



Disaster Preparation & Recovery:

# What to Do With Taxes and Insurance



 866-871-1040

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Each year, disasters strike in the U.S., be they earthquakes, hurricanes, tornadoes, fires, floods, droughts, heat waves, winter storms or man-made accidents. It is our hope that you never need this handbook. But if you do, know that Liberty Tax is here with tax assistance and information that can help you during such chaotic times.

During a disaster, you may not have access to electricity or your computer or mobile devices. Print this guide and keep it in an easy-to-reach place or with important papers. In case of an impending threat, you can grab it for easy reference.

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## Preparing Before a Disaster Strikes

Disasters are unpredictable and devastating, but if you are proactive now, you can ease the burden during the aftermath. Before a disaster strikes, take the following steps and you'll be stressed a little less and better organized when you file an insurance claim and your income tax return.

**1. Know what your insurance covers.** Some insurance companies stop writing policies when a storm enters a designated geographical area deemed to be a strike zone. Review your policy BEFORE a storm crops up, because if you don't have proper coverage now, you won't be able to get it later. Remember, many homeowner insurance policies do not cover earthquakes or flooding, leaving you to find a separate carrier for such events.

**2. Gather important documents and safely store them.** Many important documents can be retrieved electronically these days, making it easier to keep track of them and access them when necessary. You can also use the checklist found in [IRS Publication 584](#), Casualty, Disaster, and Theft Loss Workbook; one you have created yourself; apps [here](#), [here](#) and [here](#), or the Home Inventory list enclosed.

- a. Fill out your home inventory list.
- b. Go room to room and take photos/video of your personal possessions. Store them securely in the cloud or on a flash drive.
- c. Store items in a safe deposit box off-location. If that's too costly, try a fireproof and waterproof safe for in-home storage.
- d. Whenever possible, keep receipts, cancelled checks, and any documentation that proves the price paid for your belongings. Keep documents that show the purchase price of your home, such as your HUD-1 Settlement Statement or your Bill of Sale. You must prove to the IRS the amount you claim as a loss, and the IRS will want documentation. This will be important in determining how much of your loss you can deduct. You can add the cost of any permanent improvements made to your home (for example, having storm shutters installed) to the original cost of your home. The allowable loss on your tax return is limited to your basis in the property, even if the loss and the fair market value (FMV) of the property are greater than your basis. Gathering all the paperwork you can now and storing it securely will make life easier if you are faced with an overwhelming event.

**3. Identify a meeting location for your family.** Have a meeting with the members of your family to create a [family plan](#) in case of a disaster such as severe weather, fire, or earthquake.

- Discuss and locate the safe places in your home for each type of disaster.
- Teach young family members how to dial 911 and when to call it.
- Walk through the escape routes in your house.
- Designate two emergency places that will serve as a meeting point in case you cannot communicate with family members.
- Find a rendezvous point for your loved ones.
- Create a family phone chain – Make a plan of what to do if there is no cell service. Consider having a land line.
- Gather important supplies such as food, water, medications, and clothes your family might need if evacuation is warranted during an emergency. Store these items in an easy-to-carry bag – and make sure your paperwork is enclosed. Prepare now to be safe later.

### Important Papers to Secure:

- Birth/death certificates
- Social Security cards
- Passports
- Marriage certificates/divorce decrees
- Wills
- Medical records
- Real estate transactions
- Copies of your driver's license, green card, and other ID
- Copies of your credit cards and debit cards
- Tax returns
- Credit card statements
- Retirement savings statements
- Investment records
- Bills
- Paycheck stubs

- Copies of lifesaving prescriptions (like insulin, asthma inhalers, etc.)
- Bank statements (list of bank account and credit card account numbers)
- Warranty/rebate documentation
- Any legal documents

### Recovering After a Disaster Strikes

When disaster hits, your to-do list will be long. Liberty Tax wants to assist you with what we know best: taxes. What follows are steps relevant to taxes that you should take after you've suffered casualty losses:

**1. Record any assistance and payments you receive.** Keep all types of reimbursement documentation and checklists. These payments directly impact the calculation of allowable casualty loss. Payments you receive may be included (or excluded) as income depending on whether restrictions were placed on how you spend the money, or you received the payments as part of relief given to those in a federally declared disaster.

If your insurance payments cover living expenses due to you losing the use of your home from disaster, or the authorities forbid access, these payments do not reduce your casualty losses. If, however, you receive insurance payments that cover more than temporary living expenses, you need to include the overage as income. Typically, disaster relief grants you received are not included as taxable income, either. Such grants include funding you receive for expenses incurred for personal, family, living, or funeral costs; the repair or rehabilitation of a personal residence (rented or owned), and the repair or replacement of the contents of a personal residence.

**2. Document the destruction.** If you are able, take photographs (and videos if possible) of the loss to your property. Next, take pictures of the repairs and keep all of your receipts for any repair or clean-up work. Not considered deductible losses, the repair or clean-up costs can help establish a decline in the fair market value (FMV) of your property, as long as the costs were to rebuild your property to its original condition. Get estimates from several contractors for the needed repairs

because these quotes can be used to verify the loss in FMV of your property. Determining the decline in the FMV requires you to prove the FMV of your property before the loss. If you do not have proof, a Liberty Tax preparer can help by comparing thrift store values or classified ads pricing.

**3. File your insurance claims.** Insurance may not at the very top of your to-do list, but it should be close. The IRS may limit your eligible casualty loss to the amount that is normally not covered by your insurance, such as your insurance deductible amount. If your property is covered by insurance, file an insurance claim for reimbursement of your loss as soon as you are able.

**4. Details about your insurance reimbursements.** The IRS gives you two years to repair/replace any damaged or lost property. Do so within the two years and your insurance reimbursement will not be taxable, even if it exceeds your basis in your property. However, part of your reimbursement may be taxable, if you do not use the funds for the property you are replacing. In some instances, the deadline to replace property may be extended by the IRS.

## Deducting Casualty Losses

The IRS defines a casualty loss as damage, destruction, or loss of property from a sudden, unexpected or unusual event. Damage from normal wear and tear or gradual deterioration is not considered casualty loss. For tax years 2018 through 2025, the itemized deduction for personal casualty loss is limited to losses attributable to federally declared disasters.

Repairs for casualty losses must meet certain criteria before you can use these costs as a measure of the decrease in fair market value of your belongings:

All of the following must apply:

- Repairs fix just the damage caused by the disaster
- Repairs are necessary to restore the property to the state it was in preceding the casualty
- Cost for repairs is not excessive
- Property value cannot exceed what it was before the disaster as a result of the repairs you made

When deducting the losses from a federal tax return, there are a few stipulations from the IRS. For example, insurance coverage received for damages must be subtracted from the amount intended for deduction. The IRS also imposes a few other, more in-depth stipulations as well.

## Federally Declared Disaster Areas

Special tax law provisions may help you recover financially from the impact of a disaster, especially when the federal government declares your region as a major disaster area. If the President has designated your area as a federally declared disaster, you can write off the repair and replacements costs on your federal tax return in one of two ways: by amending the prior year's return or claiming the loss in the actual year in which the disaster happened. To make the best choice, you should contact your tax professional to review the figures for both years to ensure you get all the deductions you are entitled to receive.

There are other benefits for which you may be eligible if you are located in a disaster area. Depending on the circumstances, the IRS may extend certain tax deadlines of taxpayers who are affected by a federally declared disaster. These postponed deadlines may include those for filing income, estate, gift, generation skipping transfers, and certain business taxes; paying taxes associated with those returns; and making contributions to a traditional IRA or Roth IRA. In addition, the law provides for a four-year replacement period, instead of the usual two years, for repairing residential damages due to a federally declared disaster.





**DINING ROOM**

Description/number of items	Date Bought	Paid \$
Buffet		
Table		
Chairs		
China cabinet		
China/crystal		
Silverware		
Carpet/rugs		
Table linens		
Serving table/cart		
Clocks		
Lighting		
Curtains		
Pictures/art		
<b>TOTAL</b>		<b>\$</b>



**BATHROOM**

<b>BATHROOM</b>	Description/number of items	Date Bought	Paid \$
Hairdryer			
Iron			
Ironing board			
Electric shaver			
Hair appliances			
Scale			
Heater			
Shower curtains			
Linens			
Toiletries			
Pictures/art			
Curtains			
Rugs			
<b>TOTAL</b>			<b>\$</b>





**OUTDOORS**

<b>OUTDOORS</b>	<b>Description/number of items</b>	<b>Date Bought</b>	<b>Paid \$</b>
Shed			
Storage bins			
Sauna/hot tub			
Grill			
Patio furniture			
Swing set			
Benches/loungers			
Umbrellas/stands			
Sprinklers/hoses			
Potted plants			
Garden tools			
Pool supplies			
Pool toys			
Trampoline			
<b>TOTAL</b>			<b>\$</b>



## Resources

### American Red Cross

To contact the Red Cross for immediate assistance, such as the location of shelters in your area, go online to find and print out the information of your local chapter.

<http://www.redcross.org/find-your-local-chapter>

### FEMA

If you need to apply for disaster relief, you can reach FEMA:

- Online: <https://www.disasterassistance.gov/>
- Phone: 1-800-621-3362 (TTY: 1-800-462-7585 for people with speech or hearing disabilities)

### IRS

The IRS has, in the past, extended filing deadlines for those in federally declared disaster areas, so it may benefit you to contact them to stay current on where your state/locale stands with certain tax benefits or extensions.

**Or just contact a Liberty Tax near you at 866-871-1040 or [www.LibertyTax.com](http://www.LibertyTax.com).**

To contact your local IRS office, go here <https://www.irs.gov/help/contact-your-local-irs-office> (and be sure to print out the information).

This page may also let you know if your area is listed as a federal disaster, therefore qualifying for federal assistance: <https://www.irs.gov/newsroom/tax-relief-in-disaster-situations>

### Telephone Assistance for Individuals:

#### Toll-Free, 1-800-829-1040

Hours of Operation: Monday – Friday, 7:00 a.m. – 7:00 p.m. your local time (Alaska and Hawaii follow Pacific Time)

### INSURANCE

If you do not have a contact number for your insurance company, contact your state insurance department:

[http://www.naic.org/state\\_web\\_map.htm](http://www.naic.org/state_web_map.htm)

#### NAIC Executive Office (CIPR)

**Phone: (202) 471-3990**

Switchboard Hours: Monday - Friday 8:30 a.m. - 5 p.m. (EST)