

TAX YEAR
2026

Itemized Deductions
Casualty and Theft Losses

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Federally-Declared Disaster Areas

A personal casualty loss is deductible (subject to limitations) only if such loss is attributable to a federally-declared disaster or a state-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, go to www.fema.gov/disasters.

A state-declared disaster is any natural catastrophe or, regardless of cause, any fire, flood, or explosion, in any part of the state, which is determined by the governor and secretary (or mayor of D.C.) to have caused damage of sufficient severity to warrant application of this rule.

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

Deductible Losses

Calculating 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 loss. A qualified disaster loss refers to a loss arising from certain disasters occurring in 2016, through August 3, 2025, except for a major disaster declared because of COVID-19. For a list of applicable qualified disasters, see Form 4684 Instructions. A taxpayer's standard deduction may be increased by a net qualified disaster loss instead of itemizing deductions.

Note: Not all federally-declared disasters are considered qualified disasters.

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 disaster loss in preceding year. You may elect to deduct a casualty loss from a federally-declared disaster in the tax year immediately preceding the



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disaster year. Election must be made within six months after the regular due date (without extension) for filing the original return for the disaster year.

Losses That Cannot Be Deducted

Losses that you cannot deduct include the following:

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Progressive damage to property caused by termites, moths, other insects, or disease.
- Certain declines in the market value of stock.

Financial Scams

Victims of criminal fraud or embezzlement related to a transaction entered into for profit are allowed to deduct the theft loss as an Other Itemized Deduction. The deduction is not subject to any other theft loss or itemized deduction reductions or limitations.

Insurance and Other Reimbursements

If an insurance or other type of reimbursement is received, the reimbursement must be subtracted when computing the loss. There is no casualty or theft loss to the extent of the reimbursement.

If you expect to be reimbursed for all or part of the loss, subtract the expected reimbursement when computing the loss even if the reimbursement is not received until a later year.

Reimbursement received after deducting loss. If the casualty or theft loss was computed using an expected reimbursement, the tax return may have to be adjusted in the year the actual reimbursement was received.

Actual reimbursement less than expected. Include the difference as a loss with other losses (if any) in the year in which no more reimbursement is reasonably expected.

Actual reimbursement more than expected. The extra reimbursement may have to be included in your income the year received. However, if any part of the original deduction did not reduce your tax for the earlier year, that part of the reimbursement is not included in your income.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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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. 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 you receive a cash gift as a disaster victim (such as gifts from relatives and neighbors) and there are no limits on how you can use the money, the gift is excluded from income. Your 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.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.