IRS extends casualty loss safe-harbor

Does your home have cracks in its foundation? Depending on the cause, you may qualify for a casualty loss deduction on your 2017 return.

Strategy: Arrange to have repairs made for pyrrhotite damage. In a new ruling, the IRS says you have until the due date for filing an amended return for the 2017 tax year to make these kinds of repairs. (*Revenue Procedure 2018-14, 2/7/18*)

For 2018-2025, the Tax Cuts and Jobs Act (TCJA) repeals deductions for personal casualty losses, except for losses in federally declared disasters.

Here's the whole story: Prior to the TCJA, casualty loss deductions were allowed for damage caused by events that are "sudden, unexpected or unusual." The loss is generally deductible in the year in which it was sustained. Also, the loss is reduced by any insurance reimbursements before two limits are applied:

- The loss for each event must be reduced by $100.
- The deductible amount is limited to the excess above 10% of adjusted gross income (AGI).

For example, if a taxpayer has an AGI of $100,000 for 2017 and incurred an unreimbursed loss of $12,500, the deduction is limited to $2,400 ($12,500 − $100 − $10,000).

However, the IRS has often contested claims that damage was caused by qualified events.

Residents in the northeastern part of the U.S. have reported problems with certain residential concrete foundations that contain pyrrhotite, which oxidizes in the presence of water and oxygen. This leads to the formation of expansive mineral products and causes concrete to deteriorate prematurely

New ruling: In a previous ruling (*Revenue Procedure 2017-60, 11/22/17*), the IRS provided a safe-harbor rule allowing taxpayers to treat amounts paid to repair concrete foundations deteriorating due to pyrrhotite as casualty losses. Initially it established Jan. 1, 2018, as the deadline for making repairs. Now it has extended the deadline for making repairs to the last day for filing a timely amended return for the 2017 tax year.

Tip: Taxpayers generally have three years from the time they filed an original return to file an amended return for that year.

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