For 2019, a personal casualty loss is deductible (subject to limitations) only if such loss is attributable to a federally-declared disaster.

A federally-declared disaster is any disaster determined by the President of the United States to warrant assistance by the federal government. For areas that have been determined to be federally-declared disaster areas, see www.fema.gov/disasters.

Exception: A personal casualty loss not attributable to a federally-declared disaster may offset a personal casualty gain.

Deductible Losses

Figuring a Loss
To determine the deduction for a casualty or theft loss, first calculate the loss.

Amount of loss. Use the following steps to calculate the loss.
1) Determine the adjusted basis in the property before the loss.
2) Determine the decrease in fair market value (FMV) of the property as a result of the casualty or theft.
3) From the smaller of the amounts determined in (1) and (2), subtract any insurance or other reimbursement received or expected to be received.

Business and income producing property. The decrease in FMV is not considered in calculating the loss for property that is stolen or completely destroyed.

Loss Limitations

$100 limit. Reduce each casualty or theft loss event by $100. If multiple pieces of property are damaged in a single event, a single $100 reduction applies.

10% AGI limit. Reduce the total of all casualty or theft losses by 10% of the taxpayer’s AGI. Apply this limit after reducing each loss event by $100.

Qualified disaster losses. Qualified disaster losses are personal casualty losses resulting from federally-declared disasters that occurred in 2016, as well as certain 2017 disasters, including Hurricane Harvey and Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, and the California wildfires. Special relief applies to these qualified disaster losses.

When to Deduct Losses
Generally, casualty or theft losses are deductible in the later of:
- The tax year the casualty occurred or the theft was discovered.
- The tax year the reimbursement amount (if any) can reasonably be determined, or it is determined that no additional reimbursement will be received.

However, a disaster loss may be treated differently.

Election to deduct loss in preceding year. You may elect to deduct a casualty loss from a federally-declared disaster in the tax year immediately preceding the disaster year. Election must be made within six months after the regular due date (without extensions) for filing the original return for the disaster year.
Gain Realized on Home in Disaster Area

The following rules apply for individuals whose main home (including a rented home) is in a disaster area and the home or any of its contents were destroyed by the disaster.

- No gain is recognized on insurance proceeds received for unscheduled personal property that was part of the contents of the home (property not separately listed on the insurance policy).
- The home and scheduled property (personal property specifically listed on the insurance policy) are treated as one item of property under the rules for reporting gain. Gain from insurance reimbursement is recognized only to the extent that the proceeds exceed the cost of all replacement property, including a home and scheduled or unscheduled property, that is similar or related in use.
- In order to exclude gain from insurance reimbursement, the period in which you must purchase replacement property is extended until four years after the end of the first tax year in which any part of the gain is realized.

Disaster Relief

Food, medical supplies, and other forms of assistance received do not reduce the casualty loss, unless they are replacements for lost or destroyed property. Qualified disaster relief payments received for expenses incurred as a result of a federally declared disaster are not taxable income.

Cash Gifts for Disaster Victims

If a taxpayer receives a cash gift as a disaster victim (such as gifts from relatives and neighbors) and there are no limits on how the taxpayer can use the money, the gift is excluded from income. The casualty loss is not reduced by the cash gift. This is true even if the cash gift is used to help pay for repairs to property damaged in the disaster.