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DISASTER INCOME TAX REPORTING TIPS OUTLINE

After a catastrophic event, the taxpayer whose property has been lost or damaged cannot ignore the income tax consequences. Consulting a tax professional who has an in-depth understanding of these consequences and who can guide the taxpayer to take advantage of the available tax benefits, as well as understanding and be in compliance with the income tax reporting responsibilities is essential. Below are the basics to assist taxpayers gather the data to make choices and decisions.

1 THE COST BASIS OF ASSETS LOST OR DAMAGED IS CRITICAL TO ANY LOSS OR GAIN COMPUTATION

Cost basis of assets lost or damaged

Real Property Cost Basis

Personal property

Other property

2 ALL PAPERWORK THAT ARISES AFTER THE EVENT IS IMPORTANT.

IT NEEDS TO BE RETAINED AND PROVIDED TO YOUR INCOME TAX PREPARER INCLUDING ALL GRANTS, SOME OF WHICH MAY BE NON-TAXABLE GIFTS

Documenting – A Gain or a Loss?

3 THE PHYSICAL CONDITION AND LOCATION OF ITEMS LOST

Any documentation you prepare for an insurance claim for personal property should be kept as a beginning point for determining if there is a reportable loss on your income tax returns

4 IF THERE IS NO POSSIBILITY OF HAVING A LOSS DUE TO ADEQUATE INSURANCE COVERAGE, THEN YOU DON'T NEED APPRAISALS; HOWEVER, IF THERE IS ANY CHANCE THAT THERE MAY BE A LOSS, THEN APPRAISALS ARE WORTH CONSIDERING

Valuations (before / after)

Additional rules apply to these appraisals, most appraisers are not aware of the rules even if they are competent

5 MAINTAIN A DETAIL ACCOUNTING OF ALL THE REPAIR, OR REPLACEMENT COSTS

Evidence – legal documents / photos

Post Event: Replacements (Repairs and or Acquisitions)

6 MAINTAIN DETAILS OF ALL INSURANCE PAYMENTS, INCLUDING THE REASON FOR THE PAYMENT TAX REPORTING FOLLOWS THE INSURANCE PROCEEDS

“A” & “B” Structure (including appurtenant structures such as outbuildings, detached garages) trees & landscaping

“C” Contents (Personal property)

“D” Additional Living Expense (ALE, Extra expense)

Special Endorsements, “Scheduled Property”

Vehicles, RV's, Boats, ...

7 MAINTAIN RECORDS OF EACH PAYMENT AND CASH RECEIPTS:

Keep all check COPIES and Source documents

Prepare a spread sheet, include:

Date / Amount / Indication of joint payee and resolution

Possibly open a separate bank account (Lender withholding – structure only)

Include in your documentation all payments paid and received for ALE

**8 THERE IS NO PROSCRIBED FORM FOR REPORTING A DEFERRAL OF GAIN
INCLUDE IN ANY TAX RETURN, FOR ANY RELEVANT PERIOD, THE FOLLOWING INFORMATION FOR THE YEAR
BEING REPORTED AND CUMULATIVELY FOR ALL YEARS SINCE THE ORIGINAL EVENT THROUGH THE END OF
THE REPLACEMENT STATUTORY REPLACEMENT PERIOD OR ONCE YOU HAVE FINALIZED THE
REPLACEMENT PROCESS:**

WHETHER THERE IS A GAIN, NO GAIN, OR A LOSS

Regardless of whether your event generated a gain or loss or neither, the following reporting should be followed:

For year or years of event and receipt of proceeds, and for each year thereafter UNTIL REINVESTMENT is completed or the replacement period (including extensions) has expired, report these details by year and cumulatively

Information related to the return for the taxpayer who owns the property: Event identification – including any federal or state disaster declarations, (or the taxpayer is leasing and is contractually liable to the owner for the damage)

IRC Section being applied for deferral including an election to defer gain under the appropriate Code section

Date(s) of event

City, county and state in which the covered event occurred

Cost basis of property converted, identification of "originating property" - include address for real property

Include statement: "The event was a direct result of the casualty"

Insurance proceeds received or expected to be received, by year, proceeds received Less Gain Excluded and any "recognized gain" = **Net Proceeds realized**

Year(s) and amount of gain realized – (the gain may be realized in more than one year) – each realization year must be reported

For replacement properties: Identification of replacement property(ies) or repairs, type of property, location, proceeds invested

Dates of reinvestment

9 MAKE SURE THAT YOU HAVE A CLEAR UNDERSTANDING OF ALL RELEVANT TIME PERIODS, TAX REPORTING DUE DATES, AND EXPIRATION OF REPLACEMENT AND TAX EXAMINATION PERIODS.

TIME PERIOD TO COMPLETE QUALIFIED REPLACEMENTS

Extensions of time may be available in some circumstances

10 TAXPAYERS SHOULD DISCUSS THE WHOLE LOSS SITUATION WITH A KNOWLEDGEABLE TAX PROFESSIONAL BEFORE CLAIMING ANY LOSS ON A TAX RETURN.

The penalties and potential tax costs hidden in wrong tax decisions can be a second disaster, one that could cost you thousands of dollars in taxes

11 DON'T RUSH TO DEDUCT

Prematurely deducting a loss before all the facts are known can become very costly. Search for "Don't Rush To Deduct" on Disaster Income Tax Advice Blog: www.AccountantForDisasterRecovery.com

This material covers income tax laws based on the author's understanding of the federal tax laws affecting casualties and involuntary conversions. This is general information. Application to specific cases require fact finding. Relying solely on this material does not qualify as tax advice for purpose of mounting a defense of a tax position with the taxing authorities