



Casualty loss deductions: You can claim one only for a federally declared disaster

Unforeseen disasters happen all the time and they may cause damage to your home or personal property. Before the Tax Cuts and Jobs Act, eligible casualty loss victims could claim a deduction on their tax returns. But there are new restrictions that make these deductions much more difficult to take.

What's considered a casualty for tax purposes? It's a sudden, unexpected or unusual event, such as a hurricane, tornado, flood, earthquake, or fire; an accident or act of vandalism; or even a terrorist attack.

Unfavorable change

For losses incurred in 2018 through 2025, the TCJA generally eliminates deductions for personal casualty losses, except for losses due to federally declared disasters. For example, during 2019, there were presidential declarations of major disasters in parts of Iowa and Nebraska after severe storms and flooding. So victims there would be eligible for casualty loss deductions.

Note: There's an exception to the general rule of allowing casualty loss deductions only in federally declared disaster areas. If you have personal casualty *gains* because your insurance proceeds exceed the tax basis of the damaged or destroyed property, you can deduct personal casualty losses that aren't due to a federally declared disaster up to the amount of your personal casualty gains.

Special timing election

If your casualty loss is due to a federally declared disaster, a special election allows you to deduct the loss on your tax return for the *preceding* year. If you've already filed your return for the preceding

year, you can file an amended return to make the election and claim the deduction in the earlier year. This can help you get extra cash when you need it.

This election must be made by no later than six months after the due date (without considering extensions) for filing your tax return for the year in which the disaster occurs. However, the election itself must be made on an original or amended return for the preceding year.

Calculating personal losses

To calculate the casualty loss deduction for personal-use property in an area declared a federal disaster, you must take the following three steps:

1. Subtract any insurance proceeds.
2. Subtract \$100 per casualty event.
3. Combine the results from the first two steps and then subtract 10% of your adjusted gross income (AGI) for the year you claim the loss deduction.

Important: Another factor that now makes it harder to claim a casualty loss is that you must itemize deductions to claim one. For 2018 through 2025, fewer people will itemize, because the TCJA significantly increased the standard deduction amounts. For 2019, they are \$12,200 for single filers, \$18,350 for heads of households, and \$24,400 for married joint-filing couples.

So even if you qualify for a casualty deduction, you might not get any tax benefit, because you don't have enough itemized deductions.

We can help

These are the rules for personal property. Keep in mind that the rules for business or income-producing property are different. If you have disaster-related losses, we can help you navigate the complex rules.