CPA
Practice Advisor

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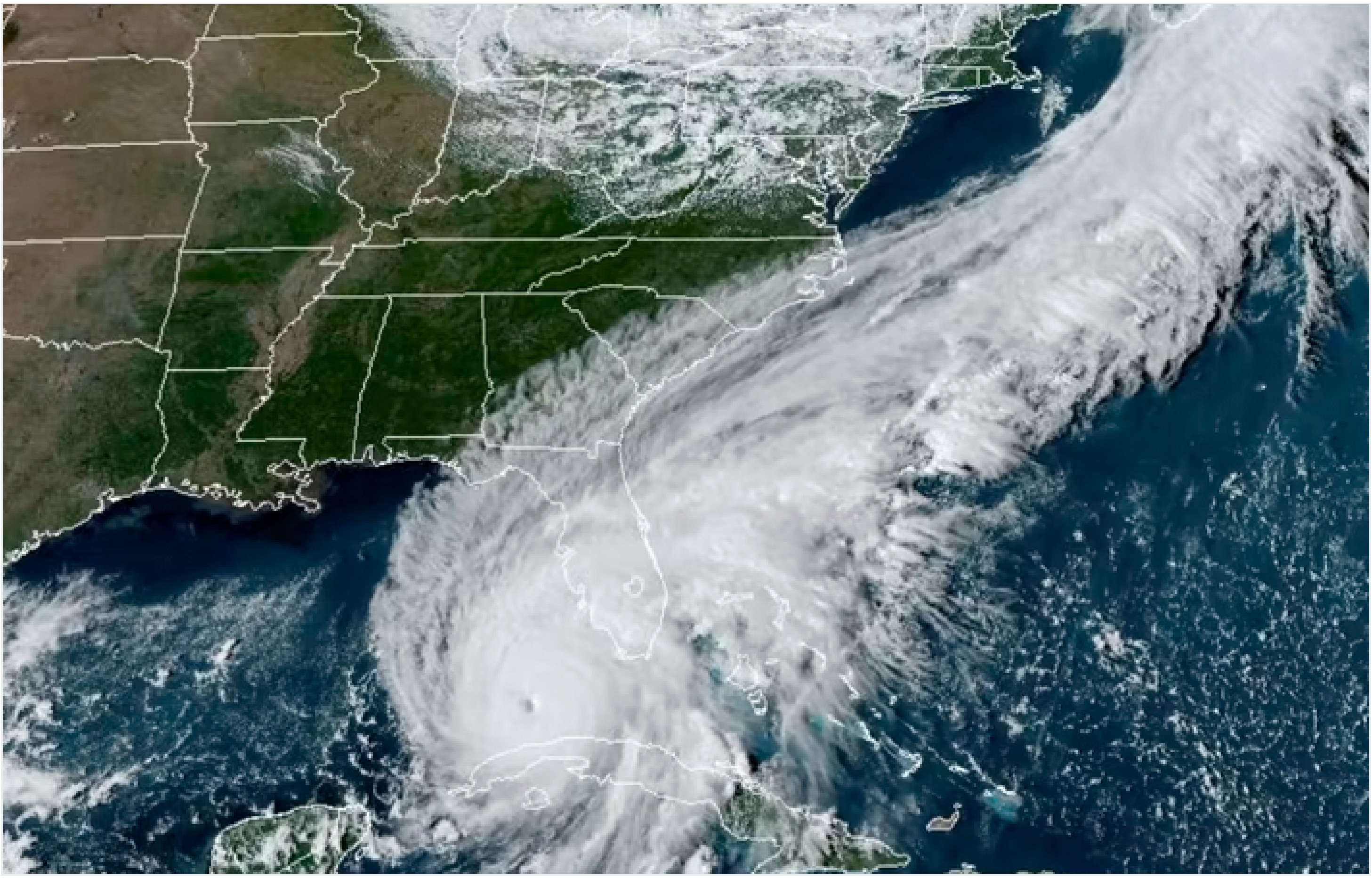
are likely to get hit with questions. Here's everything you need to know to help your impacted clients get the financial relief they need.

Daniel F. Rahill • Oct. 13, 2022



In the wake of the damage caused by Hurricane Ian, the IRS announced that victims impacted by the disaster now have until Feb. 15, 2023, to file various individual and business tax returns and make payments. Qualifying individuals and households include those that reside or have a business anywhere in the states of Florida, South Carolina, and Georgia.

Many CPAs and other financial advisors likely have clients that own properties or

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- Quarterly estimated tax payments originally due on Jan. 17, 2023.
- Quarterly payroll and excise tax returns originally due on Oct. 31, 2022, and Jan. 31, 2023.
- Businesses with an original or extended due date, including calendar-year corporations whose 2021 extensions run out on Oct. 17, 2022.
- Form 5500 Series returns that were originally due on or after Sept. 15, 2022, and before Feb. 15, 2023 (in the manner described in Section 8 of Rev. Proc. 2018-58).
- Like-kind exchange properties for certain taxpayers who aren't otherwise affected taxpayers (this may include acts required to be performed before or after the period above).

The postponement, however, doesn't apply to information returns in the W-2, 1094, 1095, 1097, 1098, or 1099 series; Forms 1042-S, 3921, 3922, or 8027; or employment and excise tax deposits. However, penalties on payroll and excise tax deposits due on or after Sept. 23, 2022, and before Oct. 11, 2022, will be abated as long as the tax deposits were made by Oct. 11, 2022.

If an affected taxpayer receives a late filing or late payment penalty notice from the IRS that has an original or extended filing and payment or deposit due date that falls within the postponement period, the taxpayer should call the telephone number on the notice to have the IRS abate the penalty.

The IRS tries to automatically identify taxpayers located in the covered disaster area and applies filing and payment relief. But affected taxpayers who reside elsewhere or have a business located outside the covered disaster area should call the IRS disaster hotline at 866-562-5227 to request this tax relief.

How to Report Your Client's Casualty Losses

Individuals in a federally declared disaster area whose homes or personal belongings

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before the hurricane. Typically, the adjusted basis is the amount your client paid for the property. It increases over time for any additions or improvements made and decreases through depreciation.

2. **The decline in fair market value:** You must determine how the "fair market value" of your client's property declined as a result of the casualty. The IRS considers the fair market value the price at which a property could be sold to a willing buyer in the open market. For example, if the property would've sold at $25,000 before the casualty but now sells for $10,000 after the casualty, then the decline in fair market value is $15,000.

Once you've determined the smaller loss amount, any insurance or reimbursement received or expected to be received needs to be subtracted, resulting in a final casualty loss figure for tax purposes.

Generally, any hurricane losses that occur within the taxable year are reported on federal income tax return Form 4864, Casualties and Thefts. The IRS requires a taxpayer to subtract $100 from their reported losses involving personal-use property. The total of all casualty losses for the year must then be reduced by 10% of the taxpayer's adjusted gross income. To report the total loss on your client's tax return, you must itemize deductions on Form 1040, Schedule A and include the deduction on this form.

If you have a **qualified disaster loss, however,** you may elect to deduct the loss without itemizing your deductions. Your net casualty loss doesn't need to exceed 10% of your adjusted gross income to qualify for the deduction, but you would reduce each casualty loss by $500 after any salvage value and any other reimbursement.

A taxpayer can claim a hurricane loss resulting from a federally declared disaster on their tax return foreither the year the disaster occurred or the year preceding the disaster. However, there's limited time for claiming the casualty loss on the prior

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expenses that are a result of a qualified disaster.

Employers can pay qualified disaster relief payments to employees under Internal Revenue Code Section 139 and treat them as deductible expenses for the employer that the employee or independent contractor won'thave to include in income. The employer will be able to deduct the expense and won't have to pay employment taxes, workers compensation, unemployment compensation, or pension contributions on the amount paid.

This provision can apply to payments made to an owner or relatives of the owner of an S corporation or a C corporation. It may not apply to payments made by a partnership to a partner, but if the partner puts their partnership interest into an S corporation before the payment is made, then it may qualify.

In addition, amounts paid to reimburse or pay for reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence or the repair or replacement of the contents of a personal residence or vacation home that's attributable to the disaster may also qualify as long as the loss isn't reimbursed by insurance or other sources. Additionally, the amounts received as Section 139 payments can't be deducted as casualty losses.

Anyone impacted by a hurricane knows that the property damage and destruction is just part of the challenge; rebuilding can take a tremendous emotional and financial toll. During these difficult times, CPAs and other advisors can help ease their clients' financial burdens by calculating and providing necessary documentation to ensure they receive all available tax relief.

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Illinois CPA Society member Daniel F. Rahill, CPA, JD, LL.M., CGMA, is a managing director at Wintrust Wealth Management. He's also a former chair of the Illinois CPA

Society Board of Directors and a current board member of the American Academy of

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