Trusted Choice
Property Losses and Your Taxes

Irrecoverable Property Loss? The IRS Could Be Your Friend
Even though we are big fans of insurance and its valuable place in your protection planning, we also understand this basic truth: No one wants to have a claim.

Yet when that time comes, your Trusted Choice® independent agent knows your homeowners policy will have a chance to prove its mettle in responding fairly and expeditiously to repair, replace or restore your valuable property assets. With proper coverage at the proper limits, even catastrophic financial loss to your property due to hurricanes, tornadoes, blizzards, fires, and even crime can be minimized. But what about your deductibles? Claims for which no coverage may exist? Or when an insured loss is so severe as to exceed even the best planned protection?

For any losses not fully recoverable from your insurance, some help may be available from an unexpected source: the IRS.

Specifically, Tax Topic 515 from the Internal Revenue Service addresses casualty, disaster and theft losses (including federally declared disaster areas). By referring to this topic, and then information in Publication 547: Casualties, Disasters and Thefts, and in Publication 584: Casualty, Disaster and Theft Loss Workbook (Personal-Use Property), you can find detailed advice on when and how you may be eligible to deduct losses not reimbursed by your insurance on your individual income taxes.

Part of the good news is that the IRS definition of "casualty loss" is quite broad:

> *A casualty loss can result from the damage, destruction or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake or even volcanic eruption. A casualty does not include normal wear and tear or progressive deterioration.*

It's not quite as simple as totaling your losses and deducting the amount paid by insurance. (This is the IRS, remember.) You must also consider the adjusted cost basis of your property, any decrease in fair market values, salvage value, and other factors that the IRS takes into account to arrive at the final amount you may deduct. Calculations, values and determination of your final deduction are provided on IRS Form 4684.

At a time of loss, any benefit the IRS can offer may prove a welcome addition to your financial recovery. Yet your Trusted Choice® agent still wants to minimize your need to deal with the potential complexity and limitations of the IRS requirements with a simple strategy: Minimize your uninsured loss. Schedule time today to discuss with your insurance professionals a comprehensive review of your current assets at risk and the protection provided by your current insurance. When it comes to losses to your property, let's work together to keep the IRS deductions as a nice bonus, not your first line of defense.

[SIDEBAR]

Anticipate Catastrophic Property Losses

Massive catastrophic property losses used to be considered flukes of chance, rarely a threat to impact the vast majority of insured folks. Recent statistics, though, show the patterns and odds have changed — and not for the better.

- Twelve of the most expensive catastrophic events in U.S. history have occurred in the last 10 years.
- Hurricane Katrina remains the most costly at nearly $50 billion in insured losses.
- Every area of the country is affected. Consider just the major point of impact of a few of the top catastrophes by insured losses (all events that went on to cause losses in other areas far from the original point of impact):
    - No. 1: Hurricane Katrina (Gulf Coast)
    - No. 2: Hurricane Andrew (South Florida)
    - No. 4: Northridge earthquake (California)
    - No. 5: Superstorm Sandy (Upper Atlantic coast)
    - No. 11 & No. 12: Tornadoes (Midwest, Southern states)

Sources:
http://www.irs.gov/pub/irs-pdf/f4684.pdf
http://www.irs.gov/taxtopics/tc515.html
http://www.irs.gov/publications/p547/index.html
http://www.irs.gov/publications/p584/index.html
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