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TAX PLANNING AFTER A NATURAL DISASTER

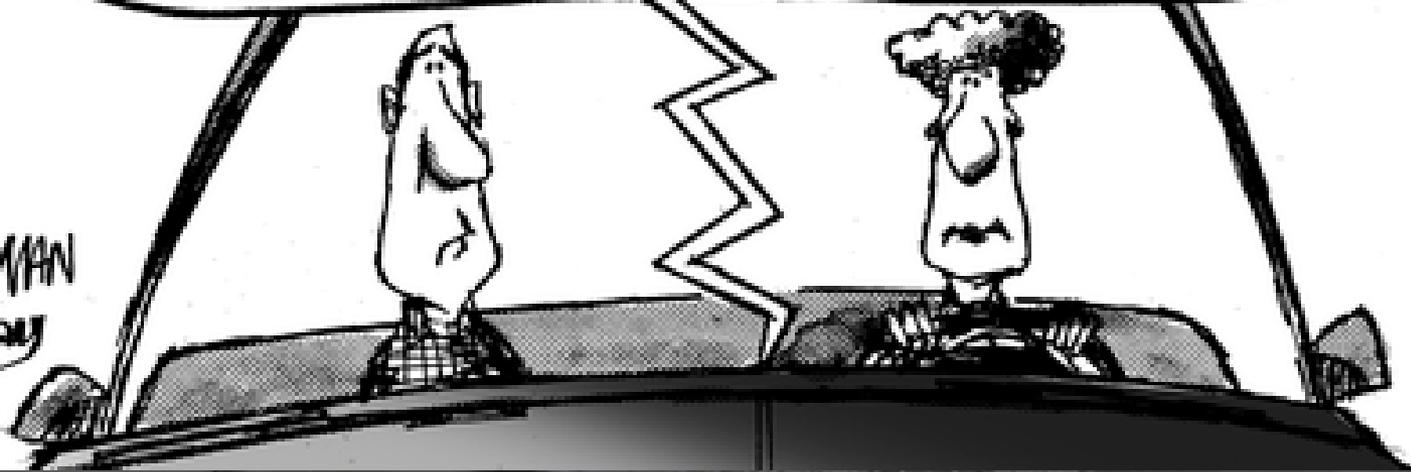
Todd Pefferman, Partner – Oklahoma City



IF THE IRS MADE A GPS...

...PROCEED TO THE INTERSECTION
FOLLOWING SCHEDULE C (SECTION 4-6)
THEN TURN RIGHT IF THE NUMBER OF
PASSENGERS IN YOUR VEHICLE
[FORM B22] IS GREATER THAN THE
NUMBER OF CUP-HOLDERS (LINE 15)
CURRENTLY IN USE...

WAT
MANDELSMAN
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NEWSGROUP





2014



2011



TONIGHT'S TOPICS

- // Federally declared disaster areas
- // Disaster relief payments
- // Casualty loss deduction
 - // Personal
 - // Business
- // Insurance reimbursements
- // Lost tax information
- // Sale of home
- // Travel
- // Estimated tax payments
- // Resources
- // A special tax credit



FEDERALLY DECLARED DISASTER AREA

// Residents of federally declared disaster area can receive favorable tax treatment

// Extended due dates for required payments and returns (May 18th – Sept 30th)

// Abatement of interest, late payment or late filing penalties

// Disaster related loss on 2012 or 2013 tax return

// May 2013 Tornado federally-declared disaster areas (by county)

// Canadian

// Cleveland

// Leflore

// Lincoln

// McClain

// Okfuskee

// Oklahoma

// Okmulgee

// Pottawatomie



QUALIFIED DISASTER RELIEF PAYMENTS

- // Any amount received by an individual as qualified disaster relief payment, regardless of source, is excluded from gross income, including:
 - // Necessary personal, family, living or funeral expenses
 - // Food, medical supplies, housing, or transportation expenses
 - // Repairs to personal residence not covered by insurance
 - // Gifts from friends, family or a charity (certain gifts can be taxable to donor)



CASUALTY LOSS – PERSONAL PROPERTY

- // Casualty loss - loss from sudden, unexpected or unusual identifiable events
- // Amount of loss = lesser of adjusted basis of property *or* decrease in fair market value (FMV) due to casualty
- // If determining decrease in fair market value based off of subsequent repairs, expenditures must be made to property; estimates cannot be used
- // Effect of insurance proceeds and other disaster relief payments
 - // After casualty loss is determined, reduced by insurance proceeds or other reimbursements received
- // You could have a gain if you are reimbursed more than the adjusted basis of the property that was damaged.

CASUALTY LOSS – PERSONAL PROPERTY (CONT.)

// Calculation of loss

// Subject to \$100 and 10% of adjusted gross income (AGI) limitations

// Loss is taken as miscellaneous itemized deduction on Schedule A

// See Publication 584 (right) to help with calculation

Publication 584
(Rev. June 2012)
Cat. No. 15151M

Casualty, Disaster, and Theft Loss Workbook
(Personal-Use Property)

What's New
Future developments. The IRS has created a page on IRS.gov for information about Publication 584, at www.irs.gov/pub584. Information about any future developments affecting Publication 584 (such as legislation enacted after we release it) will be posted on that page.

Introduction
This workbook is designed to help you figure your loss on personal-use property in the event of a disaster, casualty, or theft. It contains schedules to help you figure the loss to your main home, its contents, and your motor vehicles. However, these schedules are for your information only. You must complete Form 4684, Casualties and Thefts, to report your loss.

How To Use This Workbook
You can use this workbook by following these five steps.

1. Read Publication 547 to learn about the tax rules for casualties, disasters, and thefts.
2. Know the definitions of cost or other basis and fair market value, discussed later.
3. Fill out Schedules 1 through 20.
4. Read the instructions for Form 4684.
5. Fill out Form 4684 using the information you entered in Schedules 1 through 20.

Use the chart below to find out how to use Schedules 1 through 19 to fill out Form 4684.

Take what's in each row of...	And enter it on Form 4684
Column 1	Line 1
Column 2	Line 2
Column 3	Line 3
Column 4	Line 4
Column 5	Line 5
Column 6	Line 6
Column 7	Line 7
Column 8	Line 8
Column 9	Line 9

Losses
Generally, you may deduct losses to your home, household goods, and motor vehicles on your federal income tax return. However, you may not deduct a casualty or theft loss that is covered by insurance unless you filed a timely insurance claim for reimbursement. Any reimbursement you receive will reduce the loss. If you did not file an insurance claim, you may deduct only the part of the loss that was not covered by insurance.

Amount of loss. You figure the amount of your loss using the following steps.

1. Determine your cost or other basis in the property before the casualty or theft.

Get forms and other information faster and easier by:
Internet.IRS.gov

Jun 12, 2012



CASUALTY LOSS – DAMAGED HOME

// Example

// Original cost = \$162,000

// FMV before tornado = \$200,000

// FMV after tornado (home damaged in tornado) = \$30,000

// Decrease in FMV = $\$200,000 - \$30,000 = \$170,000$

// Initial loss = \$162,000 (smaller of original cost or decrease in FMV)

// Insurance proceeds received = \$155,000

// Subsequent loss = $\$162,000 - \$155,000 = \$7,000$

// \$7,000 loss is then limited

// First, reduce by 10% of your AGI, and then, reduce by \$100

// Assume AGI of \$50,000

// 10% of AGI = $\$50,000 * 10\% = \$5,000$

// Limited Loss = $\$7,000 - \$5,000 - \$100 = \$1,900$



BUSINESS CASUALTY LOSS

- // Same as for an individual but without the 10% AGI or \$100 limits
 - // Keep in mind as well that there will likely be depreciation lowering the basis of the property as well
- // Reduced by insurance proceeds received



INVOLUNTARY CONVERSION – BUSINESS PROPERTY

- // Applies to insurance proceeds from business property completely or partially destroyed, stolen, seized or condemned
- // No taxable gain if property is replaced within two years (three years for real estate) after election is filed on tax return (**extended to four years if in federally declared disaster area**)
- // Must have intention to replace business property and actually spend all proceeds in order to defer gain



INSURANCE REIMBURSEMENTS FOR LIVING EXPENSES

- // Payments from insurance company for living expenses are not figured in casualty loss calculation; typically, these payments are also not taxable
- // These include:
 - // Payments for staying in motel from insurance company while home is not livable
 - // Payments for a rental car from insurance company



LOST TAX INFORMATION – COPY OF PRIOR YEAR TAX RETURNS

- // File form 4506 to request copy of prior year tax return (**write “Moore Tornado” on top of form to expedite process and waive \$50 fee**)
- // Request IRS transcripts for previous 3 years (free for everyone)
 - // <http://www.irs.gov/individuals/order-a-transcript>



LOST TAX INFORMATION – LOSS OF TAX RECORDS

// Reconstructing lost tax records

// If records are lost, you should reconstruct records for tax purposes



SALE OF PRINCIPAL RESIDENCE

- // Up to \$500,000 (married filing jointly) or \$250,000 (single) of gain from sale of principal residence is not taxable if you lived in AND owned the residence for two of the last five years
- // Gain may be able to be partially excluded if you don't meet the ownership requirement
 - // Premature sale due to unforeseen circumstances
- // If home was only partially damaged
 - // Gain from partial damage of home is not excluded from gross income (insurance proceeds > repairs)



TRAVEL EXPENSES FOR DISASTER VICTIMS

- // **Your employer** relocates to another location due to natural disaster
 - // Employee can deduct costs associated with temporary relocation (includes trip to location of temporary workplace, any overnight lodging required, 50% of meals and trip back from location of temporary workplace after you're able to return)
 - // Taken as miscellaneous itemized deduction
- // A taxpayer can deduct travel expenses if displaced by disaster and must live and work in another locality
 - // Travel expenses are deductible if taxpayer lives and works in another locality but expects to return to live and work in affected area within one year
 - // Taken as miscellaneous itemized deduction



ESTIMATED TAXES

- // If located in federally declared disaster area, you get a break on penalties for not filing estimated taxes for 2nd and 3rd quarter of 2013
- // June 17th and September 16th estimated tax payments for individuals and businesses were extended to September 30
- // IRS will not charge interest for above time period



RESOURCES

- // [IRS.gov](https://www.irs.gov)
- // [Oktax.state.ok.us](https://oktax.state.ok.us) (Oklahoma Tax Commission)
- // [Findyourcpa.com](https://findyourcpa.com) – receive a free referral to a CPA and a free half-hour consultation with that CPA
- // [Knowwhatcounts.org](https://knowwhatcounts.org) – free financial tips and calculators



OKLAHOMA TAX CREDIT

- // Form 576
- // 5 year credit starting in 2013 tax year
 - // Credit = difference in ad valorem property tax paid before and after the destruction of your primary residence
 - // Each year the credit is 80% of the previous year's credit
- // The natural disaster could have occurred in 2012 or 2013
- // The credit is a “refundable” credit

Form 1040

FEDERAL
INCOME
TAX
RETURN

Your first name only

If a joint return, spouse's first name and last name

Home address (number and street). If you have a P.O. box, see page 14.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.

Filing Status

Check only one box.

- 1 Confused
- 2 Disgruntled
- 3 Disgruntled and confused

Exemptions

- 6 a Yourself. If someone can claim you as a dependent.
- b Spouse

c Dependents:

(1) First name

Last name

(2) Dependent's social security number

If more than four dependents, see page 17 and

Number of exemptions claimed

Chattanooga Times Free Press Form(s) W-2

BENNETT

THANK YOU

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FOR MORE INFORMATION // For a complete list of our
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