Deducting Disaster Losses for Individuals: Navigating the Rules

The federal tax law provides relief if a disaster—such as a fire, flood, or hurricane—damages your personal (non-business) property, including your home, belongings, and vehicle. You may be able to deduct these losses from your taxable income, but the rules are complex and often restrictive.

Recent changes to the law have expanded eligibility, allowing more disaster victims to claim these deductions.

Only Losses Due to Federal Disasters Are Deductible

Property losses are deductible only if the U.S. president declares the event a disaster. For example, the loss may be deductible if a wildfire destroys a homeowner's property and the president designates the wildfire a federal disaster. But the loss is not deductible if the home burns down due to a faulty fireplace.

Only Unreimbursed Disaster Losses Are Deductible

Many, but not all, disaster losses are covered by insurance. You can't deduct such losses to the extent they are insured. Moreover, if a loss is insured, you must file a timely claim, even if it will cancel your policy or increase premiums. (There's a different rule for business owners. They can claim business casualty losses without filing an insurance claim.)

The amount of your loss is equal to the smaller of (1) the decrease in the property's fair market value after the disaster or (2) the property's adjusted basis before the disaster (usually its cost). You then subtract any insurance or other reimbursement received from the smaller of (1) and (2).

You can use an appraisal or a repair cost to figure out the decline in the property's fair market value.

Limits on Disaster Losses

There are strict limits on your deduction for disaster losses. The general rule is that the first $100 is not deductible, and then you can deduct your loss only to the extent it exceeds 10 percent of your adjusted gross income (AGI). You may deduct the loss only if you itemize your deductions on IRS Schedule A.

Fortunately, thanks to the Federal Disaster Relief Act of 2023, enacted by Congress in December 2024, the general rule does not apply to federal "major" disaster losses from January 1, 2020, through January 11, 2025.

Instead, losses from such qualified disasters are subject to a $500 floor with no 10 percent AGI threshold.

Taxpayers may claim the loss deduction without itemizing and then increase their standard deduction by the amount of their net disaster losses.

Note that January 1, 2020, date. You likely filed that return and others with no loss deduction. You can now file an amended return using the new rules for those wildfire and East Palestine train derailment casualty losses, and you can also exclude some of the disaster area payments you received.

IRS Incorrectly Disallows $120,000 Tesla Model X Tax Write-Off

Did you purchase a 2022 Tesla Model X (or a similar crossover vehicle) and claim 100 percent bonus depreciation on your 2022 tax return? If so, you should know that the IRS has incorrectly disallowed these deductions, arguing that the Model X is a passenger automobile subject to luxury auto depreciation limits.

In a case we know of, the IRS incorrectly disallowed a $120,000 deduction—reducing it to just $19,200 and creating unexpected tax liabilities.

Why the IRS Is Wrong

Under tax code Section 280F, passenger automobiles are subject to strict depreciation limits if their curb weight is 6,000 pounds or less. However, the tax code applies a different standard for trucks and vans, using their gross vehicle weight rating (GVWR).

According to Tesla, the Tesla Model X is an SUV and technically (under tax law) a truck with a GVWR of 6,250 pounds, which exceeds the 6,000-pound threshold and qualifies the vehicle for full bonus depreciation. The U.S. Department of Transportation classifies the Tesla Model X as a non-passenger automobile due to its three-row seating and flat-folding interior, reinforcing that it should not be subject to the luxury auto limits.

What to Do If the IRS Challenges Your Rightful Deduction

If an IRS examiner disallows your rightful deduction, take the following steps:

- **Request a supervisor review.** Your dispute might get resolved at this level.
- **Consider mediation.** A non-binding option may lead to a favorable resolution.
- **File an appeal.** The IRS Independent Office of Appeals will likely rule in your favor (remember, you are technically correct on this deduction).
- **Go to Tax Court if necessary.** Given that you have precise legal and regulatory support for your rightful deduction, you should win—and you could collect attorney fees too.

Protect Your Deduction

An IRS examiner’s opinion is not final. When you know you are right, you have to stand your ground.

While you can often resolve an issue like this alone, professional representation can help simplify the process.

The Best Sole Proprietorship Retirement Plans to Reduce Your 2024 Tax Bill

Are you looking for ways to reduce your 2024 tax bill while securing your financial future? Setting up a self-employed retirement plan could be your solution—and it’s not too late!

You have several options that can provide significant tax savings, including the following:

- **SEP-IRA.** Simple to set up and allows contributions of up to $69,000 for 2024.
- **Keogh plan.** Similar to a SEP but allows borrowing from your account.
- **SIMPLE IRA.** Best for modest income levels with contributions of up to $19,500 if you're 50 or older.
- **Solo 401(k).** Offers the highest contribution limits, especially if you're 50 or older, but involves more paperwork.

Each plan has unique benefits depending on your income and needs. Even better, you can still establish one of these plans and make deductible contributions for your 2024 tax return, as long as you do so before you file that tax return.

The Right Way to Ask Your C or S Corporation for Travel Reimbursements

Here's a summary on your payments of corporate expenses.

Your Corporation Is a Separate Legal Entity

As a business owner operating through a corporation, you need to remember that the corporation is a distinct legal entity separate from you.

Avoiding Costly Mistakes

If you incur expenses related to business travel, meals, lodging, or mileage without seeking reimbursement from your corporation, the corporation does not receive a tax deduction for these costs. Furthermore, you cannot personally deduct these expenses on your individual tax return, as the Tax Cuts and Jobs Act (TCJA) eliminated unreimbursed employee business expenses as an itemized deduction from 2018 through at least 2025.

The Right Way: Accountable Plan Reimbursements

To ensure tax compliance and financial efficiency, you should submit an expense report to your corporation and receive reimbursement under what is known as an "accountable plan." When structured correctly, an accountable plan provides the following benefits:

- You receive tax-free reimbursements for legitimate business expenses.
- Your corporation gets the full tax deduction for the expenses reimbursed.
- Proper documentation protects you in the event of an IRS audit.

Steps to Implement an Accountable Plan

To maintain compliance and ensure proper reimbursement, follow these best practices:

- **Maintain detailed records.** Keep receipts, mileage logs, and business purpose explanations for all expenses.
- **Submit expense reports.** Provide written reports to your corporation, outlining the details of each expense.
- **Ensure timely reimbursement.** Have your corporation reimburse you within a reasonable time frame.

- **Avoid overpayments.** Return any excess amount if your corporation advances funds for expenses.

Take Action Now

To ensure that you maximize tax benefits and stay compliant, implement a formal reimbursement process.

Wildfires, Floods, Hurricanes: How the IRS Has Your Back

Disasters are all over the news these days. Severe calamities that cause widespread damage, such as large wildfires, floods, hurricanes, and earthquakes, ordinarily result in a disaster declaration by the U.S. president.

There's nothing good about a disaster, but at least the tax law can help disaster victims in various ways. And recent changes in the law provide even more ways to get tax relief.

You're probably aware that declared disaster victims can deduct the value of their uninsured losses from their tax returns, subject to limits. There are several other forms of tax relief for disaster victims, including those described below.

Postponement of tax deadlines. The government automatically extends tax deadlines for 60 days for those in federally declared disaster areas. But the IRS usually exercises its discretion to postpone such deadlines for up to one year. The IRS announces the extensions on its website.

Penalty-free withdrawals from retirement accounts. Taxpayers who suffer losses due to federally declared major disasters may withdraw up to $22,000 from their IRA, 401(k), or 403(b) account without penalty. And they can pay the regular income tax due on the withdrawals over three years.

Disaster relief payments are tax-free. Relief payments to disaster victims from federal, state, and local governments are tax-free. Disaster mitigation payments, which are made to lessen or avoid the effects of future disasters, are also tax-free. Payments that charitable organizations make to disaster victims are ordinarily tax-free gifts.

Qualified wildfire relief payments. Under new legislation passed in late 2024, most payments triggered from federally declared disasters caused by forest or range fires are tax-free. This relief applies to qualified wildfire relief payments received from January 1, 2020, through December 31, 2025.

Taxpayers who previously paid tax on wildfire receipts that are now tax-free may amend their tax returns for a refund, including from the years 2020 and 2021. The new law overrides the statute of limitations for these payments and allows amended returns until December 12, 2025.

Casualty gains can be tax-free or deferred. Disaster victims can end up owing income tax on casualty gains. These occur when the insurance received due to a disaster exceeds the adjusted basis of the property damaged or destroyed by the disaster or other casualty event. But there are ways to avoid owing tax on casualty gains, such as the following:

- You can treat the damage or destruction caused by a disaster as an involuntary conversion and postpone reporting the gain if you spend the insurance recovery funds to repair or replace the property within two years—four years for your main home if it was in a federally declared disaster area. If you use all of the insurance proceeds you receive to purchase replacement property within two or four years, your casualty gain will not be taxed.

- If the casualty completely destroyed your main home, you can treat the casualty gain as profit from the sale of your home. Then, if you qualify for the home sale exclusion, you can exclude from your income $250,000 of your gain if you are single or $500,000 if you are married and filing jointly. The destruction does not have to be from a federally declared disaster.

Best Retirement Plan Options for a Solo-Owned C or S Corporation

Because you operate your business as a solely owned corporation (C or S) with no employees, several excellent retirement plans are available to you that can provide significant tax deductions and help you build wealth for retirement.

Some of the best options include:

- **SEP-IRA.** Easy to set up and allows employer contributions of up to $69,000 for 2024 ($70,000 for 2025).
- **Solo 401(k).** Offers the highest contribution limits, with a combination of salary deferrals and employer contributions—up to $81,250 for 2025 if you qualify for super catch-up contributions.
- **SIMPLE IRA.** A great choice for modest salaries, allowing employee deferrals and employer-matching contributions.
- **Profit-sharing plan.** Flexible employer contributions of up to 25 percent of salary, with loan options if needed.

Each of these plans comes with different benefits and administrative requirements, so choosing the right one depends on your salary level, cash flow, and long-term financial goals.

If you haven't yet set up a retirement plan, there's still time to act for the 2024 tax year, depending on the plan you choose.