

## **IRS Declared a Federal Disaster: What Now?**

In November of 2021 a significant number of individuals and businesses in Whatcom County suffered through damage caused by severe flooding, which was later declared a Federal Disaster on January 6, 2022. Many will have substantial losses of their personal property, for which they will not receive an insurance settlement or other form of relief. Learn more about the IRS benefits now available due to this disaster declaration.

### **What is a Federally Declared Disaster?**

All emergency and major disaster declarations are made solely at the discretion of the President of the United States. The Internal Revenue Service (IRS) provides tax relief through postponing certain tax-filing and tax-payment deadlines, and allows the ability to calculate and deduct casualty loss deductions on your Federal Income Tax Return and allows additional time to file and pay certain returns and taxes.

### **Tax Relief Provided by the IRS**

On January 11, 2022, the IRS announced tax relief for taxpayers that reside or have a business in Clallam, Skagit and Whatcom Counties, which includes postponing certain tax-filing and tax-payment deadlines. For instance, certain deadlines falling on or after November 13, 2021, and before March 15, 2022, are postponed through March 15, 2022.

The postponed March 15, 2022 deadline applies to:

- Quarterly estimated tax payments, normally due on January 18, 2022.
- Quarterly payroll and excise tax returns normally due on January 31.
- Farmers who choose to forgo making estimated tax payments and normally file their returns by March 1 will now have until March 15, 2022 to file their 2021 return and pay any tax due.

Penalties on payroll and excise tax deposits due on or after November 13, 2021, and before November 29, 2021, will be abated as long as the tax deposits were made by November 29, 2021

If an affected taxpayer receives a late filing or late payment penalty notice from the IRS that has an original or extended filing, payment or deposit due date that falls within the postponement period, the taxpayer should call the telephone number on the notice to have the IRS abate the penalty.

The IRS automatically identifies taxpayers located in the covered disaster area and applies filing and payment relief. But affected taxpayers who reside or have a business located outside the covered disaster area should call the IRS disaster hotline at 866-562-5227 to request this tax relief.

In addition, all relief workers affiliated with a recognized government or philanthropic organization assisting in the relief activities in the covered disaster area and any individual visiting the covered disaster area who was killed or injured as a result of the disaster are entitled to relief.

The IRS will also waive fees for obtaining copies of previously filed tax returns for taxpayers affected by the storms and flooding. When requesting copies of a tax return or a tax return transcript, write "Washington Flooding and Mudslides" in bold letters at the top of Form 4506 (copy of return) or Form 4506-T (transcript) and send it to the IRS.

For the full announcement and all detailed information, please visit the [IRS website](#).

## **Do You Qualify for a Casualty Loss Tax Deduction?**

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 loss that is covered by insurance. Any reimbursement you receive from your insurance provider will reduce the loss. If you didn't file an insurance claim, you may deduct the total amount of loss calculated.

## **How to Calculate the Amount of Loss**

To determine the amount of your loss, follow these steps:

1. Determine your cost or other basis (typically original cost + improvements) in the property before the casualty.
2. Determine the decrease in fair market value of the property as a result of the casualty. The decrease in fair market value is the difference between the property's value immediately before and immediately after the casualty.
3. From the smaller of the amounts determined in 1 and 2, subtract any insurance or other reimbursement you received or expect to receive.

If the casualty involves more than one item of property, you must figure the loss on each item separately. Then combine the losses to determine the total loss from that casualty.

Form 4684 is the appropriate IRS form to calculate your gains or losses from this disaster. Upon filling it out, you will be required to enter the appropriate declaration number assigned by FEMA. For the Whatcom County flooding, the declaration number is: DR-4635-WA

Once you have used Form 4684 to calculate your gain or loss, you must report the total on Schedule A of your Federal Income Tax Return.

## **Limits on Deduction**

After the total amount of loss is calculated, deduction limits apply prior to recording the loss on Schedule A of your Federal Income Tax Return. If the loss was to property for your personal use or your family's, there are two limits on the amount you can deduct for your casualty loss:

1. You must reduce each casualty loss by \$100.
2. You must further reduce the total of all your losses by 10% of your adjusted gross income.

For example, John Smith had a \$25,000 uninsured loss to his home from the flooding that was ultimately declared a federal disaster. John's adjusted gross income for the year is \$75,000. He can deduct only that portion of his loss that exceeds \$7,500 ( $10\% \times \$75,000 = \$7,500$ ). This limitation is calculated while completing Schedule A.

## **When to Deduct Casualty Losses**

Casualty losses from a federally declared disaster are always deductible in the year the casualty occurred. However, you have another option: You can treat the loss as having occurred in the prior year and deduct it on your return or amended return for that tax year.

## **Record Keeping for Casualty Losses**

Claiming a Casualty Loss Deduction can be a trigger for the IRS to look deeper into your tax return. Throughout the process, be sure to organize proper documentation, including:

- Documents showing that you owned each asset you claimed was damaged or destroyed.
- Contracts or purchase receipts showing the original cost of the item, plus any improvements you made to it.
- Evidence of the property's fair market value, such as insurance records, an appraisal or receipts for repairing it.

## How Employers Can Assist Employees Impacted

Many employers may seek ways to financially assist employees who have been impacted by the flooding. Fortunately, there are several tax-advantageous arrangements for employers to help their employees during this difficult time.

Employers can make direct payments to affected employees as Qualified Disaster Relief Payments, which are not taxable if certain requirements are met. If qualified, the payments are not treated as wages and are excludable from federal income tax and Form W-2 reporting.

These payments include amounts paid for personal, family, living or funeral expenses incurred as a result of the disaster. Expenses for medical care, temporary housing and transportation can also be covered. In addition, expenses incurred for the repair or rehabilitation of an individual's residence, or for repair or replacement of its contents, may qualify.

Other options for employers to assist affected employees include employer-sponsored funds, foundations and charities, employer loans and leave donation and leave sharing plans. To learn more about your specific opportunities to help employees who have been affected by the flooding, contact your tax professional.

*\*This information has been provided by Larson Gross CPAs & Consultants and is general information only. To discuss your specific tax scenario, please contact your tax professional.*

