

About Casualty Loss and VITA

A casualty loss is the result of damage, destruction, or loss of property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake, or volcanic eruption. A casualty doesn't include normal wear and tear or progressive deterioration.

Generally, you may deduct casualty and theft losses relating to your home, household items, and vehicles on your federal income tax return. In most cases, taxpayers claim casualty losses as an itemized deduction on **Schedule A**, *Itemized Deductions*.

Note: For tax years 2018 through 2025, casualty losses of personal-use property are deductible only if the loss is attributable to a Federally Declared Disaster Area(s). For Texas residents, examples of recent federally declared disasters include Winter Storm Uri (2021), the severe storms and flooding in 2018, and Hurricanes Harvey, Irma, and Maria (all in 2017).

In general, the following is true:

- The amount of the casualty loss is the lesser of the cost of the item damaged or the decrease in fair market value of the item.
- The amount of loss must be reduced by any insurance or other reimbursement received.
- There is no refundable aspect to a casualty loss deduction. It can only reduce the amount of
 income that is taxed. When a casualty loss is greater than the taxable income, in some cases the
 casualty loss can be carried to another tax year.

Claiming any casualty loss is out of scope for VITA.

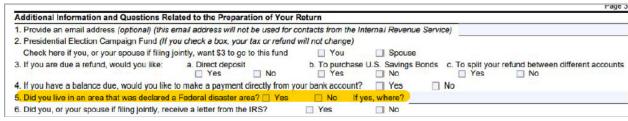
Although VITA cannot prepare a return that claims a casualty loss, not all taxpayers who have suffered a casualty loss will benefit from claiming the loss on their tax return. Additional identification and screening is necessary to assist taxpayers appropriately.

Identifying Taxpayers with Casualty Losses

Tax Help Program volunteers should identify taxpayers with casualty loss as a result of a federally declared disaster and determine whether their tax return can be prepared in VITA or should be referred to Special Tax Services.

If either of the following is true, use the Casualty Loss Screening Tool (IRS Form 5396-B):

- The taxpayer answers "yes" when asked if they suffered any loss related to a federal disaster in the tax year being prepared; or
- The taxpayer checked Yes in Box 6 in the Additional Information and Questions Related to Preparation of Your Return section of Form 13614-C, Intake/Interview Form.





Who Should Be Referred to Special Tax Services for Casualty Loss?

- It appears that the taxpayer would benefit from claiming a disaster casualty loss.
- The taxpayer had business or rental property that was damaged.

Who Should Remain in the VITA Program for Tax Return Preparation?

Any taxpayer who suffered a casualty loss but has no taxable income (because there is no benefit
to claiming a casualty loss in this case). The Tax Help Program will prepare and transmit the
return without the casualty loss.

Once the return has been prepared and filed with the IRS, refer the taxpayer to Special Tax Services (STS). Casualty loss can be carried forward for multiple tax years, but must be recognized on the tax return in the year that the loss occurred even if there was no taxable income (and therefore no benefit). STS will review the taxpayer's situation and make a recommendation about amending the original return to add the casualty loss (regardless of whether there is a benefit on that tax return) if it appears that the taxpayer would benefit from the deduction in future years.