

Casualty Losses: An Overview

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Originally Published: November 28, 2006

The IRS defines a casualty loss as the damage, destruction or loss of property resulting from an identifiable event that is sudden, unexpected or unusual.

In general, **a sudden event is an event that happens instantly.** If you wake up one morning and notice, all of a sudden, that you have wood rot under your bathroom sink due to a slow leak, the IRS would not consider that event a "sudden" event, as it happened slowly over time.

In general, **an unexpected event is one that happened without warning.** Using the same example above, if you were aware that your sink was leaking or may leak, then the event was not "unexpected".

In general, **an unusual event is one that is not common.** Again, using the same example, if your home is say 20 years old and you've never replaced your valves under your sink, it probably wouldn't be considered uncommon for your sink to leak.

As you can see, each casualty has to be reviewed with these three things in mind to determine if a deduction is allowed. If you believe you have incurred a casualty loss and would like to claim a tax deduction for it, please seek the advice of a qualified tax professional because the IRS's interpretation of what is "sudden, unexpected or unusual" may not agree with yours.

From time to time the President of the United States will declare a geographical area a "disaster region". When this occurs then the disaster losses in that region are casualty losses.

The amount of the loss that you are able to deduct is usually the lessor of the cost or fair market value of each item that you lost in the event less any insurance reimbursement you received for the item. After you determine the loss for each individual item, then you add them all together to arrive at your total loss for the casualty event. If your insurance company reimburses you for an amount that they determine is the fair market value of the item that you lost, then you will not have any casualty loss deduction.

If your casualty loss is a business casualty loss then the loss is fully deductible. However, if your casualty loss is a personal casualty loss then your loss is an itemized deduction which is first reduced by \$100 and then it is reduced again by 10% of your adjusted gross income (AGI).

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