Natural Disasters/Casualty Losses

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Income Tax Fact Sheet 7 *Minnesota forms you may need: M1, M1X* **Fact Sheet**

This fact sheet will help you determine the fair market value of your destroyed property and provide sources of information when your records may have been destroyed.

If your property is damaged or destroyed because of a natural disaster, you may be able to deduct the amount of your loss when you figure your federal and state taxes.

The decrease in the value of your nonbusiness property caused by floods, fires, storms or theft is considered a casualty loss. Nonbusiness property includes both **real property**, which includes, but is not limited to, land and buildings attached to the land, such as your home, and **personal property**, which is all other property, such as your car or furniture that is not attached to the land.

Ordinarily, you can deduct the amount of your casualty loss only if you itemize deductions on your federal income tax return. You may have to file amended federal and state returns to adjust your loss if you are reimbursed in a later year by insurance or emergency disaster funds. See IRS Publication 547, *Casualties, Disasters and Thefts*.

Real property

To determine the amount of loss on nonbusiness real property you can deduct for federal and Minnesota purposes, follow the instructions for federal Schedule A (Form 1040), *Itemized Deductions*. To calculate the deduction, you will need to do the following:

1. Determine the decrease in fair market value of the property. Fair market value is the price that a willing buyer would pay a willing seller with all relevant facts known. The decrease in fair market value is the difference between the property's value immediately before and immediately after the disaster.

   You can use the cost of cleaning up or making repairs after a casualty as a measure of the decrease in fair market value under certain conditions. For details, see IRS Publication 547, *Casualties, Disasters and Thefts.*

2. Determine your adjusted basis of the property. Adjusted basis is usually the original cost plus improvements.

3. Compare the decrease in fair market value (the result in step 1) to your adjusted basis (step 2 result). Your loss is the smaller amount. You cannot incur a loss greater than your basis in the property.

4. Reduce the loss (the result in step 3) by reimbursements you received or will receive. Reimbursements can include insurance payments, court awarded damages or disaster loans forgiven. Other types of reimbursements are shown in the instructions for federal Form 4684, *Casualties and Thefts*. Money you receive, such as gifts or grants, that can be used at your discretion does not reduce the loss.

Additional limitations apply in determining the amount that you can deduct. For instance, for losses occurring in 2010, the remaining amount (the result in step 4) is reduced by $100 for each casualty and is further reduced by 10 percent of your federal adjusted gross income. All property destroyed by a disaster is considered a single casualty when calculating the $100 reduction. Ordinarily, the result is your deductible loss, which is reported as an itemized deduction on federal Schedule A.

Note: In all instances, you should follow IRS instructions concerning the computation of your losses, especially for more complicated situations, such as those in which you have losses attributable to business property or you have gains resulting from a disaster. Furthermore, if you are amending a return for disasters occurring before 2010, you should look at IRS guidance specific to the year of the disaster since different rules might apply to those losses. For further details, go to the IRS website at www.irs.gov or call 1-800-829-1040.

Sources of information

Determining the fair market value and the basis of destroyed real property can be difficult, particularly when your records may also have been destroyed. Below are a few helpful sources of information to help you determine your real estate losses.

- **County Assessor's Office**

  Field cards are available that show when the property was built, its size and any improvements (such as decks, garages, swimming pools) that were made. The estimated market values of the property and improvements are shown. The assessor's records will also show when the property was last appraised by the county.

- **City or county offices**

  Check with the city or county office in which building permits are obtained. The permits may show the date, type of building project, its estimated cost and the contractor doing the work.

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Individual Income Tax Division
Mail Station 5510, St. Paul, MN 55146-5510
Phone: 651-296-3781 or 1-800-652-9094
Minnesota Relay 711 (TTY)

- **Area appraisers**

  Seek an appraisal from a reliable and experienced appraiser. The appraisal fee is not part of the casualty loss but may be deductible as a miscellaneous itemized deduction.

- **Sales of real estate in your area**

  Compare your property to properties that were sold prior to the disaster. Realtors and appraisers compare features in properties sold to those features in your property and adjust the selling price accordingly.

- **Banks and other financial institutions**

  Banks and other financial institutions may have copies of appraisals of the property done when applying for a loan.

- **Administrator of the estate**

  If you inherited the property, the administrator of the estate may have paperwork showing the value for estate tax purposes.

- **County Recorder's Office**

  The County Recorder's Office has warranty deeds, contracts for deed or estate deeds, if recorded, that show the price at which the property was previously sold.

Personal property

Determining the fair market value of personal property damaged or destroyed is more difficult. Most people do not keep receipts on purchases of personal property or, if they did, those records may have been destroyed. Below are suggestions to help you determine fair market values of or your basis in personal property:

- **Vehicles**—Books showing the fair market value of vehicles can be found in bookstores, online, lending institutions or car dealerships. Banks and other financial institutions may have a copy of the purchase invoice in their loan file.
- **Furniture and appliances**—If purchased from a store, contact the store for a copy of the invoice. If acquired by gift, your basis is the same basis as the person who gave you the gift. Secondhand stores, Goodwill or Salvation Army stores may provide assistance in determining the fair market value before and after the casualty. If the property was inherited, the administrator of the estate may have the values used for estate tax purposes. Contact antique dealers to determine the fair market value of antiques.
- **Personal clothing, small appliances, dishes, sporting equipment, tools, etc.**—These types of items generally lose their value quickly. Their fair market value before the disaster is usually considerably less than what you paid for it or what it would cost to replace. Secondhand stores, Goodwill, Salvation Army and rummage sales are places to look for help in determining fair market values.
- **Valuable items, collections**—You can prove that you had valuable items or collections that were destroyed through third-party testimony, videotapes of your collections, documentation from other collectors that you participated in shows or clubs, and receipts or records showing you purchased the items. In some cases, your insurance company may have required you to list your jewelry, collections of stamps, coins, guns or other valuables. Fair market values can be determined by checking with businesses or appraisers who handle these types of items.

Other things to consider

- If you receive insurance or other reimbursements that exceed your basis, you may have a gain to report on your tax return. Examples can be found in IRS Publication 547.
- Taxpayers with losses occurring in declared federal disaster areas can choose to report their casualty losses from the disaster on their current year federal return or the previous year's return. The election must be made by the due date of the current year's income tax return. IRS Publication 547 and Publication 584, *Casualty, Disaster and Theft Loss Workbook (for personal-use property)*, provide useful information.

  If you're amending your federal return to report the loss on a prior year return, you must also amend your state return. Use Form M1X, *Amended Minnesota Income Tax*, for the year you are amending.
- Minnesota income tax law allows casualty, theft or disaster losses in the same way as federal tax law for regular tax purposes. Therefore, no adjustments are needed on your Minnesota return.
- For purposes of determining your Minnesota alternative minimum tax (AMT), your casualty, theft and disaster losses are not included in your alternative minimum taxable income.

Have questions?

Internal Revenue Service (IRS) 1-800-829-1040

Minnesota Department of Revenue
Individual Income Tax: . . . . 651-296-3781 or 1-800-652-9094

Need forms?

If you need forms, you may:

- download forms, fact sheets and other tax-related information at: www.taxes.state.mn.us
- call 651-296-4444 or 1-800-657-3676 to have forms mailed to you
- write to: Minnesota Tax Forms, Mail Station 1421, St. Paul, MN 55146-1421.