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Dear Client,

Considering the fact that our area recently experienced major losses due to Hurricane Irene, we felt that this information may be beneficial to you. Therefore, we are sending out this special notice in addition to our regular monthly newsletter. If you have questions, please do not hesitate to contact us.

If this information applies to you, please take the time to document your losses so that you can receive the full tax benefit you are entitled to. You can do so with pictures, receipts, insurance claims, etc.

The following information has been re-printed, with permission, from our Thomson Reuters RIA research materials.

Taxpayers who experience certain types of major personal casualties may be able to recoup some of their losses through tax savings.

An itemized deduction may be available for personal losses from fires, storms, car accidents, and similar "sudden, unexpected, or unusual" events. Losses from theft are included as well.

The deduction is only available for physical damage or loss to your property. Thus, if you are in an automobile accident and pay for the damage done to the other driver's car, the cost does not qualify. Similarly, if you're injured in the accident, your medical bills do not qualify as part of your casualty loss (although they may result in a medical expense deduction).

Figuring the loss. The loss is not always the decline in economic value you suffer. It's measured as *the lesser of* (a) the drop in value and (b) your basis in the property (usually, your cost).

Example: Dan bought an antique vase for \$500 which rose in value to \$3,000. It was damaged in a fire after which it was worth only \$1,000. For tax purposes, the casualty loss is only \$500, even though the economic loss was \$2,000 (\$3,000 - \$1,000). The lesser of cost (\$500) and drop in value (\$2,000) is used.

It may be difficult to establish these elements. If you have your original receipt, you can show your cost. In some cases, appraisals will be needed to establish pre- and post-loss values. Sometimes, repair costs can be used as a measure of drop in value.

Limitations on the deduction. The loss figure must be reduced by three amounts. In many cases, these reductions result in no deduction being available.

First, to the extent you are insured, you must reduce your loss by your reimbursement. However, you shouldn't fail to file an insurance claim in the hope

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of increasing your deduction. If you do, IRS will reduce your loss by the insurance reimbursement you could have received.

Next, for each casualty, you must reduce your loss amount by \$100. Note that this reduction is per "event," not per item damaged. Thus, if a storm knocks over a tree that damages your car and home, you have three property losses (tree, car, house) and only one reduction.

Third, after combining all your losses under the above guidelines, you must reduce them by 10% of adjusted gross income (AGI). Only the loss amount above this "floor" can be deducted.

This final limitation is often the one that wipes out the deduction. For example, if your AGI is \$75,000, your losses (determined as described above) are only deductible to the extent they exceed \$7,500 (10% of \$75,000).

When to take the deduction. Except for "disaster losses," the deduction is taken in the year the loss is incurred (or, for a theft, the year it's discovered). If your loss is from a disaster in a federally declared disaster area, you can elect to take your loss in the year before it was incurred. This may increase the tax savings from the loss and may entitle you to a refund earlier than if you waited to file the loss year's return.

Non-itemizers can't take casualty loss deduction. Individual taxpayers who don't itemize deductions can't deduct their casualty losses.

The North Carolina Department of Revenue has announced that it will offer relief for victims of Hurricane Irene in the following counties declared a federal disaster area: Beaufort, Carteret, Craven, Dare, Halifax, Hyde, Lenoir, Pamlico, and Tyrrell. The relief is similar to that granted by the Internal Revenue Service and includes the waiver of the filing and payment penalties for businesses or individuals that had a filing and/ or payment requirement for any North Carolina tax due on or after August 25, 2011 and on or before October 31, 2011, as long as the return is filed and the tax paid by October 31, 2011. In order to make sure penalties are not assessed, taxpayers are advised to include Form NC-5500 with the late payment or return and check the block for "natural disaster" as well as filling in all the required information. If such form is not sent along with the payment or return, Form NC-5500 can be completed later if the taxpayer is assessed a penalty. In addition, the Department will suspend forced collection actions, including the issuance of garnishments, tax warrants, and certificates of tax liabilities, for taxpayers in the declared disaster area until October 31, 2011. Finally, taxpayers located in the counties declared federal disaster areas may elect to claim a disaster-related casualty loss on either their 2010 or 2011 North Carolina income tax returns, and should write "Hurricane Irene" in black ink at the top left of the form. (NCDOR Tax Relief for Victims of Hurricane Irene: Some Deadlines Extended, N.C. Dept. of Rev., 09/01/2011)

**The following information has been re-printed from the IRS website.
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GREENSBORO – Victims of Hurricane Irene that began on Aug. 25, 2011 in parts of North Carolina may qualify for tax relief from the Internal Revenue Service.

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The President has declared the following counties a federal disaster area: Beaufort, Carteret, Craven, Dare, Halifax, Hyde, Lenoir, Pamlico, and Tyrrell. Individuals who reside or have a business in these counties may qualify for tax relief.

The declaration permits the IRS to postpone certain deadlines for taxpayers who reside or have a business in the disaster area. For instance, certain deadlines falling on or after Aug. 25, and on or before Oct. 31, have been postponed to Oct. 31, 2011. This includes corporations and other businesses that previously obtained an extension until Sept. 15 to file their 2010 returns, and individuals and businesses that received a similar extension until Oct. 17. It also includes the estimated tax payment for the third quarter, normally due Sept. 15.

The IRS automatically identifies taxpayers located in the covered disaster area and applies automatic filing and payment relief. But affected taxpayers who reside or have a business located outside the covered disaster area must call the IRS disaster hotline at 1-866-562-5227 to request this tax relief.

Covered Disaster Area

The counties listed above constitute a covered disaster area for purposes of Treas. Reg. § 301.7508A-1(d)(2) and are entitled to the relief detailed below.

Affected Taxpayers

Taxpayers considered to be affected taxpayers eligible for the postponement of time to file returns, pay taxes and perform other time-sensitive acts are those taxpayers listed in Treas. Reg. § 301.7508A-1(d)(1), and include individuals who live, and businesses whose principal place of business is located, in the covered disaster area. Taxpayers not in the covered disaster area, but whose records necessary to meet a deadline listed in Treas. Reg. § 301.7508A-1(c) are in the covered disaster area, are also entitled to relief. In addition, all relief workers affiliated with a recognized government or philanthropic organization assisting in the relief activities in the covered disaster area and any individual visiting the covered disaster area who was killed or injured as a result of the disaster are entitled to relief.

Grant of Relief

Under section 7508A, the IRS gives affected taxpayers until Oct. 31 to file most tax returns (including individual, corporate, and estate and trust income tax returns; partnership returns, S corporation returns, and trust returns; estate, gift, and generation-skipping transfer tax returns; and employment and certain excise tax returns), or to make tax payments, including estimated tax payments, that have either an original or extended due date occurring on or after Aug. 25 and on or before Oct. 31.

The IRS also gives affected taxpayers until Oct. 31 to perform other time-sensitive actions described in Treas. Reg. § 301.7508A-1(c)(1) and Rev. Proc. 2007-56, 2007-34 I.R.B. 388 (Aug. 20, 2007), that are due to be performed on or after Aug. 25 and on or before Oct. 31.

This relief also includes the filing of Form 5500 series returns, in the manner described in section 8 of Rev. Proc. 2007-56. The relief described in section 17

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of Rev. Proc. 2007-56, pertaining to like-kind exchanges of property, also applies to certain taxpayers who are not otherwise affected taxpayers and may include acts required to be performed before or after the period above.

The postponement of time to file and pay does not apply to information returns in the W-2, 1098, 1099 series, or to Forms 1042-S or 8027. Penalties for failure to timely file information returns can be waived under existing procedures for reasonable cause. Likewise, the postponement does not apply to employment and excise tax deposits. The IRS, however, will abate penalties for failure to make timely employment and excise tax deposits due on or after Aug. 25 and on or before Sept. 9 provided the taxpayer makes these deposits by Sept. 9.

Casualty Losses

Affected taxpayers in a federally declared disaster area have the option of claiming disaster-related casualty losses on their federal income tax return for either this year or last year. Claiming the loss on an original or amended return for last year will get the taxpayer an earlier refund, but waiting to claim the loss on this year's return could result in a greater tax saving, depending on other income factors.

Individuals may deduct personal property losses that are not covered by insurance or other reimbursements. For details, see Form 4684 and its instructions. Affected taxpayers claiming the disaster loss on last year's return should put the Disaster Designation "North Carolina/Hurricane Irene" at the top of the form so that the IRS can expedite the processing of the refund.

Other Relief

The IRS will waive the usual fees and expedite requests for copies of previously filed tax returns for affected taxpayers. Taxpayers should put the assigned Disaster Designation in red ink at the top of Form 4506, Request for Copy of Tax Return, or Form 4506-T, Request for Transcript of Tax Return, as appropriate, and submit it to the IRS.

Affected taxpayers who are contacted by the IRS on a collection or examination matter should explain how the disaster impacts them so that the IRS can provide appropriate consideration to their case.

Taxpayers may download forms and publications from the official IRS website, irs.gov, or order them by calling 1-800-TAX-FORM (1-800-829-3676). The IRS toll-free number for general tax questions is 1-800-829-1040.

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