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Suppose that your personal residence is substantially damaged and will cost you tens of thousands of dollars to fix. Is the repair cost deductible on your tax return as a casualty loss? It doesn't always seem fair, but it depends on whether the damage was caused by a singular event or gradual deterioration over time.

A taxpayer in a new case learned this lesson the hard way. The Tax Court denied a

For casualty losses to personal property like your home, the deduction is limited to the unreimbursed cost above 10 percent of your annual adjusted gross income (AGI), after subtracting $100 for each casualty event. Neither the 10 percent-of-AGI limit nor the $100-reduction-per-casualty apply to business property.

The taxpayer in the new case is a tenant-stockholder of Castle Village Owners Corp., a cooperative housing corporation in Manhattan. Castle Village owns a tract of land, which includes five high-rise residential buildings. The grounds were supported by a retaining wall of stone masonry construction that was built between 1921 and 1925.

In 1985, Castle Village retained an engineer to inspect retaining wall. In a letter to Castle Village, the engineer indicated that a portion of the retaining wall showed signs of movement and instability and that several cracks were observed and relief drains weren't functioning properly. For the next 20 years, various engineering and architectural firms addressed a number of issues relating to the retaining wall.

On May 12, 2005, a 150-foot portion of the wall collapsed. The consultants whom Castle Village had retained over the previous 20 years had reported their findings about the retaining wall in numerous letters, reports, proposals, and/or memoranda sent to Castle Village. Most of the major problems those consultants had observed and described in those documents were observed in and around the 150-foot section of the retaining wall that collapsed.

Appearing before the Tax Court, the taxpayer stated that the cause of the collapse of the retaining wall was excessive rainfall during the months of January through May 2005. She said the rainfall overstressed the recently installed drainage system and caused rapidly accelerating movement in the wall in the four weeks immediately preceding the collapse. Thus, the taxpayer argued she was entitled to a casualty loss deduction. After applying the limits, she deducted $23,188 on her 2005 tax return.

But the Tax Court disagreed with the taxpayer. According to the Court, the cause of

Income Tax