ABCs of Post-Storm Tax Recovery: Assess, Bounce Back, Continue

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Tax, Financial Information Have a Place in Emergency Kits

KANSAS CITY, MO, Jun 15, 2010 (MARKETWIRE via COMTEX) --The emotional toll of severe storms is difficult to quantify, but property damage is well-documented. In 2009, damage due to extreme weather totaled $7.5 billion, a fraction of the $26.5 billion in damage reported for 2008* or the $52.8 billion in damage Louisiana sustained in 2005** when Hurricane Katrina hit.

The National Oceanic and Atmospheric Administration outlook calls for an 85 percent chance of an above normal hurricane season this year and urges people to be prepared. The NOAA called for a 70 percent chance of an above normal hurricane season in 2005.

"Flashlights, bottled water and medicine are important to have in your emergency kit, but don't forget your tax and financial information," said Jackie Perlman, analyst at The Tax Institute at H&R Block. "Without access to copies of important documents, reconstructing your finances can be very difficult and can delay insurance reimbursement and tax relief."

Whether a personal residence or an entire community suffers damage, H&R Block's ABCs of storm preparation and recovery can help taxpayers ensure they have what they need to rebuild.

"A" is for assess

Take a look at the "important papers" that are stashed away and figure out what may be needed in case of an emergency. The Federal Emergency Management Agency advises keeping important documents, such as insurance policies, deeds, property records, stocks and bonds in a safe deposit box. Paper copies of these documents, past tax returns and pictures or video of valuables can be kept with the disaster supplies kit in a fireproof, waterproof container for quick access in case of emergency.***

Instead of, or in addition to saving paper copies, the documents can be scanned and saved onto a jump drive, CD or DVD for easier portability. Be certain to keep all files -- paper and these storage devices -- safe and secure.

"B" is for bounce back

After the storm, those who have sustained damage or loss are advised to first call their insurance agent to get instructions about starting the claims process. This will likely include videotaping or photographing damaged or destroyed property and belongings. Storm victims also may need to reconstruct their financial records to prove a casualty loss occurred for insurance reimbursement and tax purposes.

A tax professional can tell a taxpayer which expenses can be deducted and how to claim a casualty loss on their federal tax return. For example, hotel rooms and meals may be reimbursed by insurance providers but are not tax deductible, while unreimbursed medical expenses more than 7.5 percent of adjusted gross income are generally tax deductible. Receipts must be retained as proof for deductible expenses. In federally declared disaster areas, taxpayers may claim the disaster-related casualty loss in the prior year in order to get a tax refund sooner.

IRS disaster relief, in the form of extended tax deadlines, is offered to taxpayers in federally declared disaster areas. Included taxpayers are residents, relief workers, and those who have tax records stored in the area or have a main business location in the area.

"C" is for continue

The earlier insurance claims are filed, the sooner the reimbursement process can begin and homes can be restored to their pre-storm condition.

Insurance reimbursement information is needed to accurately calculate a casualty loss claimed on a tax return. For losses in a federal disaster area, a tax professional also can help determine if it's better to claim a casualty loss on the current year's tax return or on an original or amended tax return for the previous year.

Taxpayers may be able to defer taxes on any gain from insurance proceeds by replacing damaged property with similar property, such as replacing a principal residence with another one.

Generally, property losses not covered by insurance are tax-deductible. The deductible amount of the loss is reduced by $100 per loss, and 10 percent of adjusted gross income. The loss is claimed as an itemized deduction on Schedule A.

A loss based on a federal disaster declared in 2010 may be claimed on the 2010 or 2009 tax return. If the loss is claimed on the 2009 return, the per-loss amount limitation is increased to $500. However, the 10 percent of adjusted gross income limitation is waived and the loss may be claimed as a standard or itemized deduction.

Obtaining prior year tax returns for tax and insurance purposes is a common challenge faced by severe weather incident victims. H&R Block clients can visit any office nationwide to request copies of their tax returns prepared in our offices or using our software. All taxpayers may contact the IRS at 800-829-1040 or www.irs.gov to get copies of past tax returns and transcripts.

For assistance sorting out the tax implications of damage and loss associated with severe storm events, contact an H&R Block tax professional. To find the nearest H&R Block office, visit www.hrblock.com or call 800-HRBLOCK.

* National Weather Service Report (2009 Summary of National Hazard Statistics), the figures for 2008 and 2009 represent property and crop damage nationwide

** National Weather Service Report (2005 Summary of National Hazard Statistics), this figure represents property and crop damage and the total was $96.8 billion damage nationwide

*** FEMA Emergency Planning and Checklists

About The Tax Institute at H&R Block

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