WINTRUST
WEALTH MANAGEMENT

Manage Your Taxes

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Tax Relief for Victims of Hurricane Ian

On September 29, 2022, the Internal Revenue Service announced that victims of Hurricane Ian now have until February 15, 2023 to file various individual and business tax returns and make tax payments. Individuals and households that reside or have a business anywhere in the states of Florida, South Carolina and Georgia qualify for this tax relief.

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Tax Deadlines Delayed

Deadlines falling on or after September 23, 2022, and before February 15, 2023, are postponed through February 15, 2023. Individuals who had a valid extension to October 17, 2022 to file their 2021 return will now have until February 15, 2023 to file. The actual tax payments originally due on April 15 are not eligible for any relief however.

The February 15, 2023, deadline also applies to the quarterly estimated tax payments, normally due on January 17, 2023 and to the quarterly payroll and excise tax returns normally due on October 31, 2022, and January 31, 2023. Businesses with an original or extended due date also have the additional time, including calendar-year corporations whose 2021 extensions run out on October 17, 2022.

This relief includes the filing of Form 5500 series returns that were required to be filed on or after September 15, 2022, and before February 15, 2023, are postponed through February 15, 2023, in the manner described in section 8 of Rev. Proc. 2018-58. Relief 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, 1094, 1095, 1097, 1098 or 1099 series; to Forms 1042-S, 3921, 3922 or 8027; or to employment and excise tax deposits. However, penalties on deposits due on or after September 23, 2022, and before October 11, 2022, will be abated as long as the tax deposits were made by October 11, 2022.

Penalties on payroll and excise tax deposits due on or after September 23, 2022, and before October 11, 2022, will be abated as long as the tax deposits are made by October 11, 2022.

If an affected taxpayer receives a late filing or late payment penalty notice from the IRS that has an original or extended filing, payment or deposit due date that falls within the postponement period, the taxpayer should call the telephone number on the notice to have the IRS abate the penalty.

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

Casualty Loss Deductions

Individuals in a federally declared disaster area whose home or personal belongings are destroyed or damaged by a hurricane may deduct personal property losses that are not covered by insurance or other reimbursements. The hurricane loss must stem from a federally declared disaster, which President Biden declared for Florida, South Carolina and Georgia before Hurricane Ian struck those states.

For property that is partially destroyed, the amount of your hurricane loss is the smaller of two amounts:

- ***Adjusted basis:*** You must determine your "adjusted basis" in your property before the hurricane. Typically, your adjusted basis is the amount you paid for the property. It increases over time for any additions or improvements you make, and decreases through depreciation.
- ***The decline in fair market value:*** You must determine how the "fair market value" of the property declined as a result of the casualty. The IRS considers your fair market value the price at which you could sell your property to a willing buyer in the open market. For example, if your property would have sold at $25,000 before the casualty but $10,000 afterward, then the decline in fair market value is $15,000.

Once you have determined the smaller loss amount, any insurance or reimbursement received or expected to be received needs to be subtracted, resulting in a final casualty loss figure for tax purposes.

How to Report Your Casualty Loss

Generally, any hurricane losses that occur within the taxable year are reported on federal income tax return Form 4864, Casualties and Thefts. The IRS requires a taxpayer subtract $100 from their reported losses involving personal-use property. The total of all casualty losses for the year must then be reduced by 10% of the taxpayer's adjusted gross income. To report the total loss on the tax return, you must itemize deductions on Form 1040, Schedule A and include the deduction there.

If you have a qualified disaster loss, as in this case with Hurricane Ian losses, you may elect to deduct the loss without itemizing your deductions. Your net casualty loss does not need to exceed 10% of your adjusted gross income to qualify for the deduction, but you would reduce each casualty loss by $500 after any salvage value and any other reimbursement.

When to Claim a Casualty Loss

Generally, you can claim a hurricane loss resulting from a federally declared disaster on the tax return for either the disaster year or the year preceding the disaster. Claiming the casualty loss on the prior year's tax return is limited in timing however. A taxpayer has six months from the original due date of April 18, 2023 for the 2022 impacted tax year to amend the prior year's 2021 tax return and deduct the loss in the prior year. Therefore, a taxpayer will have until October 18, 2023 to amend their 2021 tax return for a casualty loss that occurs in 2022.

Section 139 Qualified Disaster Payments Are Not Taxable to the Recipient

Employers can pay qualified disaster relief payments to employees under Internal Revenue Code Section 139 and treat them as deductible expenses for the employer that the employee or independent contractor will not have to include in income. The employer will be able to deduct the expense, and will not have to pay employment taxes, workers compensation, unemployment compensation or pension contributions on the amounts paid.

This provision can apply to payments made to an owner or relatives of the owner of an S corporation or a C corporation. It may not apply to payments made by a partnership to a partner, but if the partner puts his or her partnership interest into an S corporation before the payment is made, then it may qualify.

A qualified disaster relief payment is any amount paid to or for the benefit of a person to reimburse or pay reasonable and necessary personal, family, living or funeral expenses that are a result of a qualified disaster.

In addition, amounts paid to reimburse or pay for reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence or the repair or replacement of the contents of a personal residence or vacation home that is attributable to the disaster will also qualify to the extent attributable to a qualified disaster.

The above expenses qualify only to the extent that the loss is not reimbursed by insurance or other sources, and amounts received as Section 139 payments cannot be deducted as casualty losses.

Summary

Anyone impacted by a hurricane knows that the property damage and destruction is part of the challenge; rebuilding can take a tremendous emotional toll. Consulting with a Wintrust Wealth Advisor can help ease your burden in calculating and providing documentation to ensure you receive any relief available.

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