

[Tax Tips for Disaster Survivors](#)

Income Tax reporting may not be high on your priority list right after a disaster, but we strongly suggest you get a basic understanding of the relevant rules as part of your financial decision-making process on the road to recovery.

Regardless of whether you prepared your own taxes before your loss or used a Certified Public Accountant (CPA) or Enrolled Agent (EA), now is the time to consult with an experienced professional. Casualty loss rules are a particularly complex part of the Internal Revenue Code, and it's hard enough for the average person to understand them, let alone use take full advantage of them. We recommend contacting a CPA or EA that has worked with disaster survivors in the past. Discuss with them how they developed their skills in this area of the tax law. Or, if you have a tax professional you trust but this is their first time preparing a casualty loss return; ask him or her to consult with a colleague who has the necessary experience.

While there is no substitute for having an experienced professional evaluate your tax situation, here are ten tips to consider as soon as possible after your loss and before making major decisions about rebuilding your home, replacing property and filing your tax return. This is not a complete list of all the issues and details you will need to address when reporting your situation on a tax return.

1. Find out whether the event that damaged or destroyed your property was a Federally Declared Disaster. A federal disaster declaration is an official ruling that triggers special tax rules. You can find a list of past events that have been formally declared at www.FEMA.gov/Disasters. Special tax rules of for federally declared disaster, include:

- Insurance proceeds and grants or gifts specifically designated for “contents or personal property” losses related to a primary residence are not subject to taxation, even if they cause a gain or potential gain. These proceeds must still be considered when calculating deductions for losses, similar to computing a loss on your real property.
- You *may* be able to amend the return you filed the year before the catastrophe if the amendment will be advantageous to you.
- It must be a federally declared disaster to file for a Casualty Loss.

The information presented in this publication is for general informational purposes and is not a substitute for legal advice. If you have a specific legal issue or problem, United Policyholders recommends that you consult with an attorney. Guidance on hiring professional help can be found in the “Find Help” section of www.uphelp.org. United Policyholders does not sell insurance or certify, endorse or warrant any of the insurance products, vendors, or professionals identified on our website.

Source: <https://uphelp.org/claim-guidance-publications/tax-tips-for-disaster-survivors/> Date: March 29, 2025

2. Pictures are worth a thousand words. Pre-loss photos of your home and personal property are often your best source for documenting important details of your losses. Ask friends, family and co-workers to share any pictures they may have from social events, meetings or holidays gatherings at your home. Post-loss photos of damaged and destroyed property are also extremely important. Take lots of pictures and detail shots before and during clean-up or debris removal. And make sure to take “before and after” photos of repairs, rebuilding, and/or restoration work.

3. Document, document, document. Create a system that works for you to copy, file, organize and keep track of all information related to:

a) The **cost basis** [1] of all property that was damaged or destroyed in the disaster.

b) Your insurance claim(s). This includes your policy and all related documents, checks, invoices, correspondence, reports, and estimates. We recommend separating these items into the categories of your insurance policy; Dwelling, Contents, Other Structures, Vehicles, Additional Living Expenses, Trees/Shrubs/Landscaping, items “scheduled” in the insurance policy with specific coverage amounts.

4. Consider setting up a separate checking account for disaster-related transactions. As soon as possible, do your best to keep good records of all post-event expenses. These expenses can include invoices and receipts for temporary housing, extra gas (log of miles post-disaster and comparative miles pre-disaster) and food, debris removal, cleaning, emergency as well as permanent repairs, items you buy to replace damaged or destroyed items, counseling and medical and professional fees. This account would be different from a construction account your lender might set up to dole out insurance funds as repairs/rebuilding progress if you have an outstanding home loan.

5. Do not rush to claim a loss on your past or current year’s tax return before there is a “Closed Transaction” and a settled outcome. You may not have received all the proceeds from insurance, government aid, or legal settlements and you may not have identified all of the damage so you will not know the true amount of your losses for a period of time.

6. Keep an eye on that April 15 deadline. While you certainly can get extensions, there is no special “disaster survivor” exception to the usual deadline for filing annual tax returns. It is imperative that you fulfill the normal tax return filing process. Whether your situation results in a deductible loss or a gain that you elect to defer, the tax calendar will demand your attention. Depending

on your personal financial situation, you may elect to “note” that your gain or loss status is presently unknown. Wait until the year that the outcome is “settled” before you report a loss on your return.

7. Professional appraisals of your home and valuables are very useful. This is particularly true if you are underinsured and believe the amounts you will recover from your insurance will be less than the “cost basis” of your property. A qualified real estate appraiser can help you prove the pre and post-loss value of your home and help you make a decision on replacing it by buying elsewhere versus rebuilding. Appraisals of high value personal property items “just before” and “just after” the loss are also particularly helpful if you anticipate insurance shortfalls for those items.

8. If a Government agency issues an “Order to Demolish” your property within 120 days of the event, that order will be relevant to your casualty loss computations. The additional loss resulting from that order will be treated as if it were part of the original loss and not a separate event.

9. The IRS values a personal property/contents “casualty loss” using different methods/formulas than what most insurance companies use. There are special rules and formulas used to determine the decrease in value that was caused by the casualty for tax purposes. Inventories prepared for insurance purposes can be used as a tool in determining a “casualty loss” for tax purposes, but the values do not translate dollar for dollar.

10. Business and investment property losses are treated somewhat differently for tax purposes than personal use primary real estate and personal property losses. There are special IRS rules, restrictions and benefits that apply *only* to business and investment property disaster losses.

Survivors of past disasters and United Policyholders’ staff and volunteers have worked with the Internal Revenue Service and Congress to improve our tax laws to help smooth, not impede, the road to the recovery. Take advantage of those efforts.

[1] For more information on **cost basis** read the “real property” section of IRS Publication 551.

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