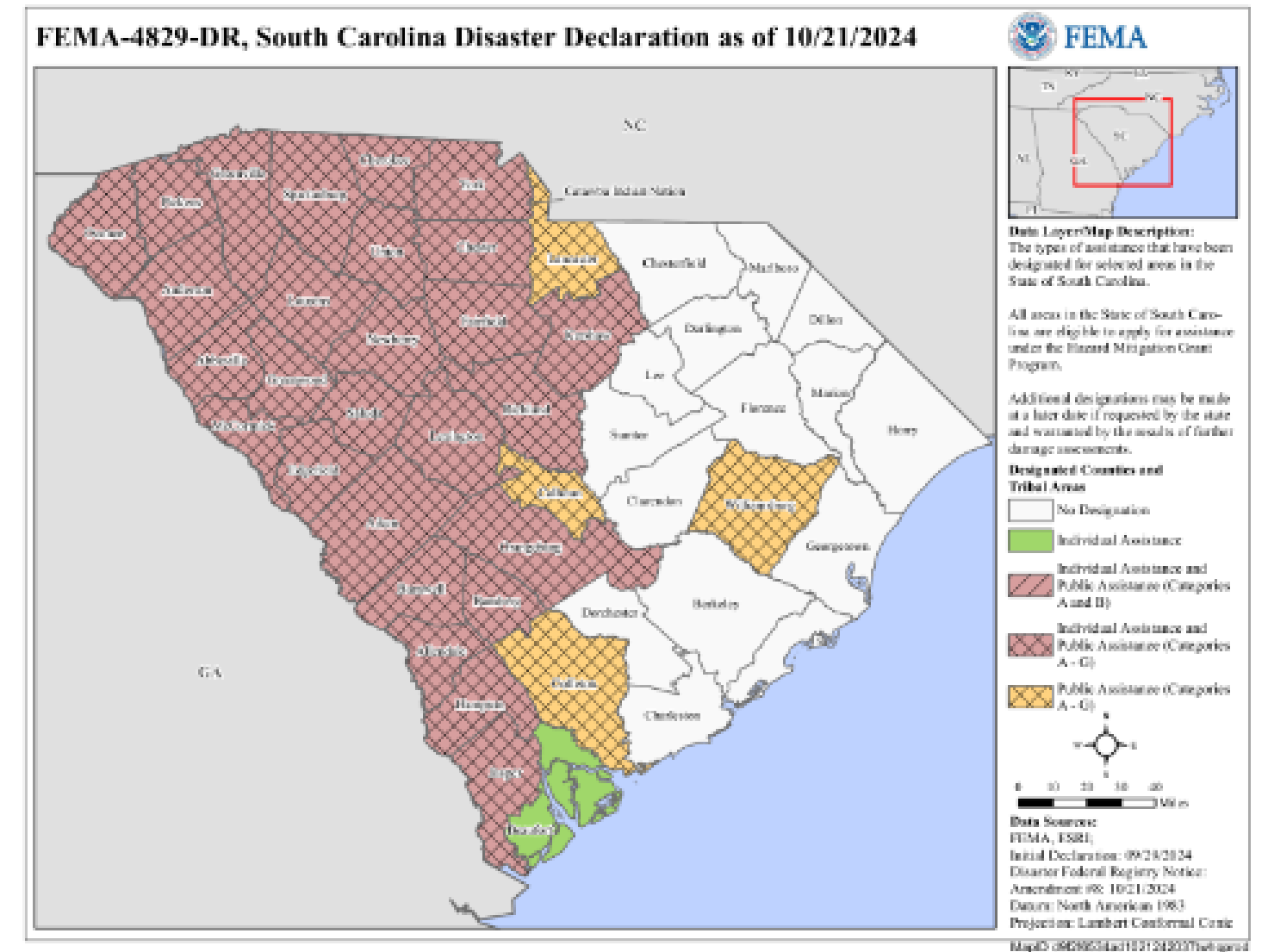
This was designated a Major Disaster in Georgia but only for those individuals living in the indicated counties (red, yellow and green).

**Anyone living outside of these counties cannot claim the casualty loss for this event.**



# FEMA Designations

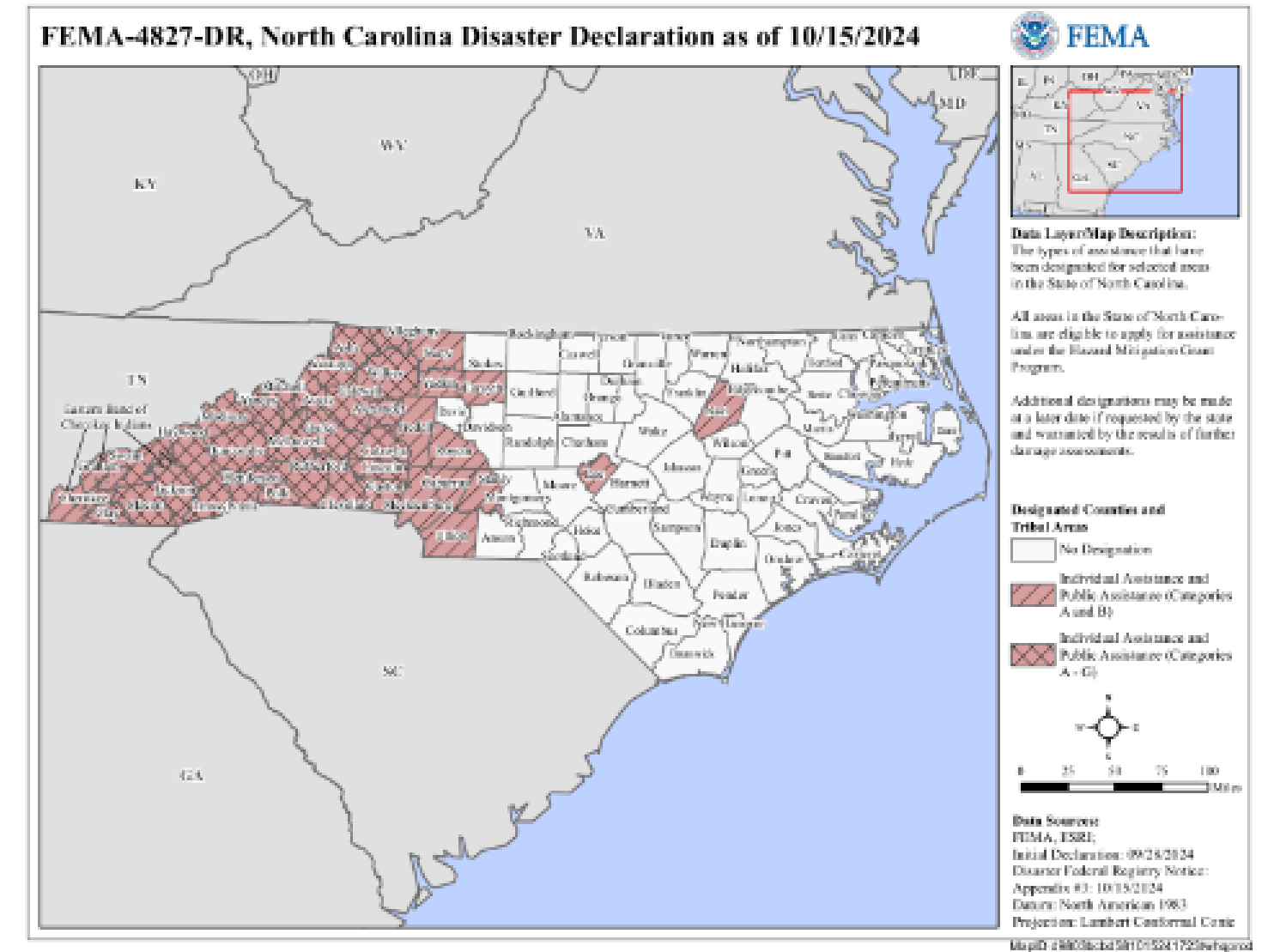
This is the affected area in South Carolina by Hurricane Helene.





# FEMA Designations

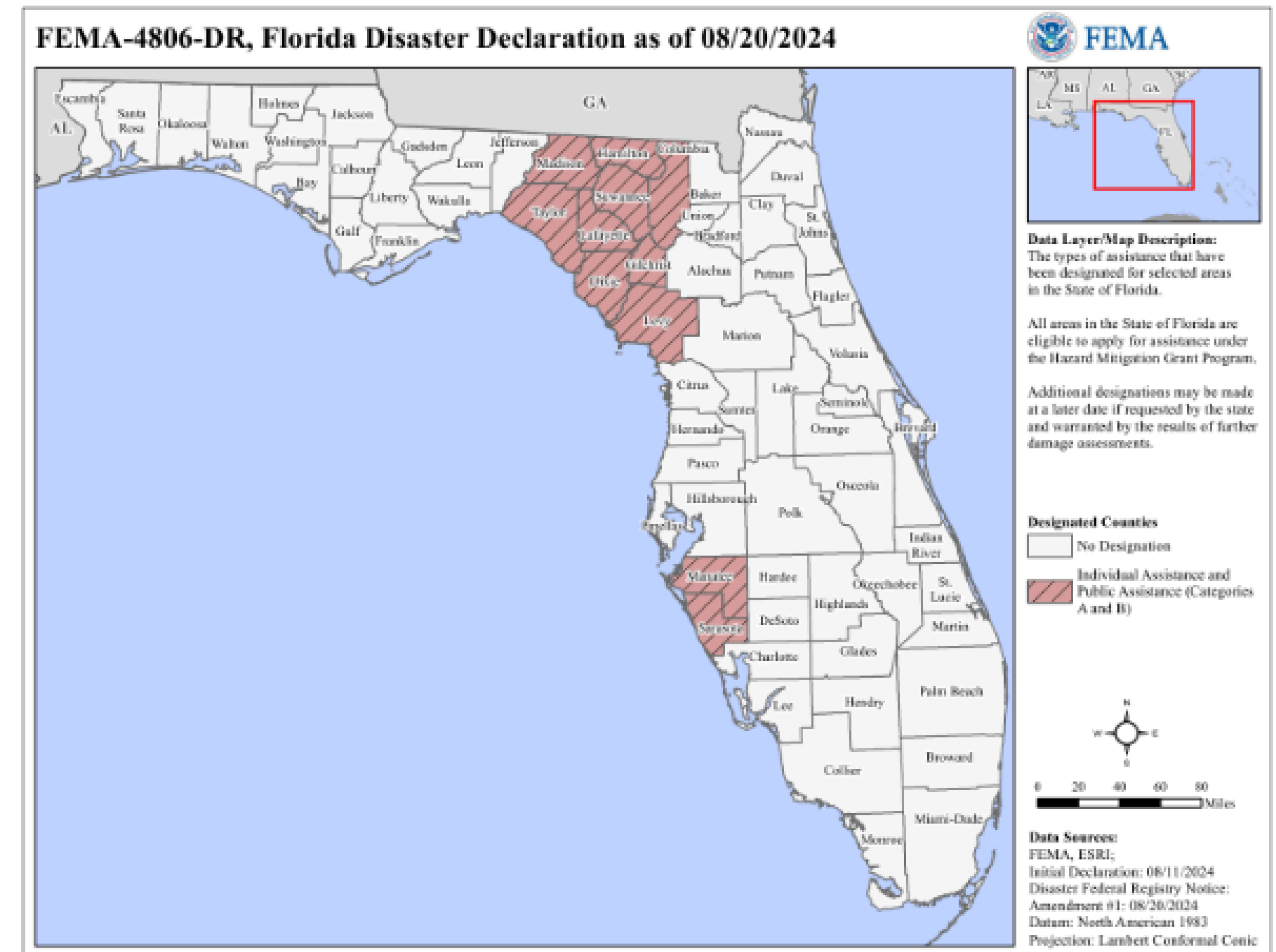
This is the affected area in North Carolina by Hurricane Helene.



# FEMA Designations

Florida had three separate  
Hurricane make landfall this year.

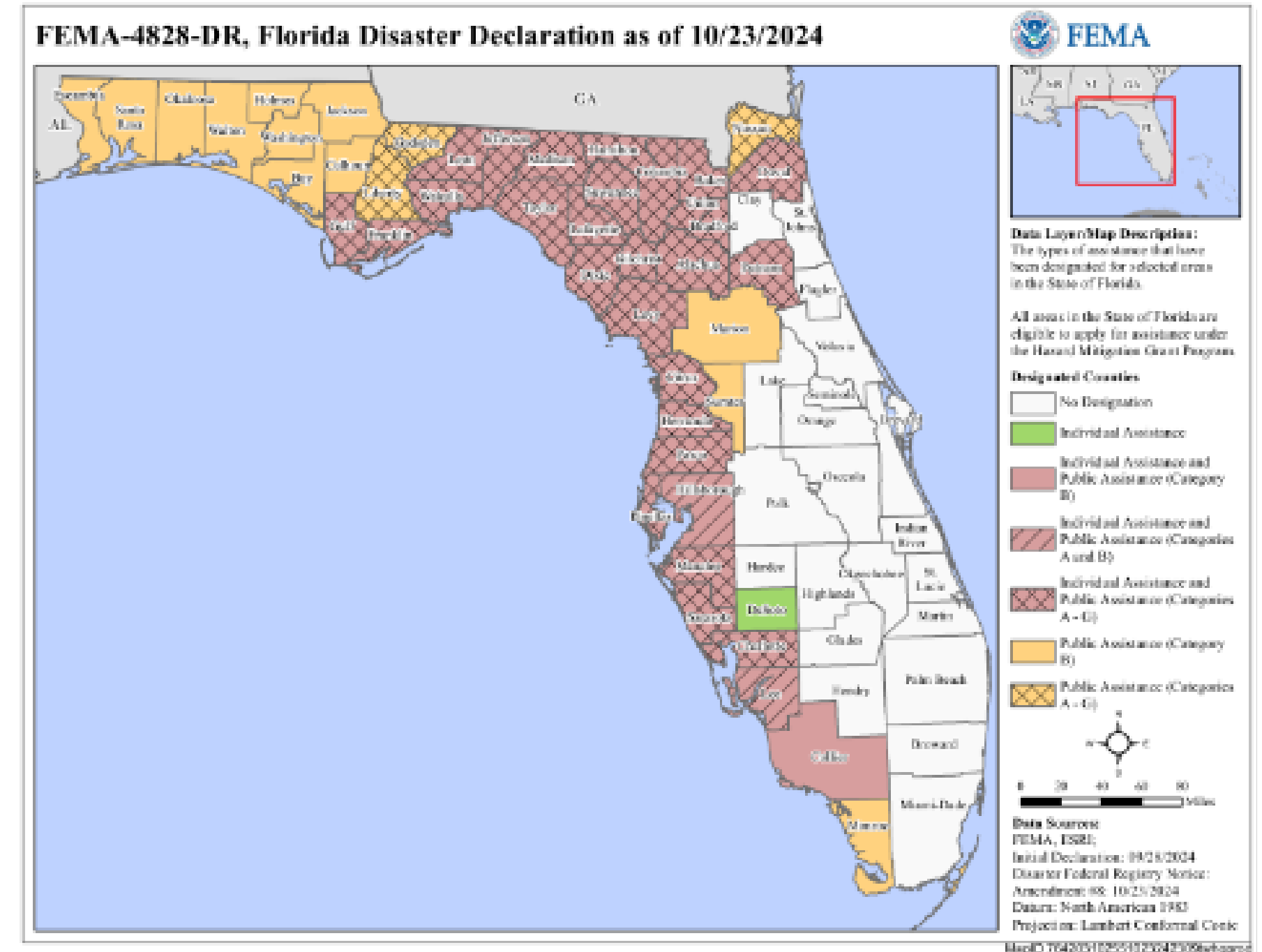
These are the counties affected  
by Hurricane Debbie.



# FEMA Designations

Florida had three separate Hurricane make landfall this year.

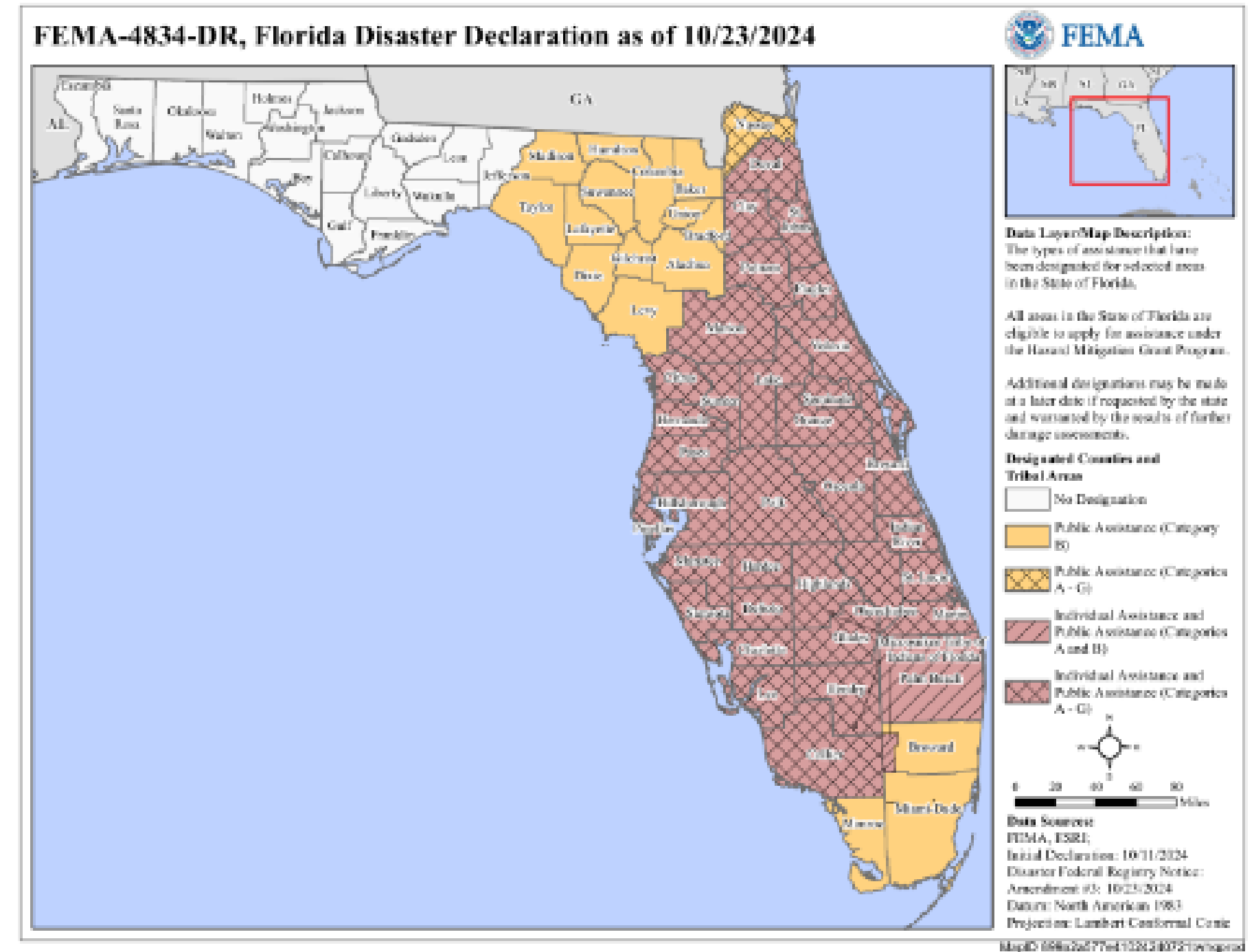
These are the counties affected by Hurricane Helene.



# FEMA Designations

Florida had three separate  
Hurricane make landfall this year.

These are the counties affected  
by Hurricane Milton.



# Casualty and Theft Losses

Personal casualty and theft losses attributable to a **federally declared disaster** are subject to the **\$100 per casualty** and **10% of your adjusted gross income (AGI)**. These losses are claimed only Schedule A as an itemized deduction.

This is known as a **Disaster Loss**, and it occurs if the loss is in an area subject to an **Emergency Declaration**. Since **Hurricanes Debbie, Helene** and **Milton** were **Major Disasters**, this is not what you claim you live in one of the counties in Florida, Georgia, South Carolina or North Carolina shown on the FEMA site.

# Qualified Disaster Loss

Qualified Disaster Loss is a personal casualty and theft losses attributable to a **federally declared disaster** that has been designated a **Major Disaster**

- Qualified Disaster Loss is **not subject to the 10% of the AGI reduction** but the \$100 reduction is increased to \$500.
- Qualified Disaster Loss can be **added** to the **Standard Deduction Amount** for their filing status if the Taxpayer would not otherwise be itemizing.
- You can elect to deduct that loss on your 2024 return or your 2023 amended return for the tax year **immediately preceding the disaster year**.

# Qualified Disaster Loss

## Qualified Disaster Example

Here is a completed Form 4684 showing the amount of a Qualified Disaster Loss as being \$74,500.

1 Description of properties (show type, location (city, state, and ZIP code), and date acquired for each property). Use a separate line for each property lost or damaged from the same casualty or theft. If you checked the box and entered the FEMA disaster declaration number above, enter the ZIP code for the property most affected on the line for Property A.

	Type of Property	City and State	ZIP Code	Date Acquired
Property A	HOUSE	EVANS GA	30809	02/02/2020
Property B				
Property C				
Property D				

		Properties			
		A	B	C	D
2	Cost or other basis of each property . . . . .	2	325000		
3	Insurance or other reimbursement (whether or not you filed a claim) (see instructions) . . . . .	3	250000		
<b>Note:</b> If line 2 is <b>more</b> than line 3, skip line 4.					
4	Gain from casualty or theft. If line 3 is <b>more</b> than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year . . . . .	4			
5	Fair market value <b>before</b> casualty or theft . . . . .	5	375000		
6	Fair market value <b>after</b> casualty or theft . . . . .	6	50000		
7	Subtract line 6 from line 5 . . . . .	7	325000		
8	Enter the <b>smaller</b> of line 2 or line 7 . . . . .	8	325000		
9	Subtract line 3 from line 8. If zero or less, enter -0- . . . . .	9	75000		
10	Casualty or theft loss. Add the amounts on line 9 in columns A through D . . . . .	10			75000
11	Enter \$100 (\$500 if qualified disaster loss rules apply; see instructions) . . . . .	11			500
12	Subtract line 11 from line 10. If zero or less, enter -0- . . . . .	12			74500
<b>Caution:</b> Use only one Form 4684 for lines 13 through 18.					
13	Add the amounts on line 4 of all Forms 4684 . . . . .	13			
14	Add the amounts on line 12 of all Forms 4684. If you have losses not attributable to a federally declared disaster, see the instructions . . . . .	14			74500
<b>Caution:</b> See instructions before completing line 15.					
15	<div><div>• If line 13 is <b>more</b> than line 14, enter the difference here and on Schedule D. <b>Do not</b> complete the rest of this section.</div><div>• If line 13 is <b>equal</b> to line 14, enter -0- here. <b>Do not</b> complete the rest of this section.</div><div>• If line 13 is <b>less</b> than line 14, and you have no qualified disaster losses subject to the \$500 reduction on line 11 on any Form(s) 4684, enter -0- here and go to line 16. If you have qualified disaster losses subject to the \$500 reduction, subtract line 13 from line 14 and enter the smaller of this difference or the amount on line 12 of the Form(s) 4684 reporting those losses. Enter that result here and on Schedule A (Form 1040), line 16; or Schedule A (Form 1040-NR), line 7. If you claim the standard deduction, also include on Schedule A (Form 1040), line 16, the amount of your standard deduction (see the instructions for Form 1040). Do not complete the rest of this section if all of your casualty or theft losses are subject to the \$500 reduction.</div></div>	15			74500

# Qualified Disaster Loss

## Qualified Disaster Example

This amount flows to Schedule A and can be added to the Standard Deduction Amount. It is reported on Schedule A as an "Other Itemized Deduction".

Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions . . . . .	15	
Other Itemized Deductions	16	Other—from list in instructions. List type and amount: NET QUALIFIED DISASTER LOSS: 74500 STANDARD DEDUCTION CLAIMED WITH DISASTER LOSS: 27700	16	102200
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12 . . . . .	17	102200
	18	If you elect to itemize deductions even though they are less than your standard deduction, check this box . . . . . <input type="checkbox"/>		





# Qualified Disaster Loss

Basically, many taxpayers living in one of the disaster areas may be able to claim this deduction if they have at least \$500 in unreimbursed damages to property that they incurred due to Hurricane Helene, Milton or Debbie.

# Calculating a Qualified Disaster Loss

The calculation of Qualified Disaster Loss is based on the FMV of the property **before and after** the disaster less any recovery that the taxpayer has from insurance, FEMA or other non-taxable recoveries. The methods to calculate the Qualified Disaster Loss amount are set forth in **Rev. Proc. 2018-08** and **Publication 547**.

- This applies to residential real property and personal property.

# Calculating a Qualified Disaster Loss

## For residential real property.

- The most common method for calculating the disaster loss amount is to use the **total of the cost of cleaning up and making repairs**.
- The IRS will allow this calculation since these costs will normally reflect the change in FMV since these costs would normally need to be incurred to restore the property to the value it had before the disaster.

# Calculating a Qualified Disaster Loss

To use the **total of the cost of cleaning up and making repairs** requires the following:

1. Repairs are **made** but you cannot include any cost for your own labor.
2. The repairs are deemed **necessary** to bring the property back to its condition before the casualty.
3. The amount spent for repairs isn't **excessive** but is based on market conditions.

# Calculating a Qualified Disaster Loss

To use the **total of the cost of cleaning up and making repairs** requires the following:

1. The repairs take **care of the damage only**.
2. The **value of the property after** the repairs isn't, due to the repairs, **more** than the **value of the property before** the casualty.

# Calculating a Qualified Disaster Loss

In addition to the **total of the cost of cleaning up and making repairs**, a taxpayer can add certain costs of **restoring landscaping** to its original condition by adding what is spent on the following:

- Removing destroyed or damaged trees and shrubs, minus any salvage you receive.
- Pruning and other measures taken to preserve damaged trees and shrubs.
- Replanting necessary to restore the property to its approximate value before the casualty.

# Calculating a Qualified Disaster Loss

How long does a taxpayer have to make these repairs, etc.?

- Normally you have until you file your tax return (including extensions) to claim it on the 2024 tax return. Thus, repairs can be made next year and still be claimed on the 2024 return.
- If you are using insurance proceeds, you may have additional time depending on the situation.

# Calculating a Qualified Disaster Loss

In addition to the **cost of cleaning up and making repairs method**, the IRS provides several simpler “safe harbors” which a taxpayer can follow to calculate the amount of the deduction for their residential real property:

1. Estimated Repair Cost Method
2. De Minimis Method
3. Insurance Method
4. Contractor Safe Harbor



# Calculating a Qualified Disaster Loss

## 1 – Estimated Repair Cost Method

The estimated repair cost safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property using the lesser of **two repair estimates** prepared by separate and **independent licensed contractors**.

The estimates must detail the itemized costs to restore your property to its condition immediately before the casualty.

The estimated repair cost safe harbor method is limited to casualty losses of **\$20,000** or less. **You do not have to make the actual repairs to use this method.**

# Calculating a Qualified Disaster Loss

## 1 – Estimated Repair Cost Method – Example

Taxpayer had 11 trees come down on her property, but she was not covered by a homeowner policy.

Taxpayer gets **two estimates** to have the trees removed from her property and the lesser estimate is \$11,000 or \$1,000/tree. Taxpayer cannot afford at this time to have the trees removed.

Deduction is \$10,500 (\$11,000 - \$500)

# Calculating a Qualified Disaster Loss

## 2 – De Minimis safe harbor method

The de minimis safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property based on a written **good-faith estimate** of the **cost of repairs** required to restore your property to its condition immediately before the casualty.

You must keep documentation showing how you estimated the amount of your loss. The de minimis safe harbor method is available for casualty losses of **\$5,000 or less**. You do not have to make the actual repairs to use this method.

# Calculating a Qualified Disaster Loss

## **2 – De Minimis safe harbor method – Example**

Taxpayer has some minor damage to their gutters which they estimate will cost \$1,500 to get repaired. Their homeowner's insurance deductible is \$2,000 so they do not file a claim.

Taxpayer documents this damage with pictures of the gutter, and they get an estimate from a local contractor but do not bother getting the damage repaired.

Deduction is \$1000 (\$1,500 - \$500)

# Calculating a Qualified Disaster Loss

## 3 – Insurance safe harbor method

This method allows you to figure the decrease in the FMV of your personal-use residential real property that was covered by insurance based upon the estimated loss in **reports prepared by your homeowners insurance company**.

These reports must set forth the **estimated loss** you sustained from the damage to or the destruction of your property.

# Calculating a Qualified Disaster Loss

## 3 – Insurance safe harbor method – Example

The insurance company gave taxpayer a report stating the damage to the residence (deck & fence) was \$25,465.30. This amount included the removal of the trees that fell on the deck and broke a privacy fence.

The insurance company has paid or will pay when the deck and fence are repaired \$21,537.30 as stated in the report.

Difference between the damages and the reimbursement is **\$3,928** which consists of the deductible and items that exceeded certain policy limits.

Deduction is \$3,428 (\$3,928 - \$500)

# Calculating a Qualified Disaster Loss

## 4 - Contractor safe harbor method

You may also use the **contract price for the repairs specified in a contract prepared by an independent and licensed contractor** to determine the decrease in the FMV of your personal-use residential real property. The contract must be binding, and **you can only use this method if you have the repairs done.**

This method can be used by itself or used for property that is not insured. Many folks have tree removal costs that were not covered by insurance.

# Calculating a Qualified Disaster Loss

## **4 - Contractor safe harbor method – Example**

Taxpayer's pool was full of debris and must be drained and cleaned to bring it back to pre-hurricane condition.

Taxpayer has received an estimate of \$2,250.00 from a pool contractor but has not yet gone forward with having the pool drained and cleaned.

This is not covered by the taxpayer's homeowner's policy since the pool itself was not damaged.

Deduction is \$0 since the expenditure was not made



# Calculating a Qualified Disaster Loss

## **What about Personal Property – Vehicles**

The IRS will allow the uninsured cost of repairs or in the case of a total loss of the vehicle, you can use the retail value for your car listed various auto publications (Blue Book) and modify it by such factors as mileage and the condition of your car to determine its value.

You cannot use the trade-in value of the vehicle.

# Calculating a Qualified Disaster Loss

## What about other Personal Property

The IRS will allow replacement cost of the item less 10% for each year that you owned the personal item that was impacted by the disaster.

The IRS also has a De Minimis Safe Harbor for personal property. Under the de minimis method, you can make a good-faith estimate of the decrease in the FMV of your personal belongings if the total is **\$5,000** or less.

# Disaster Relief – Qualified Distributions

Taxpayers living in an area which has been declared a Major Disaster can take a distribution of up to \$22,000 from certain qualified retirement plans:

- Distribution must occur within 180 after the first day of the disaster.

# Disaster Relief – Qualified Distributions

Qualified Disaster Distributions will receive the following treatment:

- The 10% additional tax on early distributions does not apply to any qualified disaster distribution.
- The amount of the distribution is spread over three tax years and is reported on Form 8915-F.
- Taxpayer has the option to repay the distribution if done within three years.