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GERALD HERBERT/ ASSOCIATED PRESS The aftermath of Hurricane Milton in Fort Pierce, Fla.

Hurricane Damage and Your Taxes. Here's What to Know.

TAX REPORT |

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Losses from natural disasters may be tax deductible, and even those spared by Mother Nature in 33 states may qualify for extended tax deadlines

So far this year, part or all of 33 states have been declared federal disaster areas, and some areas have qualified more than once. Losses, especially in the wake of Hurricanes Milton and Helene, are expected to be in the tens of billions of dollars.

Making matters worse, many disaster victims don't have sufficient insurance, or the right kind of insurance, to cover these losses.

Part of the losses could be deductible for tax purposes for some victims, cushioning the blow. But there are strict and complex limits on disaster deductions that will severely limit the amounts many can recover unless Congress changes the rules. Lawmakers enacted such changes for Hurricanes Harvey and Irma after they hit in 2017. Efforts are afoot to make changes for recent disasters, perhaps in the post-election, lameduck session.

Both victims and non-victims in disaster areas could benefit from delayed tax deadlines, however.

Here's what to know about disaster- loss deduction limits and delayed deadlines.

Under current law, casualty losses—from, say, a hurricane or wildfire—must be from a federally declared disaster to qualify for a deduction. Damage from an isolated event like a house fire doesn't qualify.

That's because in 2017 Congress suspended broader deductions for casualty and theft losses as part of the tax overhaul. This suspension lasts until the end of 2025, when the 2017 changes are due to lapse.

Key limits lower the amount of deductible losses, however. Taxpayers must subtract Federal Emergency Management Agency and insurance reimbursements from the allowable loss. They must also subtract an amount equal to 10% of their adjusted gross income, or AGI. AGI doesn't include itemized deductions, so it's often much larger than taxable income.

In addition, a casualty loss deduction can't exceed the taxpayer's cost basis in the asset. For a home, this is often the purchase price, with adjustments for improvements like an addition or a deck. It's not the home's market value or assessed value for local taxes.

In practice, the pileup of these limits often leads to disappointing— and sometimes weird—results, as a simplified example shows.

Say that two homeowners had similar properties near Asheville, N.C., and both were washed away by floods from Helene. Neither owner had insurance or FEMA reimbursements.

Both houses were worth about $500,000, but one owner bought for $150,000 years ago while the other bought more recently for $400,000. As a result, the upper limit for the newer owner's loss deduction is $400,000, while it's $150,000 for the other owner. The loss would also have to exceed 10% of each owner's AGI, and owners would have to subtract that amount from what they're looking to deduct. So the two owners' deductible losses could diverge even more. "This is going to be a mess. There will be no consistency in loss deductions, due to homeowners' tax basis, insurance coverage and income," says Gerard Schreiber, a CPA who heads a disaster tax force for the American Institute of CPAs.

However, many non-victims—as well as victims—of declared disasters could benefit from tax-deadline extensions this year.

Here's an example. The entire state of Florida has been declared a disaster area due to Hurricanes Debby, Helene and Milton. As is usual, the IRS has delayed many tax deadlines and may delay more, and the new deadlines apply to all filers in an area whether or not they suffered damage.

So Florida filers who received the standard six-month extension to file their 2023 returns back in April, pushing the deadline to next week on Oct. 15, now have until May 1, 2025, to file. Even better, these filers won't have to pay their 2024 taxes due next April 15 until May 1.

In addition, the third- and fourth-quarter deadlines for estimated quarterly payments have been extended to May 1, 2025 for many Florida taxpayers. Penalties for underpayments also stop accruing.

Say a Tallahassee taxpayer had an income windfall in the first quarter of 2024 and didn't pay estimated tax due on it, triggering an interest-based penalty of 8% on the underpayment. Even if this filer had no hurricane damage, the delayed deadlines will help because the filer's underpayment penalty paused in August, and the pause will continue past next April 15. The savings could be hefty.

But this largess will also cause confusion. A number of retail and professional software programs don't adjust for delayed deadlines due to disasters—so they may assess penalties that aren't actually owed.

If that happens, the IRS's computers typically catch the discrepancy and issue a refund, but the taxpayer may have no idea what it's for. A surprise refund can cause almost as much anxiety as a surprise tax bill.

Taxpayers can, and should, check if they qualify for extended tax deadlines due to disasters on the IRS website. With so many disasters this year, this is important because extensions vary from area to area.

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