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Tax

Properties

Taxpayer

Brief overview of casualty losses for individuals

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When one considers the level of devastation that hurricane Maria caused in Puerto Rico, it is no wonder that a surefire item of discussion during this tax season will be casualty losses. Conscious of this, below we provide you with an overview on how these are treated under both federal and local laws for individual tax purposes.

Federal treatment

Pursuant to IRS Publication No. 547, a casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. As a general rule, casualty losses are deductible during the taxable year on which the loss occurred. A deductible casualty loss could be attributed to a car accident, earthquakes, floods, fires and storms (including hurricanes and tornadoes), among many other events. The extensive damage to Puerto Rico's infrastructure and collective psyche cannot be overstated.

In light of such devastation, the Puerto Rico Treasury Department was given considerable leeway to take all reasonably prudent and necessary measures to assist taxpayers in the aftermath of hurricane Maria, issuing bulletins, determinations and circular letters on a (seemingly) weekly basis to postpone filing due dates and exempt prepared foods from sales & use taxes, among many other matters.

To deduct a casualty loss, the taxpayer must prove the type of casualty, when it occurred, that the loss was directly attributable to the casualty, that the taxpayer had possession of the property and the existence of a reimbursement claim for which there is a reasonable expectation of recovery, if any. Once it is determined that the casualty is deductible, one must determine the amount of loss and whether there are limits to said loss.

	How is the loss computed	Limitation on deduction
US	• determine the lesser amount between the property's adjusted basis before the casualty and the decrease in Fair Market Value on the property as a result of the casualty • subtract any insurance or reimbursement received *The casualty loss should be determined separately for each type of property (personal and real).*	• when determining the deduction, reduce each casualty loss by $100 and by 10% of the individual's adjusted gross income

How about Puerto Rico?

For Puerto Rico purposes, the individual taxpayer the applicable tax treatment will depend on whether the property that suffered the loss is the principal place of residence or personal property.

	How is the loss computed	Limitation on deduction
Residential property	• determine lesser amount between: the actual loss (value of the property just before the casualty less its value after) and the adjusted basis of the property	• none
Personal property (i.e. automobiles, furniture, household goods and other property, excluding the value of jewelry or cash)	• determine lesser amount between: the actual loss (value of the property just before the casualty less its value after) and the adjusted basis of the property	• limited to $5,000 • $2,500 in the case of spouses filing separate returns • any excess may be carried over for 2 years (subject to the annual limits)

Please contact our Tax Department should additional information is required regarding this or any other tax issue. We will be glad to assist you.

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