2020 Wildfires
Taxing Matters for Wildfire-impacted Households

Roadmap to Recovery Workshop
Via Zoom
March 10, 2021
About United Policyholders (UP)

• Reputable, established 501(c)3 not-for-profit charitable organization, Platinum Guide Star rating

• A trusted information resource and respected voice for insurance consumers in all 50 states

• 30 year track record and expertise in disaster recovery

• Not for profit…not for sale

• Funded by donations and grants

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Team UP

- Professional staff
- Government and nonprofit partners
- Volunteers
  - Fired UP Survivors - previous catastrophic loss survivors paying it forward
  - Consumer-oriented professionals
    - Damage and repair/rebuild cost estimators
    - Lawyers
    - Public Adjusters
    - Tax and Financial Planning experts
    - Construction and Real Estate professionals
Our Three Programs

• **Roadmap to Recovery™**
  – Guidance on insurance, restoring assets and getting back home after a catastrophic loss

• **Roadmap to Preparedness**
  – Helping households and communities reduce risk and be resilient to disasters and adversity

• **Advocacy and Action**
  – Enforcing insurance consumer rights and protections

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R2R Guidance and Tools

“The Little Yellow Book”

Email info@uphelp.org to have a copy mailed to you.
Your California Wildfire Help Library
www.uphelp.org/2020Wildfires

• Links to Pro-consumer Professional Help
  www.uphelp.org/findhelp

• Sample Letters & Claim Forms
  www.uphelp.org/samples

• “Survivors Speak” Tips
  www.uphelp.org/SurvivorsSpeak

• Upcoming workshops and resources
  www.uphelp.org/r2r
Your Colorado Wildfire Help Library

www.uphelp.org/colorado

- Links to Pro-consumer Professional Help
  www.uphelp.org/findhelp

- Sample Letters & Claim Forms
  www.uphelp.org/samples

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- Upcoming workshops and resources
  www.uphelp.org/r2r

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Your Oregon Wildfire Help Library
www.uphelp.org/ORwildfires

• Links to Pro-consumer Professional Help
  www.uphelp.org/findhelp

• Sample Letters & Claim Forms
  www.uphelp.org/samples

• “Survivors Speak” Tips
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  www.uphelp.org/r2r

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Your Washington Wildfire Help Library
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• Links to Pro-consumer Professional Help
  www.uphelp.org/findhelp

• Sample Letters & Claim Forms
  www.uphelp.org/samples

• “Survivors Speak” Tips
  www.uphelp.org/SurvivorsSpeak

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The Fine Print

• This workshop is intended to be general guidance only, not legal advice.

• If you have a specific legal question, we recommend you consult an experienced attorney.

• We do not endorse or warrant any of the sponsors listed at www.uphelp.org, or speakers at our workshops.
Today’s Presenters

Fiona Ma, California State Treasurer

Amy Bach, Esq.
   Executive Director, United Policyholders

Mike Musson, CPA
   Linkenheimer CPAs & Advisors

Gerard Schreiber, CPA
   Schreiber and Schreiber Certified Public Accountants

John Trapani, CPA
Fiona Ma, California State Treasurer

• California’s 34th Treasurer and first woman of color and CPA to be elected to the position.

• A certified public accountant with master’s degrees in taxation and business administration.

• Served on the SF Board 3 terms in the California Assembly.
Amy Bach, Esq.

- Dedicated to advancing the interests of insurance policyholders since 1984
- Published author, experienced trial and regulatory attorney
- Co-founder, UP
- Official consumer rep to NAIC since 2009
- Member, Federal Advisory Committee on Insurance (US Treasury)
John Trapani, CPA

• Licenses in California and Colorado
• 27 years of disaster tax reporting
• Conducts professional seminars to educate fellow CPAs since 2008
• John Trapani, CPA
• www.trapanicpa.com
• http://www.accountantfordisasterrecovery.com/p/contact-us.html
• Email: john@trapanicpa.com
• Voice: 805.497.4411
Mike Musson, CPA

- Partner, Linkenheimer LLP CPAs and Advisors San Francisco Bay Area
- 30 years experience
- Total Loss Survivor helping survivors work through their resulting income tax issues
- Michael Musson CPA - Partner - Linkenheimer LLP | LinkedIn
- Fire Relief Info – Linkenheimer LLP CPAs & Advisors (linkcpa.com)
- Email: info@linkcpa.com
- Voice: (707) 546-0272

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Gerard H. Schreiber, Jr., CPA

• Frequently teaches courses for disaster-impacted households and businesses

• Partner, Schreiber and Schreiber, Certified Public Accountants

• Recognized by LCPA and AICPA for sharing his knowledge to help CPAs, businesses, and taxpayers through tax-related tasks following disasters

• www.cpamasterofdisaster.com

• Email: ghschreiber@bellsouth.net

• Voice: (504)832-1819
Keeping Paperwork Organized = $

- Claim/Recovery Journal
- Save all receipts (scan or photocopy and email, so you have a copy for your records)
- Open a separate bank account for insurance funds received and asset replacement spending
- Establish a special email account for your claim
- Document and track all insurance communications
- Track expenses and $ matters: https://www.uphelp.org/pubs/insurance-accounting-spreadsheet

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Goal of today’s presentation: To help you understand tax rules and options for disaster impacted households and make good financial decisions:

• How Disaster Declarations impact tax matters
• Tax strategies for the underinsured
• The difference between a Casualty Loss and an Involuntary Conversion Gain
• Help from an experienced CPA vs. Turbo Tax
• How the Cost Basis of assets matter
Today’s Topics

1. Prop 19 – (CA Only)
2. The Basics
   a) Did your fire get a “Federal Disaster Declaration”?
   b) Filing Extensions
   c) Obtaining copies of prior tax returns
   d) Use of Experts
3. “Cost Basis” – Real Property and Contents
4. “Safe Harbor” as to “Cost Basis” of personal property
5. Additional Living Expenses
6. “Gain or Loss”?
7. Changes in circumstances / Changing your mind
8. Litigation/Lawsuit considerations
9. Business & Investment Property losses

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Prop 19 (CA Only)

• Enacted via 2020 ballot measure Significant tax savings for many homeowners, especially those that have experienced the devastation of losing a home in a wildfire. Takes effect 4/1/21

• Under Proposition 19, homeowners who are 55 and older, severely disabled or victims of a wildfire or natural disaster may transfer their property tax base of their existing home to a new home anywhere in California without a price restriction.
• How do you advise wildfire-impacted clients to approach tax matters? (MM)

• Is there good news for wildfire survivors related to tax options? (JT)

• What is the most common mistake disaster survivors make related to taxes? (GS)
Important “IRS” Tax Terminology

- “Federal/Presidential Disaster Declaration” (GS)
- “Cost Basis” (MM)
- “Involuntary Conversion” (JT)
Common Tax Questions

• Are some or all of my insurance proceeds taxable?
• How can I have had such a devastating loss and have my insurance proceeds be considered a gain?
• Are there “tax exclusions” available?
• If I’m underinsured in one or more categories, can I offset the losses on my tax return?
• Are litigation proceeds taxable?
• What tax considerations are there if I sell my lot without rebuilding?
• What about state tax laws? Property taxes?
General Tax Matters
What to be Aware of Now

• What if the full financial impact of my losses are not yet clear? Consider requesting a “Filing Extension” for your 2020 return.

• Why does it matter whether the disaster that destroyed my property got a “Federal Disaster Declaration” as recognized by the IRS? – Special IRS rules apply depending on what kind of designation/declaration.

• File your return timely and report what you know - This includes “Cost Basis”, “Insurance Proceeds” received through year-end, as well as replacements through December 31st of the tax year.

• Don’t rush to claim a “Casualty Loss” as it may turn out to be a “Casualty (Involuntary) Gain”
Are all disasters treated the same?

No. Some get “declared”, some don’t

- Major Disaster (DR)
- Emergency Declaration
How do I know if mine has a Federal Disaster Declaration?

https://www.fema.gov/disasters/disaster-declarations

https://www.irs.gov/newsroom/around-the-nation

There are different levels of declarations from Federal and State Authorities. Only Federal (Presidential) Disaster Declarations are recognized by the IRS.
Why does it matter how my disaster was designated?

It impacts your cash position and tax options

• Insurance proceeds and grants or gifts specifically designated for “contents” damaged or destroyed related to a primary residence are not subject to taxation if the disaster was **federally declared**, even when they cause a **gain** or potential gain.

• Contents losses can be considered when calculating deductions for “**casualty losses**” (“Casualty Loss” requires a Fed. Decl).

• You **may** be able to amend your prior year’s return and claim a loss if you sustained a loss as the IRS defines it.

• If your disaster did not get a “**Federal Disaster Declaration**, then the insurance proceeds you collect for contents/personal property are “reportable” and may or may not be taxable.
Tax Relief…Timing Matters

For those impacted by a federally declared disaster with Individual Assistance, IRS tax rules allow additional time for certain tax filings


If you received a penalty notice and are eligible for these extensions, you can appeal
Prior Tax Returns

To get copies of your prior returns:

• Start with your CPA, bookkeeper or online filing service as they should have records to provide (Turbo Tax, Tax Act, etc.)

• The IRS has information for taxpayers in reconstructing records after a disaster. Go online to:


• Submit Form 4506 to obtain copies directly from the IRS. The fees are typically waived for counties located in the “Federal Disaster Declaration” zone. Simply write, in red at the top of the Form 4506, the official disaster title
Do I Want Professional Help?

It is difficult to calculate and successfully claim a “Casualty Loss” for tax purposes

• It is possible to offset tax on insurance recovery proceeds by replacing the home/contents and or using the $250,000 single/$500,000 IRS allowance

• Time limits and allowances established by the IRS are extremely important to track to protect your resources

• Failing to report a casualty event on a tax return could result in an audit and or penalties

• Changing rules and complexity often make it wise to seek advice from a qualified, vetted expert
What is IRS “Cost Basis”? 
Calculating “Cost Basis”

• “Purchase cost” or “inherited cost”, not market value

• Certain upgrades and additions can add to the “cost basis”

• “Integral nature” rule for personal use real estate (land, fences, home combined) can accelerate your cost basis
<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2</th>
<th>3</th>
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<tbody>
<tr>
<td>2</td>
<td>Cost or other basis of each property</td>
<td>421,801</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Insurance or other reimbursement (whether or not you filed a claim) (see instructions)</td>
<td>103,555</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Note: If line 2 is more than line 3, skip line 4.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Gain from casualty or theft. If line 3 is more than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Fair market value before casualty or theft</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Fair market value after casualty or theft</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Subtract line 6 from line 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Enter the smaller of line 2 or line 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Subtract line 3 from line 8. If zero or less, enter -0-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Casualty or theft loss. Add the amounts on line 9 in columns A through</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Enter the smaller of line 10 and $1000</td>
<td></td>
<td></td>
</tr>
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<th>4</th>
<th></th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
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<tr>
<td></td>
<td></td>
<td>775,000</td>
<td>100,000</td>
<td>675,000</td>
<td>421,801</td>
<td>318,246</td>
</tr>
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</table>
Non-taxable Payments/Proceeds

For those impacted by a loss in a Federal Disaster Declaration, non-taxable reimbursements may include:

• Payments for ALE or Additional Living Expenses (to the extent they are being used to pay for additional living expenses) including insurance proceeds and FEMA payments;

• Payments for contents/personal property items in a “Federal Disaster Declaration”;

• Payments from social welfare agencies, charitable organizations, and in-kind services such as free meals, medical supplies, and shelters are generally not taxable.
For those impacted by a loss in a “Federal Disaster Declaration” area, taxable reimbursements include:

- Unemployment compensation
- Reimbursement for items already reimbursed
- Payments for real estate are treated the same as if they are paid by the insurance company.
- Some ALE insurance proceeds if used to purchase an asset
Personal Property/Contents w/a Federal Disaster Declaration

- For proceeds/payments in “Federal Disaster Declaration” areas, contents/personal property reimbursements are generally not taxable if from a primary residence.
- How is this different if the home you lost was a second home?
- How are personal property vs. business assets treated where the business assets were in the home and separately insured?
Tax treatment of funds for temporary/additional living expenses

• In all cases, including “Federal Disaster Declarations”, insurance proceeds for ALE and other funds received for temporary rent are not taxable to the extent that they are used toward actual temporary/additional living costs.

• Excess funds are taxable in the year taxpayer no longer incurs additional living costs.

• Out of pocket payments for ALE that insurance did not cover are not deductible.
Purchase of a Temporary Home/RV (Asset) with ALE Payments/Proceeds

The **purchase** of temporary housing is not **considered** “Additional Living Expense”. The **ACQUISITION** of a **CAPITAL ASSET** results in ALE proceeds becoming taxable

- The temporary residence may be treated as part of the replacement property. This will spread the deferred gain over more properties. If you reside in the temporary residence for at least two years and sell it to move into the permanent home, you can apply the $250,000/$500,000 exclusion, eliminating allocated deferred gain.

- What happens if I buy a home intending for it to be temporary but it ends up being my permanent replacement property?

- What if I do a lease/purchase agreement, or buy a temporary home through my business and lease it to myself?
Do I Have an IRS Reportable Casualty Gain or Loss?
If I’m underinsured, do I automatically have a loss for tax purposes?

• No, because you may have actually had a gain (in the IRS’s view) if you paid less for your home than the amount of your dwelling claim payment.

• Your fire needs a Federal Disaster Declaration for you to be able to claim a “Casualty Loss” on your tax return.

• Your insurance loss is calculated differently than your dwelling’s “Cost Basis” to determine a “Casualty Tax Gain/Loss”.

• You may be subject to a “Casualty Gain” if your insurance proceeds/payments are greater than the “Cost Basis” of your property.

• There are ways to “offset” and/or “convert” these gains.
What are my **possible tax pathways** for a personal use primary residence loss?

A Disaster Event

- **Qualified Federally Declared Disaster**
  - Casualty Loss
    - Not rebuilding/replacing so balance is taxable
      - File [Form 4684]

- **Involuntary Conversion Gain (less primary residence exclusion)**
  - Not rebuilding/replacing so balance is taxable
    - File [Schedule D]

- **Not a Federally Declared Disaster**
  - Anticipating rebuilding/replacement
    - Defer Remaining Gain

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Path to offset a gain from proceeds for a personal use primary residence?

- A Disaster Event
  - Qualified Federally Declared Disaster
    - Casualty Loss
      - Not rebuilding/replacing so balance is taxable
        - File [Form 4684]
  - Involuntary Conversion Gain (less primary residence exclusion)
    - Anticipating rebuilding/replacement
      - Defer Remaining Gain
  - Not a Federally Declared Disaster
    - File [Schedule D]
Principal residence was purchased for $150,000, and $25,000 was subsequently spent on improvements. The home was destroyed and, instead of rebuilding, the taxpayer purchased a new home for $275,000 and retained the lot.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance proceeds</td>
<td>$ 800,000</td>
</tr>
<tr>
<td>Basis of principal residence destroyed</td>
<td>(175,000)</td>
</tr>
<tr>
<td>Realized gain</td>
<td>$ 625,000</td>
</tr>
<tr>
<td>Proceeds realized from involuntary conversion</td>
<td>$ 300,000</td>
</tr>
<tr>
<td>Insurance proceeds</td>
<td>$ 800,000</td>
</tr>
<tr>
<td>Principal residence exclusion (MFJ)</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Proceeds realized from involuntary conversion</td>
<td>$ 300,000</td>
</tr>
</tbody>
</table>

Gain of $25,000 is taxable in the year the Last $25,000 of proceeds is received.
If I have a gain, is it taxable, can I defer?

- A “Casualty Gain” may occur if those payments/reimbursements exceed the “Cost Basis” of the property.

- For personal, primary residences, it may be possible to utilize an “exclusion” to offset the gain under sale of personal residence rules (IRC Section 121).
  
  - Must have been your personal residence 2 out of the last 5 years (pro-rata exclusion amount if less than 2 years)
  
  - Exclusions are up to $250K per individual or $500K per couple
  
  - Can defer gain if reimbursements are reinvested in rebuilding home or to acquire a replacement home or homes within four years if in a “Federal Disaster Declaration” area
Path to an IRS qualified casualty loss for a personal use primary residence?

A Disaster Event
- Qualified Federally Declared Disaster
  - Casualty Loss
    - File [Form 4684]

Involuntary Conversion Gain (less primary residence exclusion)
  - Anticipating rebuilding/replacement
    - Defer Remaining Gain
  - Not rebuilding/replacing so balance is taxable
    - File [Schedule D]
A Qualified Personal Casualty Loss is the lesser of

• The “Cost Basis” of the damaged or destroyed property reduced by all insurance reimbursements, payments and proceeds

• The decline in “Fair Market Value” using before and after the casualty reduced by all insurance reimbursements, payments and proceeds
Rule as to Primary Residence Exclusion

• You may exclude up to $250,000 per person or $500,000 per married couple of “Casualty Gain” on a Personal Use Primary Residence.
  – “Complete Destruction”
  – “Unforeseen Circumstances”
  – “Modified” General Rules

What if I sell my lot 2 years after the fire, can I still use my exclusion?
Deep Breath
Other Considerations
Timing Considerations – Replacement Period for Involuntary Conversions

• Deadline of four (4) years for primary, personal residence in “Federal Disaster Declarations”

• Deadline of two (2) years for all others

• “Extensions” may be available and must be filed
Other Circumstances

Rental property?
Second home?
Number of replacement properties?
Trust?
Lot sale?
Lawsuit settlement?
Divorce or death?
Change of use?
Business Loss and Taxes?
Can I buy multiple properties to offset a conversion gain?

- Buying multiple, smaller properties

- There is no limit on the number of “replacement properties” to avoid a “conversion gain”.

- Must be “similar or related”
  - Any personal use real estate generally qualifies

- Acquisition of “replacement contents” (not necessarily identical) also counts.

- Replacement period time limits must be followed or formally extended.
If I sell my lot, will the proceeds be taxable?

- Subject to “exclusion” regulations up to $250,000 single or $500,000 couple (IRC 121)

- Tax liability can be deferred under (IRC 1033) (Rev. Rul. 96-32) as long as within qualified dwelling replacement periods.

2 vs. 4 years
Litigation Proceeds

• Generally, non-physical injury claims, loss of income proceeds are taxable.

• Compensation for medical care, bodily injury is not.

• The written terms of the settlement/disposition of the lawsuit determines whether proceeds are taxable.
How are business related losses taxed differently than personal losses?

Gain/Loss on involuntary conversion calculation is similar to personal property with the following differences:

• Land is not included (unless land is sold due to it no longer being economically viable to owner)
• For complete destruction, no appraisals are needed.
• No exclusion on gain available.
• Deduction not limited by 10% of AGI and $100
• Only consider adjusted basis in computing gain or loss not change in FMV
• Loss must be substantiated, similar to individual losses
  – inventory
Can I defer a Gain for Business Involuntary Conversion?

If the Gain results from proceeds in excess of “Cost Basis” for your business, you treat the reimbursements as sales proceeds. You have two years after realizing a gain to reinvest in a property similar or related in service, or use in repairs/rebuilding the damaged/destroyed property.

Best Practices

- Document everything.
- Be organized. Save all receipts (recommend scanning or photocopying and emailing, so you have a copy for your records).
- Document and track all insurance contents claim communications.
- Track all contents payments. [https://www.uphelp.org/pubs/insurance-accounting-spreadsheet](https://www.uphelp.org/pubs/insurance-accounting-spreadsheet)
- Open a separate bank account when replacing items if possible.
Colorado Division of Insurance: Our Mission is Consumer Protection

Assistance available Monday-Friday
8:00 am to 5:00 pm MT
Phone: 303-894-7499 | Toll free outside the Denver Metro Area: 800-930-3745
Email: dora_insurance@state.co.us
CALIFORNIA
DEPARTMENT OF INSURANCE

Wildfire resources and insurance information

FOR FREE, PERSONAL ASSISTANCE WITH YOUR CLAIMS OR UNDERINSURANCE ISSUES

CALL US AT: 1 800 927 4357

OR GO ONLINE: insurance.ca.gov
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THANK YOU COLORADO FUNDERS

COMMUNITY FOUNDATION BOULDER COUNTY

INSPIRING IDEAS. IGNITING ACTION.

Grand Foundation

Grand County Wildfire Emergency Fund
A Grand Foundation Fund

Center for Disaster Philanthropy
THANK YOU OREGON AND WASHINGTON FUNDERS
Stay Informed

To be added to our mailing list for notices of future events and updated guidance:

- Encourage friends to sign up: www.uphelp.org/signup

- To request a copy of today’s slides or video, email: info@uphelp.org
Stay Connected to Other Disaster Survivors

• Join our Survivor to Survivor Forum on the 1\textsuperscript{st} and 3\textsuperscript{rd} Tuesday of month at 7 pm PT/ 8 pm MT

• Great source of information about:
  – Insurance
  – Negotiation and Financial strategies
  – Referrals and warnings re: professionals

• Important source of emotional support
  – No one else understands your challenges and emotions like another survivor

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Upcoming Roadmap to Recovery™ Events
www.uphelp.org/events

Register for upcoming events.
View recordings of past events and related resources.

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Please use our intake forms to submit a question in advance of the upcoming Q&A tax webinars

- March 24, 2021, 5:30 PM MT
  Taxes and financial decision-making after a wildfire loss - for CO wildfire survivors
  http://www.uphelp.org/r2rhelpp_co

- March 25, 2021, 5:30 PM PT
  Taxes and financial decision-making after a wildfire loss - for CA wildfire survivors
  http://www.uphelp.org/r2rhelpp
For More Information

If you still have questions, visit UP’s website and search for more claim tips, articles and helpful info at:

www.uphelp.org
Deeper Dive:
How to substantiate a casualty loss?

- Similar to what is required for insurance companies
- Must be able to show the following:
  - Type of loss and date that it occurred
  - Loss was a direct result of the casualty
  - Proof you owned the property, or, for leased property, you were contractually liable for the damage
  - Whether a claim for reimbursement exists for which there is a reasonable expectation for recovery
  - Documented evidence to support the claimed loss
Determining Amount of Loss?

• Appraisal method
• Cost of repairs method
  – Subsequent receipts
• Safe Harbor Computations
• Year to deduct – Loss sustained or prior year
• Loss cannot exceed cost basis
What information is needed to report a Casualty Loss?

• Cost or other basis of each property
• Insurance or other reimbursement
• Fair market value of property before casualty
• Fair market value of property after casualty (zero if completely destroyed)
What to know about reporting?

• Gain on unscheduled property – gain is not taxable and no tax reporting/disclosure necessary
• Gain on scheduled property (combined with real property cost and proceeds) not replaced
• If reimbursements for business property or personal residence are not received until the year following the disaster in a gain situation and there is no intention to reinvest, report in the year reimbursement is received. IRS Notice 90-21, 1990-1 C.B. 332
In what taxable year should I claim my loss?

Generally, losses can only be deducted in the year in which the loss occurs. For losses that occurred due to a federally declared disaster, you can elect to take the loss on an original or amended return for the year preceding the year of loss.

For 2020 losses, you have until October 15, 2021 to elect if you would like to claim the loss on an amended or original 2019 return or simply claim the loss on your 2020 return. If for some reason you would like to revoke this election, then you have 90 days to revoke the election, any refund received must be returned within 30 days.