MyFreeTaxes
Disaster Resilience Tax Guide

Leveraging Tax Time to Recover After a Natural Disaster

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About United Way

United Way brings people together to build strong communities where everyone thrives. As one of the world's largest privately funded charities, we serve 95% of U.S. communities and 37 countries and territories; our humanitarian aid supports 48 million people every year. Through United Way, communities tackle tough challenges and work with private, public, and nonprofit partners to boost education, economic solutions, and health resources.

United Way is the mission of choice for 1.5 million volunteers, 6.8 million donors, and 45,000 corporate partners in more than 1,100 communities worldwide. Together, we are building resilient, equitable communities across the globe. Learn more at UnitedWay.org. Follow us: @UnitedWay and #LiveUnited.

About MyFreeTaxes®

MyFreeTaxes helps people file their federal and state taxes for free while getting the assistance they need. United Way provides MyFreeTaxes in partnership with the IRS's Volunteer Income Tax Assistance (VITA) program to help filers prepare their tax returns on their own or have their return prepared for them for free.

For millions of Americans, tax refunds and credits are essential to their financial stability and success. These credits maximize filers' refunds and provide important opportunities for individuals and families to build financial stability. For many households, their tax refund may be the biggest check they receive all year. For entrepreneurs, filing taxes can make or break their financial bottom line.

Since 2009, MyFreeTaxes has helped more than 1.3 million people file their taxes for free while claiming over $1 billion in refunds and saving over $260 million in filing fees.

About Civitas Strategies

Founded in 2009 by Gary Romano, Civitas Strategies is a management consultancy focused on increasing the impact of mission-driven organizations, both for-profits and nonprofits. The pandemic of 2020 uncovered countless crippling vulnerabilities for small businesses. As a result, we shifted our work to focus more intensively on the business basics required for small businesses to survive and thrive. Our work across the country since then includes business coaching, technical assistance, and grant administration support to small business owners which includes sole proprietors and corporations.

About This Guide

Natural disasters like a hurricane or tornado can be unpredictable and frightening. Oftentimes, it can be challenging to anticipate all the ways a disaster could affect you, your business, and your property.

Natural disasters can strike quickly, and often without advance warning, which can leave you with little or no time to plan or make important decisions. Afterwards, while you are trying to meet your most basic needs, you may be overwhelmed with outreach and information about all the types of financial resources and assistance available to you. In these moments, while dealing with the potentially devastating aftermath, it may be difficult to understand how these resources will impact your financial wellbeing, including your tax liabilities. This can make it challenging to think through what types of support make the most sense for the long-term financial health of yourself, your family, or business. That's where this guide comes in.

One of the best ways to reduce the amount of stress you may experience after a disaster, is to take measures ahead of time to prepare. This guide will equip you to handle disasters in two ways:

- ➔ First, by **ensuring you are more informed and better prepared to make financial decisions immediately following a disaster.** To do that, this guide will provide you with an understanding of how the government defines a disaster area, the tax implications associated with being located in a disaster area, how the use of different financial resources impact your taxes, and how to protect important documents.

- ➔ Second, by **giving you the tools you will need to properly and confidently file your taxes after receiving disaster assistance.** To do that, this guide will give you step-by-step filing instructions using TaxSlayer software for both your personal and business needs.

Disasters can take many forms, and the financial burden of rebuilding in their aftermath can be daunting. Having access to the right information puts you in a stronger position. With this guide, you can do your own taxes, at your own time and pace, and in a location that works best for you, allowing you to take back control of your financial situation and begin the process of recovery. Furthermore, at a time when you may be experiencing a financial crisis, the value of every extra dollar in your pocket increases. The costs of filing taxes can vary depending on the method you use to file.

Using a paid tax software program can range from $20 to $150 or more, depending on the software's features and the forms you need to file. Some software offer free federal returns but charge for state returns. Using a tax professional is another option available to you, but the cost can vary significantly. Tax professionals may charge by the hour, a flat fee for a simple return, or a percentage of your refund. It's not uncommon to pay a few hundred dollars or more for professional tax preparation services.

Meanwhile, filing your personal or small business tax returns, using this guide in conjunction with United Way's **MyFreeTaxes service is 100% free**. There are no charges or fees associated with any of MyFreeTaxes' filing options. Learn more at MyFreeTaxes.com.

Who Should Use This Guide

This guide has a lot of information, which is relevant to certain types of tax filers. The types of filers who would benefit the most from this guide include filers who have experiences the following circumstances: Circumstances where individuals have suffered disaster or casualty loss, with and without federal disaster designation, with and without business revenue/expense/loss, with and without W2 income, and with and without receipt of federal/FEMA/other grants.

Tax Implications of a Disaster

The tax implications of disaster depend on the specific tax relief measures and provisions put in place by the government in response to the disaster.

First, it's important to understand casualties because they can be included as losses on your tax return, lowering the amount you may owe in taxes and providing you with additional resources to repair or replace items that were damaged or destroyed.

<u>What is a Casualty?</u>
A casualty occurs when your property is damaged or destroyed as a result of an identifiable event that is sudden, unexpected, or unusual, such as a fire, hurricane, tornado, flood, earthquake, or volcanic eruption.

For example, a home flooded after Hurricane Ian caused significant storm surge, resulting in major damage to the walls and floor that your homeowners' insurance only partially covers.

<u>What is a Casualty Loss?</u>
A casualty loss is a type of tax loss that is the result of the damage, destruction, or the loss of your property from this sudden, unexpected or unusual event. A casualty doesn't include normal wear and tear or progressive deterioration.

If you incur a loss of personal property due to a federally declared disaster, you may be eligible to claim a casualty loss deduction on your federal income tax return. This deduction allows you to offset some of the financial losses resulting from the disaster. However, there are certain limitations and requirements for claiming this deduction.

- The loss must result from a sudden, unexpected, or unusual event.
- The loss must be in excess of any insurance reimbursement received.
- You must itemize your deductions to claim the loss, and it's subject to a deductible threshold.

Regardless of whether the disaster is federally declared, keeping thorough records of your losses, expenses, and insurance claims is critical. Proper documentation will help you accurately report your financial situation and potential deductions on your tax returns. For more information on how you can make preparing proper documentation easier, see Appendix B for guidance on recommended record-keeping practices.

In addition to casualty losses, there may be other tax considerations for individuals and businesses in disaster areas, including:

Extended Filing and Payment Deadlines: The IRS may grant extensions for filing federal income tax returns and making tax payments if you or your business is located in a disaster area.

Exemption from Early Withdrawal Penalties: In some cases, you may be able to withdraw funds from retirement accounts, such as IRAs and 401(k)s, without incurring the usual early withdrawal penalties if you are experiencing financial hardship due to a federally declared disaster.

Business Expense Deductions: Your business may be allowed to deduct certain disaster-related expenses as ordinary and necessary business expenses.

It's important to note that the specific tax relief measures and deadlines can vary from one disaster to another, and the IRS may issue guidance and announcements specific to each disaster. Therefore, if you are in a federally declared disaster area, you should closely monitor IRS announcements and seek guidance from the IRS to ensure you take advantage of available tax relief options. Further IRS guidance, including links to additional resources, can be found in Appendix C.

What is a Federal Disaster Area?

A federal disaster area, often referred to as a federally declared disaster area, is a designation made by the President of the United States that indicates a region or locality has experienced a significant natural or man-made disaster. The President's declaration mobilizes the Federal Emergency Management Agency (FEMA) to activate the appropriate response and recovery programs and administer them. This designation is typically made in response to events such as hurricanes, tornadoes, floods, earthquakes, wildfires, or other catastrophic events that cause widespread damage and overwhelm the ability of state and local governments to respond effectively.

The process of declaring a federal disaster area involves assessments of the extent of the damage and the need for federal assistance by state and local authorities. Ultimately, a request for such a declaration is made by a state's governor to the President, who then may declare a federal disaster. The declaration helps ensure that the affected area receives the necessary federal support to address the immediate aftermath of the disaster and work towards long-term recovery and resilience.

Federal agencies like FEMA are deployed to coordinate disaster response and recovery efforts and provide financial aid (e.g., individual assistance, public assistance), food, water, and other necessities to help communities recover and rebuild (e.g., hazard mitigation assistance). The declaration of a federal disaster area also allows for the release of dollars from the Federal Disaster Relief Fund.

How to Determine if You Are Located in a Federal Disaster Area

Visit the official website of the Federal Emergency Management Agency (FEMA) at www.fema.gov. FEMA maintains a "Disaster Declarations" page on their website, which provides information about recent disaster and emergency declarations. This information is regularly updated. Look for sections on their website related to disaster declarations or declarations by the President. You can search for declarations by state, date, and type of disaster.

To access the database:

- ➢ Visit fema.gov/disaster.
- ➢ Click on the link in the "Disaster Search" section to access the database.
- ➢ Use the search filters to narrow down the results by state and date to find information about your area.

Other Recommended Actions

Contact Local Authorities: You can also contact your local government or emergency management agency to inquire about the current status of your area. They may have information about disaster declarations and the resources available to residents in affected areas.

Check News and Media: If the situation allows, monitor local news outlets, such as television, radio, and newspapers, which often provide information about disaster declarations and the areas affected by disasters. You can also check official social media accounts of your local government for updates.

Stay Informed: Sign up for emergency alerts and notifications from your local government or emergency management agency, which can provide you with timely information about disasters and emergency situations. More information on additional FEMA resources is available in Appendix A.

Non-federal Disaster Designation Implications

Without a federal disaster declaration, you may not have access to the same level of federal assistance that is typically available in federally declared disaster areas. This includes financial assistance and resources, such as grants for temporary housing and home repairs, low-interest disaster loans, and personnel from federal agencies like FEMA.

Even though you may not receive the same level of assistance as in federally declared disaster areas, there are still potential tax-related consequences to be aware of.

Casualty Loss Deductions: You may still be eligible to claim casualty loss deductions on your federal income tax return if you meet the criteria set by the IRS. Remember, to qualify for a casualty loss deduction, the following conditions generally apply:

- The loss must result from a sudden, unexpected, or unusual event.
- The loss must be in excess of any insurance reimbursement received.
- You must itemize your deductions to claim the loss, and it's subject to a deductible threshold.
- Keep detailed records of the damage, expenses, and any insurance reimbursements. Documentation is crucial when claiming this deduction.

Tax Credits and Incentives: There may be state-specific or local tax credits and incentives available to you or your business if affected by a disaster. These can vary widely depending on your location and the nature of the disaster. Research and consult with the IRS or your local Volunteer Income Tax Assistance (VITA) program to identify any potential tax relief opportunities.

Insurance Coverage and Claims: If you have insurance coverage for the type of disaster you've experienced (e.g., homeowners' insurance, flood insurance), you will need to rely on your insurance policies to recover your losses. Without a federal declaration, there may be fewer options for supplemental assistance. Depending on your insurance coverage and the nature of the disaster, you may receive insurance proceeds for your losses. In general, insurance payouts for property damage are not taxable. However, insurance payouts for other types of claims, such as business interruption insurance, may have tax implications. Consult with your insurance provider to better understand the tax treatment of your insurance claims.

Financial Hardship: If you are facing financial hardship due to a disaster, you can contact the IRS to discuss your situation. While there may not be specific federal disaster-related tax relief measures available, the IRS may offer options for installment agreements or temporary relief based on your circumstances.

Seek Professional Guidance: Depending on your situation, it may be advisable to consult with a tax professional or accountant who is knowledgeable about disaster-related tax issues. They can provide personalized guidance on your specific tax situation, help you navigate any available deductions, and ensure that you meet all relevant tax requirements.

Community and Nonprofit Resources: Community organizations and nonprofits may offer assistance to you and your family if affected by a disaster, regardless of whether a federal disaster declaration has been made. These organizations may provide temporary housing, food, clothing, and other forms of support. Further on in this guide, we will discuss how in-kind donations can impact your taxes. More information on nonprofit and non-government resources can be found in Appendix D.

Be Prepared: In the absence of extensive federal assistance, communities impacted by a disaster may need to rely more on their own resources to recover. Developing a disaster preparedness plan and building a financial safety net can be important steps in such situations.

It's important to keep in mind that the level of response to a disaster can vary depending on its scope, severity, and local resources. Even without a federal disaster declaration, state and local authorities, as well as community organizations, can play a crucial role in helping communities recover from disasters. Therefore, it's advisable to reach out to these local resources for assistance and guidance in the event of a disaster.

Additionally, maintaining appropriate insurance coverage for your property and belongings is essential to protect against potential losses. Remember that the tax implications of a disaster can vary depending on factors such as your location, the type of disaster, and your individual circumstances. Staying informed, keeping detailed records, and seeking professional assistance when needed are essential steps to manage the tax aspects of being impacted by a disaster.

This guide has two parts.

Part I: Personal Implications and Tax Filing focuses on how disaster relief can impact your personal financial situation and your personal taxes. It will then walk you through how to report disaster relief when filing your personal tax return.

Part II: Business Perspective and Tax Filing focuses on how disaster relief can impact your business' financial situation and how disaster relief can impact your Schedule C. It will then walk you through how to report disaster relief when filing your business tax return.

Part I:

Personal Implications and Tax Filing

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Understanding and Navigating Tax Filing and Payment Deadlines

Standard tax deadlines are the typical due dates for various federal tax-related filings, including individual and business income tax returns, extension requests, estimated tax payments, and other tax-related obligations. Here are more details about the standard tax deadlines in the United States:

Individual Income Tax Return (Form 1040): The standard deadline for filing your federal individual income tax return (Form 1040) is April 15th of each year. If April 15th falls on a weekend or a legal holiday, the deadline is typically extended to the next business day.

Business Income Tax Returns (Various Forms): The due dates for business income tax returns vary depending on the type of business entity and the fiscal year. For corporations (Form 1120), the standard due date is the 15th day of the third month after the end of the tax year. For partnerships (Form 1065), the due date is typically the 15th day of the third month after the end of the tax year.

Estimated Tax Payments: If you expect to owe a substantial amount of taxes, you are required to make estimated tax payments throughout the tax year. These payments are generally due four times a year: April 15th, June 15th, September 15th, and January 15th of the following year. If any of these dates falls on a weekend or holiday, the due date may be adjusted.

Employment Tax Forms (Various Forms): If you are an employer, you must file employment tax forms, including Form 941 for quarterly employment tax returns, by specific due dates. These due dates depend on the type of form and the frequency of filing, whether it's monthly, quarterly, or annually.

Quarterly Payroll Tax Deposits: If you are an employer, you are responsible for making federal payroll tax deposits on a regular basis, and the due dates depend on the deposit schedule assigned to the employer (monthly or semiweekly).

State Tax Deadlines: State income tax deadlines often align with federal deadlines but can vary by state. Check with your state's tax authority for specific due dates for state income tax returns, extensions, and other state-specific requirements.

It's important to note that tax deadlines can change due to legislative changes, holidays, and special circumstances, such as natural disasters. Therefore, it's advisable to verify the exact due dates each tax year, especially if there have been any changes or extensions announced by the IRS or your state tax authority.

Extensions for Disaster-Affected Individuals

If you were impacted by a natural disaster, be it federally declared or non-federally declared, you have the option to request an extension to receive additional time to fulfill your tax obligations. These extensions can apply to various tax-related tasks, including filing income tax returns, making estimated tax payments, and addressing other tax matters. Here are the key tax extensions available:

Filing Extension (Form 4868): If you are affected by a natural disaster and need more time to file your federal individual income tax return (Form 1040), you can request an automatic extension by filing Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. This extension typically grants you an additional six months, moving the filing deadline from April 15th to October 15th. Keep in mind that this extension applies only to the filing deadline, not to the deadline for paying any taxes owed. If you anticipate owing taxes, it's generally recommended to make a payment with your extension request to avoid penalties and interest.

Estimated Tax Payment Extension: If you make estimated tax payments throughout the year and are unable to meet the payment deadlines due to a natural disaster, you can request an extension for making those payments. This allows you to make your estimated payments at a later date without incurring penalties.

Late Payment Penalties Waiver: The IRS may provide relief from late payment penalties for federal income taxes if your ability to meet tax obligations is affected by a natural disaster. This relief typically applies to the penalties for failure to pay taxes by the original due date.

Other Tax Relief Measures: In addition to extensions, the IRS may implement other tax relief measures to assist. These measures can include waiving certain documentation requirements, providing relief from penalties and interest, and offering assistance with resolving tax issues.

To request a tax extension or other relief measures due to a natural disaster, it's important to contact the IRS or your state tax authority and follow the specific guidelines and procedures in place at the time of the disaster. Additionally, it's advisable to document and provide relevant information about how the natural disaster has impacted your ability to meet your tax obligations. To **learn how to file an extension** using MyFreeTaxes' software, go to the Filing an Extension section of this guide.

Keep in mind that state tax authorities may also offer similar extensions and relief measures for state income tax-related matters. Be sure to check with your state tax authority for information on available relief options at the state level.

How Disaster Relief Impacts Personal Insurance

It is essential to read your insurance policies carefully, understand the coverage they provide, and contact your insurance company promptly if you experience damage from a disaster. Additionally, staying informed about disaster relief efforts, both from insurance providers and government agencies, can help you navigate the insurance claims process effectively. If you encounter difficulties or disputes with your insurer, you may want to seek legal advice or consult with a public adjuster to help with your claim.

Here are some ways in which disaster relief can affect personal insurance:

Coverage for Property Damage: If your home or personal property is damaged or destroyed by a disaster, such as a hurricane, flood, wildfire, or tornado, your homeowners or renters' insurance policy may provide coverage. Insurance can help you recover the cost of repairs or replacement of damaged items, up to the limits specified in your policy.

Deductibles: Disaster-related insurance claims often have specific deductibles. For instance, policies for hurricane or earthquake insurance may have higher deductibles than standard homeowners' policies. Make sure you understand your policy's deductible and how it applies to your claim.

Claims Process: In the aftermath of a disaster, insurance companies may see a surge in claims. The disaster relief response can vary depending on the scope of the disaster. Insurance companies may set up temporary claims processing centers or deploy additional personnel to handle claims more efficiently.

Additional Living Expenses (ALE): If your home is uninhabitable due to a disaster, your homeowners or renters' insurance policy may cover additional living expenses, such as temporary housing, food, and transportation costs.

Flood Insurance: Standard homeowners' insurance typically does not cover flood damage. If you live in a flood-prone area, you may need a separate flood insurance policy through the National Flood Insurance Program (NFIP) or a private insurer. Disaster relief agencies often encourage homeowners in flood-prone regions to purchase flood insurance.

Federal Disaster Assistance: In federally declared disaster areas, individuals and households that are not adequately covered by insurance or are uninsured may be eligible for federal disaster assistance programs. FEMA. Depending on the program, assistance may help with temporary housing, repairs, or replacement of damaged property, and other disaster-related expenses.

Insurance Claim Deadlines: Pay attention to the deadlines for filing insurance claims, as they vary by insurer and type of policy. Timely reporting of losses is essential to ensure you receive the coverage you are entitled to.

Policy Review: In the aftermath of a disaster, it's advisable to review your insurance policies to ensure you have adequate coverage. You may consider adjusting your coverage limits or purchasing additional policies, such as earthquake or flood insurance, if you live in an area prone to specific types of disasters.

Premiums and Renewals: Following a disaster, some insurers may reassess premiums and renewals for homeowners in disaster-prone regions. You might experience changes in your insurance rates or find it more challenging to secure coverage, depending on the severity and frequency of recent disasters in your area.

Documenting Losses: Keep thorough records of disaster-related losses and expenses. Document damage with photographs and maintain receipts for any out-of-pocket expenses related to recovery. This documentation will be valuable when filing insurance claims.

Insurance Coverage and Claims Process

Insurance coverage and the claims process are crucial components of your financial protection in the event of a disaster or other covered event. Here's an overview of how insurance coverage works and the steps involved in the claims process.

What is Liability?

In insurance, liability refers to legal responsibility for damages, injuries, or losses caused to another party.

Liability insurance provides financial protection if you, as the policyholder, are found legally liable for bodily injury, property damage, or other losses caused to someone else. It covers your legal obligation to pay compensation or damages to third parties for covered claims.

For example, if your property is damaged in a disaster, debris or unsafe conditions could cause injury to others and create a liability for you. Liability insurance would pay for the injured person's claims up to your policy's limits.

Insurance Coverage

There are various types of insurance policies, including:

Homeowners Insurance: Covers damage to your home and personal property, liability protection, and provides living expenses in case of uninhabitable conditions.

Renters Insurance: Protects your personal property if you are a renter, including coverage for liability and also provides living expenses.

Auto Insurance: Covers damage to your vehicle and liability for accidents.

Flood Insurance: Specifically covers damage from flooding. It's typically offered through the National Flood Insurance Program (NFIP) or private insurers.

Earthquake Insurance: Provides coverage for damage caused by earthquakes, which is typically not included in standard homeowners' policies.

Life Insurance: Pays out a sum of money to beneficiaries upon the policyholder's death.

Health Insurance: Provides coverage for medical expenses and healthcare services.

Disability Insurance: Offers income protection in case of an injury that prevents you from working.

Policy Terms: Insurance policies outline the terms and conditions of coverage, including the types of events or perils covered, coverage limits, deductibles, and the amount you pay for insurance.

Coverage Limits: Policies specify the maximum amount an insurer will pay for covered losses. Ensure that your coverage limits adequately protect your financial interests.

Deductibles: The deductible is the amount you must pay out of pocket before your insurance coverage kicks in. Higher deductibles often result in lower costs, but you should be prepared to cover that cost in case of a claim.

The Claims Process

1. Report the Loss: Contact your insurance company as soon as possible after a covered event occurs. Insurers often have a toll-free claims reporting number, and many also offer online claim reporting options. Provide all necessary details about the loss.

2. Claim Adjustment: After reporting the loss, the insurance company will assign an employee, called an adjuster, to evaluate the claim. The adjuster will assess the damage and losses, possibly visit your property, and provide guidance on the next steps.

3. Document Losses: To support your claim, document the damage with photographs and make a detailed list of lost or damaged items. Keep receipts, invoices, and any other relevant records.

4. Temporary Repairs: Take steps to prevent further damage (e.g., cover a damaged roof) and keep records of the expenses incurred for temporary repairs. This can be part of your claim.

5. Claim Settlement: Once the insurance company reviews your claim, they will offer a settlement. This may include payment for repairs, replacements, or compensation for losses up to your policy limits, minus any deductibles.

6. Appeals: If you disagree with the settlement offer, you can often appeal the decision. Consult your insurance company for the appeals process.

7. Payment: If you accept the settlement, the insurer will provide a check or direct deposit for the approved amount. The time it takes to receive the payment can vary based on the complexity of the claim.

8. Repairs and Recovery: You can use the insurance payment to make repairs or replacements to your property, or to cover medical bills or other expenses, depending on the type of policy.

9. Additional Living Expenses (ALE): For policies with ALE coverage, you can use the payment to cover the cost of temporary living arrangements if your home is uninhabitable.

10. Monitoring Renewals: After a claim, insurance companies may review and possibly adjust your policy premiums or renewal terms.

For example, a severe storm with tornados in Arkansas produces high winds that damage your roof and lead to water leakage into your home. You contact your insurance company to file a claim. The insurer dispatches an adjuster to inspect the damage, evaluate the needed repairs, and develop a scope of work with estimated costs for the claim. You may obtain your own contractor estimates to submit to the insurance company as well. Negotiations may occur on the repair costs.

The insurance company would issue a claim check to you, the policyholder, for the approved amount. You would then manage the repairs, selecting and scheduling contractors, paying them, and keeping invoices. Receipts and documentation for all completed repair work should be kept and submitted to the insurer showing how the funds were used.

It's essential to read your insurance policy carefully to understand what is covered and what is excluded. In the event of a disaster, act promptly to ensure your safety and protect your property. Documenting losses and cooperating with your insurance company throughout the claims process will help expedite the settlement and recovery. If you have any issues or disputes during the claims process, consider seeking advice from a public adjuster or legal counsel.

Tax Implications of Insurance Settlements

The tax implications of an insurance settlement related to a disaster can vary depending on several factors, including the type of insurance, the purpose of the settlement, and whether the settlement amount exceeds your actual losses. Here are some things to consider regarding the tax implications of insurance settlements related to disasters:

Insurance for Property Damage: Generally, insurance proceeds received for property damage are not considered taxable income. This means that if you receive an insurance settlement to repair or replace damaged property, the amount is typically not subject to federal income tax. However, if the insurance payment exceeds the cost of repairing or replacing the damaged property, the excess amount may be considered taxable income. If the insurance proceeds were for a loan or mortgage on property that was damaged, it may be considered canceled debt that has to be reported. Continue reading this section to learn how you would report this canceled debt using MyFreeTaxes.

Additional Living Expenses (ALE): Insurance proceeds for additional living expenses (ALE), such as temporary housing and meals, are also generally not considered taxable income. ALE is intended to cover expenses you incur because your home is uninhabitable during repairs.

Flood and Federal Disaster Assistance: Federal disaster assistance provided by FEMA and flood insurance payouts are typically not taxable income. These funds are intended to help you recover.

Recovery of Previously Deducted Losses: If you previously claimed a casualty loss deduction for a disaster-related loss and later receive an insurance settlement for that loss, you may need to include the insurance proceeds as income to the extent of any previous tax benefit you received.

Tax Reporting: Insurance companies often provide Form 1099-INT or Form 1099-MISC to report insurance proceeds that may be taxable. If this was the case for you, follow the reporting instructions in the Reporting My 1099-INT or Reporting My 1099-MISC section of this guide. If you received insurance proceeds for a settlement, but did not receive a 1099 from your insurance provider, follow the instructions in the Reporting Other Income section.

How Disaster Relief Impacts the Uninsured

Lack of insurance does not disqualify disaster victims from receiving FEMA relief aid, grants, services and program referrals. In fact, if you are an uninsured survivor, you are encouraged to apply for relief. Forms of relief you could apply for include:

- FEMA grants to help pay for temporary housing, emergency home repairs, and other disaster-related needs not covered by insurance. There are eligibility criteria based on income and disaster impact.
- If you are an uninsured renter, you may also qualify for FEMA temporary housing grants and funds to replace essential personal property lost in the disaster.
- FEMA's Individuals and Households Program provides financial assistance to secure temporary housing solutions, pay for repairs, and replace essential items.
- If you are an uninsured motorist who lost a vehicle due to the disaster, you may also receive financial assistance from FEMA's IHP program.
- FEMA may provide referrals and access to state or non-profit disaster aid resources, as well.

You may qualify for a low-interest disaster loan from the SBA to recover from property losses and repair damages.

FEMA also provides emergency food, water, and medical care at its disaster recovery centers, regardless of insurance status.

Personal Taxes and Income Considerations

Reporting Disaster-Related Losses

To report disaster-related losses for tax purposes, you can typically claim a casualty loss deduction on your federal income tax return. Here are the general steps for reporting these losses:

1. Determine Eligibility: Verify that your losses meet the criteria for a casualty loss deduction. To be eligible, the losses must result from a sudden, unexpected, or unusual event, such as a natural disaster (e.g., hurricane, flood, tornado), fire, theft, or vandalism.

2. Document the Losses: Gather documentation that supports your claim, including photographs of the damaged property, inventories of lost or damaged items, estimates of repair or replacement costs, and any relevant police reports or insurance claim records.

3. Assess the Deductible Amount: Calculate the deductible amount by determining the decrease in your property's fair market value as a result of the disaster. You can do this by comparing the value of your property immediately before and after the disaster. Deductibles and limits on casualty losses apply, so check the IRS guidelines for the specific year of your loss.

4. Subtract Insurance Reimbursements: If you received insurance reimbursements for your losses, subtract those amounts from your total loss. Only the portion of the loss that exceeds insurance proceeds is eligible for a casualty loss deduction.

5. Complete IRS Form 4684: To report your casualty loss, complete IRS Form 4684, Casualties and Thefts. This form is used to calculate the deductible loss amount and to report the loss on your tax return.

6. Include the Loss on Your Tax Return: Include the calculated casualty loss on the appropriate tax return. For individuals, you would typically report this on Schedule A of your Form 1040.

7. Apply Deduction Limits: Casualty loss deductions are subject to certain limitations. You can only deduct losses that exceed 10 percent of your adjusted gross income (AGI), and you must also subtract $100 for each casualty event. For federally declared disaster areas, special rules may apply, allowing you to deduct losses without the 10 percent AGI limit.

8. Keep Records: Retain copies of all supporting documentation and your tax returns for at least three years. The IRS may request proof of your casualty loss in the future.

It's important to stay informed about changes to tax laws and regulations, especially regarding disaster-related losses, as tax provisions may vary from year to year. If you have questions or need assistance, the IRS provides guidance on casualty loss deductions, or you can consult with a tax professional to ensure you are accurately reporting your losses.

How to file a Casualty Loss Deduction on your personal return using the MyFreeTaxes program is covered in the Reporting My Personal Casualty Loss Deduction section of this guide.

Tax Deductions and Credits for Individuals

If you have experienced a disaster, you may be eligible for certain tax deductions and tax credits to help mitigate the financial impact of the disaster. Deductions and credits include:

Casualty Loss Deduction: You can deduct disaster-related casualty losses that are not covered by insurance and exceed 10 percent of your adjusted gross income (AGI). However, if the disaster occurs in a federally declared disaster area, you may be allowed to deduct the loss without the 10 percent AGI limitation.

Home Energy Efficiency Credits: If you rebuild your home with energy-efficient improvements, you may qualify for energy efficiency tax credits. This will be covered in the Reporting My Home Energy Credit section of this guide.

Mortgage Interest Deduction: Mortgage interest on a repair loan, often referred to as a home improvement loan, is the interest paid on a loan used to finance the cost of repairs, renovations, or improvements to a property. This interest can sometimes be tax-deductible if the loan is secured by your primary residence. To learn how to report this using the MyFreeTaxes program, go to the Reporting My Home Mortgage Interest Deduction section of this guide.

State and Local Tax Relief: Some states offer tax benefits for disaster victims, such as deductions, credits, or extensions for state income tax payments.

Retirement Account Hardship Withdrawals: In certain disaster situations, you may be allowed to take penalty-free withdrawals from retirement accounts, such as IRAs and 401(k)s, to cover disaster-related expenses.

Health Savings Account (HSA) Withdrawals: You may be able to withdraw funds from your HSA to pay for qualified medical expenses resulting from the disaster.

Special Rules for Self-Employed Individuals: If you are a self-employed individual who experiences a disaster, you may be able to deduct business losses, including loss of income and repair costs. This will be covered in the Filing My Business Return Online section of this guide.

Employer Assistance Programs: If your employer offers disaster assistance programs, any benefits received may be excluded from your taxable income.

Please note that the availability of these deductions and credits may vary depending on the specific disaster, your location, and your individual circumstances. It's important to consult with a tax professional or review the specific guidance provided by the IRS for the year in which the disaster occurred to understand the eligibility criteria and requirements for each deduction or credit.

Tax Implications of Assistance Programs

In addition to the above general guidelines, different forms of assistance may have specific requirements to ensure compliance with both the program and the IRS. Here are how the above forms of relief can impact your taxes:

FEMA Assistance: IRS rules say qualified disaster relief payments are not counted as income as long as the reimbursed expense is not also paid by insurance or other reimbursement. According to the IRS, qualified disaster relief payments include payments received for the following:

- Reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a presidentially declared disaster. These may include medical, dental, housing, personal property or transportation needs caused by the disaster.
- Reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence due to a presidentially declared disaster. A personal residence can be a rented residence or one you own.
- Reasonable and necessary expenses incurred for the repair or replacement of the contents of a personal residence due to a presidentially declared disaster.

Qualified disaster relief payments also include amounts paid to those affected by the disaster by a state or local government in connection with a presidentially declared disaster.

Disaster assistance grants are not subject to income tax, self-employment tax, or employment taxes such as Social Security, Medicare, and federal unemployment taxes. No withholding is required. However, unemployment payments are considered income under tax rules.

Insurance Claims: Generally, insurance claims received as a result of a natural disaster for property damage, personal injury, or medical expenses are not considered taxable income. You do not need to report these on your tax return.

Typically, you'll report any taxable gains from insurance proceeds on your federal income tax return (e.g., Form 1040). Use the appropriate sections to report gains as specified in the IRS guidelines.

Be aware that state tax laws may also apply, and the tax treatment of insurance claims can vary by state. Check with your state's tax agency to understand the state-specific rules.

As a reminder, maintain comprehensive records of your insurance claims, including all claim documents, settlement agreements, and receipts. This documentation will be essential in case of any audit or questions from tax authorities.

<u>Grants and Subsidies:</u> Whether the grant or subsidy is taxable depends on its nature. In most cases, grants and subsidies received to cover necessary expenses after a disaster, such as home repairs or medical costs, are not considered taxable income. However, it's essential to verify the taxability of each specific grant or subsidy.

If a grant or subsidy is deemed taxable, you should report it as income on your federal tax return. The payer or grantor may issue you a Form 1099 or a similar tax document to report the income. If you receive taxable grants or subsidies to cover specific disaster-related expenses, you may be able to offset the taxable income with corresponding disaster-related expenses. Be sure to maintain detailed records and receipts of these expenses for documentation.

The tax treatment of disaster-related grants and subsidies can vary by state. Check with your state's tax agency or a tax professional to understand the specific rules in your state.

Keep thorough records of all grants and subsidies you receive, including the source of the funding, the purpose, and any related expenses.

<u>In-Kind Donations:</u> When you receive in-kind donations, it's essential to determine their fair market value (FMV). FMV is the price that the donated items would sell for on the open market. You may need to get an appraisal or use other reasonable methods to establish this value.

If you received in-kind donations from a tax-exempt organization (such as a charitable organization) during a disaster, you generally don't need to report the donations as income on your tax return. If you receive in-kind donations from individuals, businesses, or other entities that are not tax-exempt organizations, the FMV of these donations would be considered taxable income, and you need to report it.

Certain in-kind donations intended for disaster relief are not considered taxable income. For example, if you receive donated clothing, food, or temporary shelter to assist with disaster recovery, these are often exempt from taxation. If you received a significant in-kind donation (e.g., real property, a vehicle, or valuable items), you need to report it to the IRS using Form 8283 for noncash charitable contributions.

Keep thorough records of all in-kind donations received, including the source of the donations, descriptions of the items, dates of receipt, and their fair market values. Proper documentation is crucial to support your tax reporting.

Tax Relief and Credits: Generally, tax relief, such as grants or assistance received from the government or charitable organizations, is not considered taxable income. You do not need to report this support as income on your tax return.

Tax credits, on the other hand, are different. Tax credits can directly reduce your tax liability, which can result in a lower tax bill or even a refund.

Depending on the specific tax credit you are eligible for, you may need to complete the corresponding tax form or schedule. The instructions for the specific form will guide you on how to report the credit. The MyFreeTaxes program will guide you through identifying if you are eligible for any tax credits and how to report/claim them.

Utility and Infrastructure Assistance: These types of assistance are generally provided by government agencies or organizations involved in disaster relief efforts. The IRS and other relevant authorities typically do not consider them as taxable income.

Disaster Recovery and Business Continuity Planning: Recovery and business continuity planning assistance received due to a disaster is generally not considered taxable income.

Mental Health and Counseling Services: Mental health and counseling services provided in response to a natural disaster are typically not considered taxable income for individuals. This is because these services are aimed at helping you cope with the emotional and psychological impact of the disaster.

Casualty losses reimbursed by disaster assistance grants are not deductible for income tax purposes. Do not deduct casualty losses or medical expenses specifically reimbursed by disaster relief grants.

Filing Your Personal Return Online

Use this guide as a reference while you're filing your tax return. This guide is primarily focused on helping you complete your Form 1040, formally known as the "U.S. Individual Income Tax Return," which is used to report income to the IRS, claim tax deductions and credits, and calculate your tax refund or tax bill for the year. If you need assistance with other parts of your tax return, visit MyFreeTaxes.com/Support.

Accessing MyFreeTaxes.com

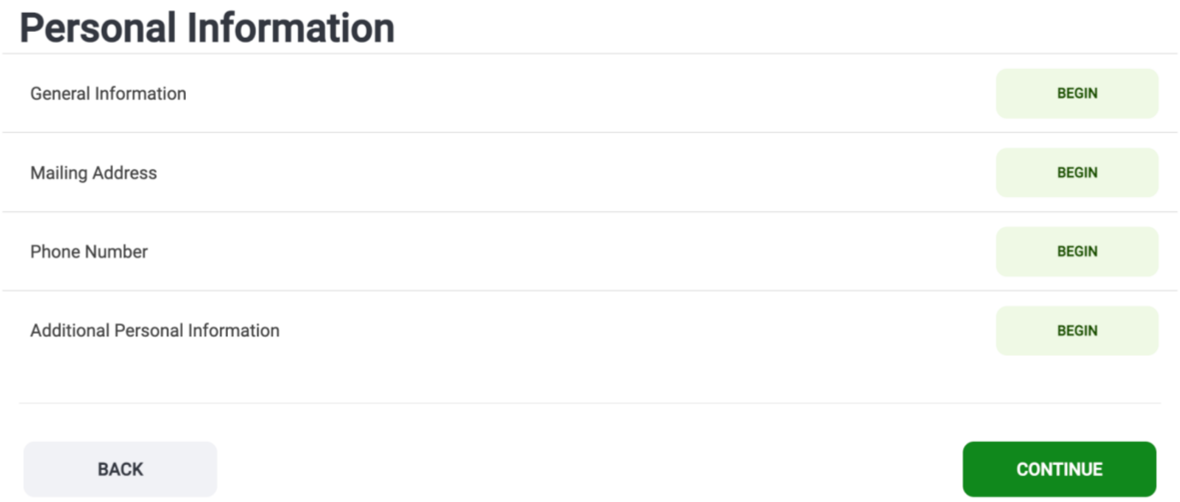
When you access MyFreeTaxes, you will be asked to choose how you want to file your taxes.

You may choose **"File My Own Taxes"** or **"Have My Taxes Prepared for Me"**. For this guide, we used the **"File My Own Taxes"**.

Gather Your Documentation

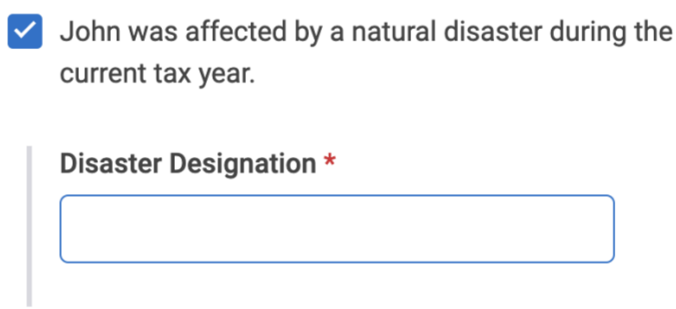
Once you log into the tax software, you will need to enter basic demographic information about yourself (and your spouse and dependents, if you have any):

- Name
- Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN)
- Date of birth
- Marital status
- Dependents
- Address
- W-2 and other income forms you may have received (e.g., 1099, 1099-INT, etc.)
- Any supporting documentation related to disaster relief you may have received or accessed.
- Other information to help determine your personal tax credits, including if you are a U.S. citizen; were a student last year; can be claimed as a dependent on another person's taxes, or have any dependents to claim on your taxes.
- Other information to help determine your personal tax credits and liabilities.



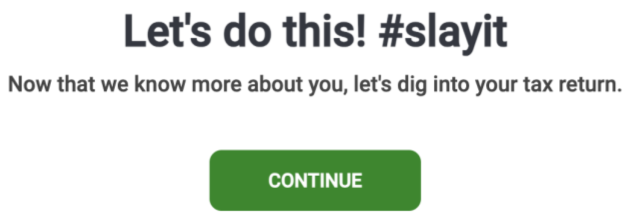
While entering your personal information, you will be asked to provide additional information by checking off all scenarios that apply to you. Check off **"was affected by a natural disaster during the current tax year"** (and any other situation that applies).

You will then be asked for the **"Disaster Designation"**. Enter in the disaster designation number.

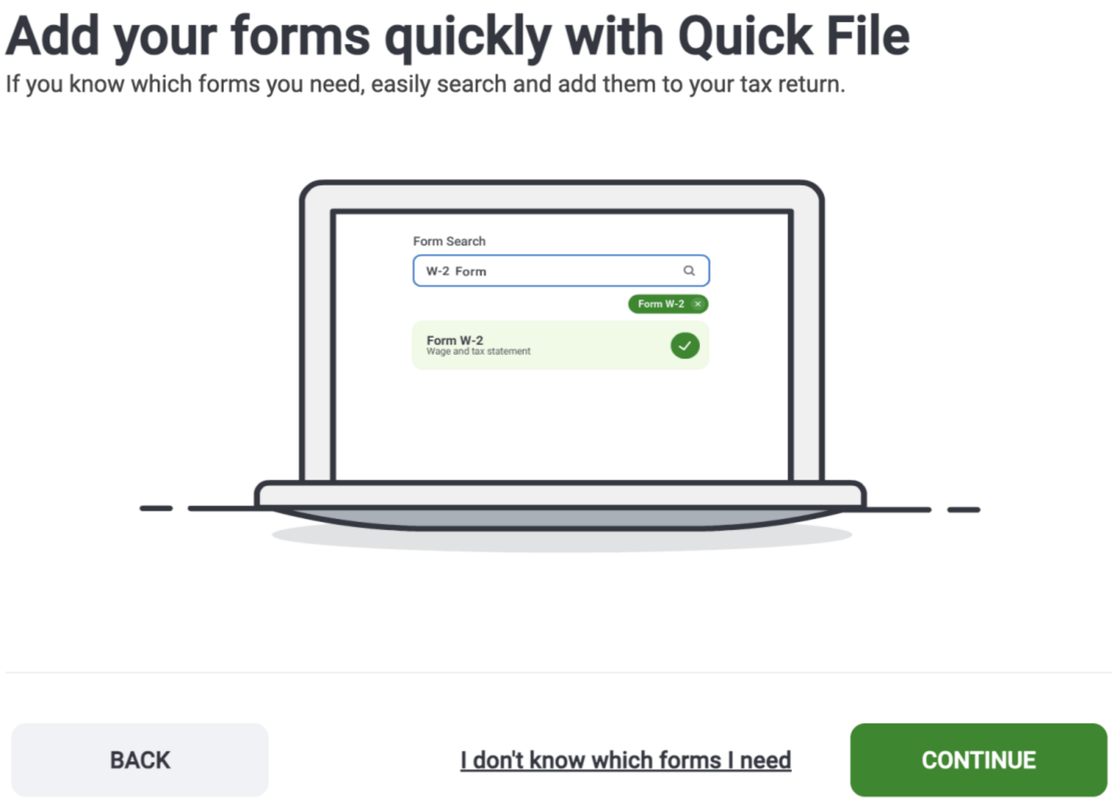


Note: if you're not aware of the Disaster Designation Number, visit fema.gov/disaster/declarations and use the search filters to narrow down the results by state and date. Once the Disaster Designation number is found, input it in the required field.

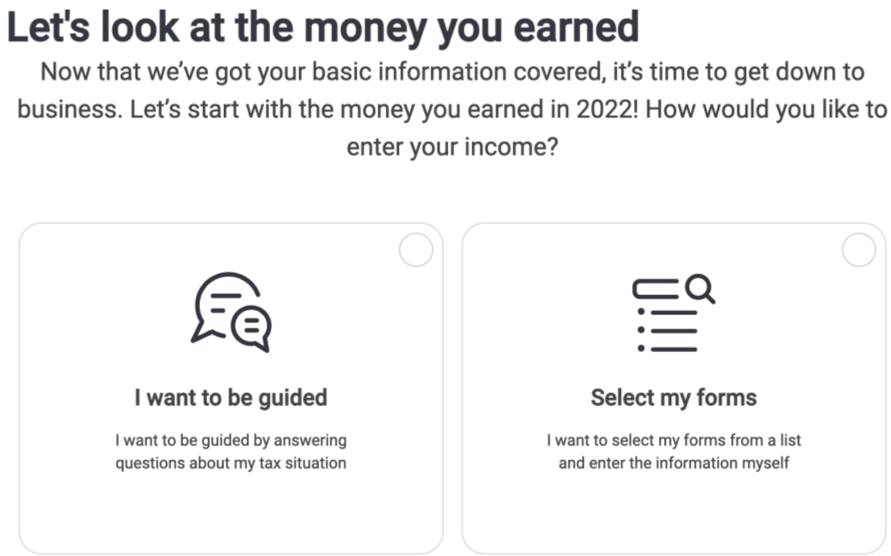
After entering your personal information, the screen below will be shown. Select **"Continue"** to proceed with your return.



On the next page, you will be asked to add any other tax forms you may need for your return. We suggest reading the next two pages before proceeding.



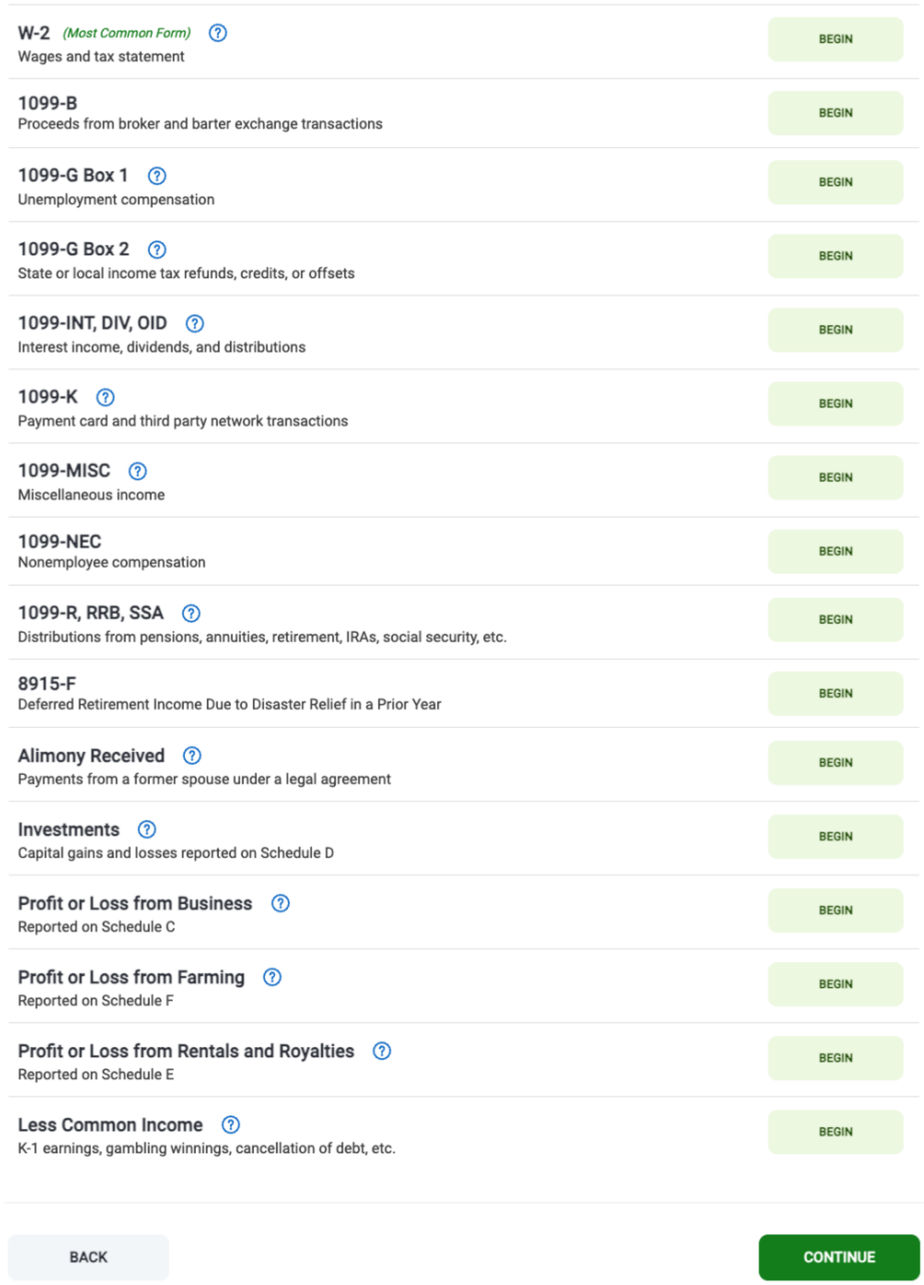
On this screen, you will have two options. If you are unsure which forms you need, you can select **"I don't know which forms I need"**. This will bring up the next screen.



From here, we recommend that you choose the **"I want to be guided"** option so you can be taken through a simple questionnaire to determine what forms apply to your tax situation. Alternatively, if you choose **"Select my forms"**, you will then be shown a list of various income types and the associated tax forms. If you have one or more of these forms, you will click **BEGIN** to be guided through entering the information from that form into the program.

The other option from the "Add your forms quickly with Quick File" screen is to select **"Continue"**. If you choose this option, you will be able to start choosing the forms you will need to add to your return by typing the form number into the search bar.

Once you have advanced, either by being guided through which forms to choose or choosing them yourself, you are ready to begin reporting your income.



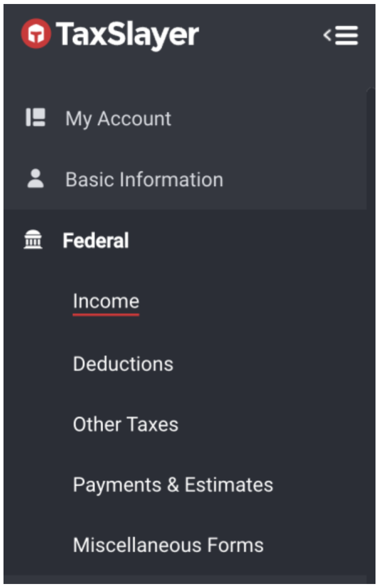
Depending on the forms you need for your tax situation, your income section will look something like this. To start filling out a form, select **BEGIN** on the right side of your screen.

Please note we will not cover every possible tax scenario here. This section covers reporting your personal income, including your W-2, and the information discussed in this guide. Profit or loss from a business will be covered in the following sections. Depending on the complexity of your situation, it may be advisable to consult with a tax professional or accountant for further filing assistance.

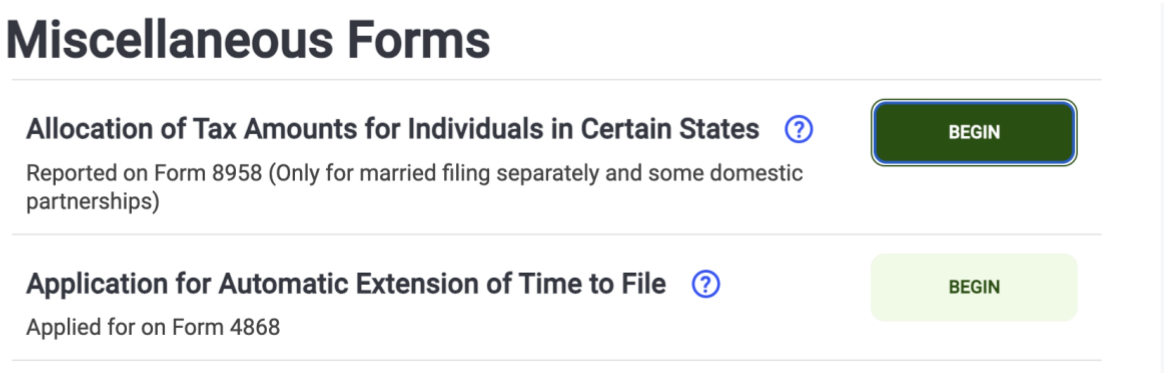
Filing an Extension

If you're affected by a natural disaster and need more time to file your federal individual income tax return (Form 1040), you can request an automatic extension by filing Form 4868.

The extension application is found by selecting **"Federal"** from the left-hand side navigation bar. If you do not see the navigation bar, select the three horizontal lines on the left-hand side of your screen to open it up.



Select "**Miscellaneous Forms",** followed by "**Application for Automatic Extension of Time to File"**. You will need to enter an estimated tax liability (how much you owe) and your tax payments (withholdings).



Form 4868 - Application for Extension

Form 4868 is the application for an automatic extension of time to file your individual income tax return. This allows an additional six-months to file your return, but not to pay your tax bill if you have one. **The IRS still expects you to pay your tax bill by April 18 to avoid interest or penalties from accruing.**

File an extension in a few simple steps

1. Enter your information Learn more
2. Pay your amount due Learn more
3. E-file your extension Learn more

To begin requesting your extension, you will start by entering the total tax liability you expect to report on your return. Your taxable income minus your tax deductions equals your gross tax liability. Gross tax liability minus any tax credits you're eligible for equals your total income tax liability. Make your estimate as accurate as you can with the information you have. If the IRS later finds that the estimate wasn't reasonable, the extension may not be accepted.

Tax Liability

This is your total tax liability or total taxes.

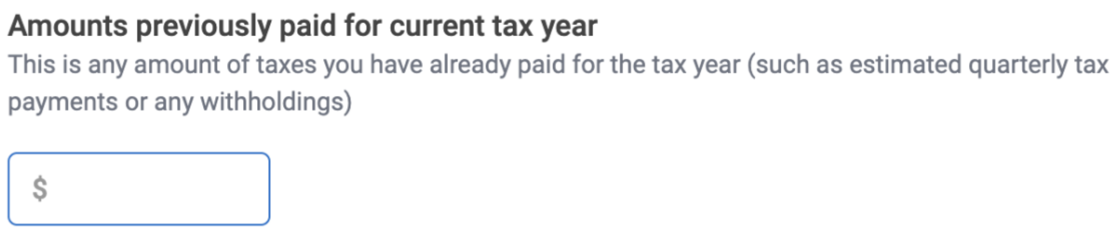
$

Let's go through an example of estimating your federal income tax liability using the IRS Tax Tables method. In this example, we'll consider a single filer with a total Income of $53,500 and the standard deduction of $12,950.

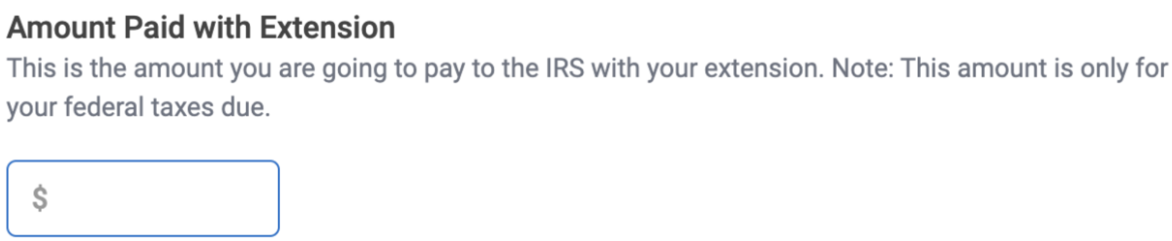
1. Calculate Taxable Income: $53,500 (Total Income) - $12,950 (Standard Deduction) = $40,550 (Taxable Income).
2. Determine Tax Liability: For a single filer in 2023, tax rates are:
    a. 10% on income up to $10,275
    b. 12% on income over $10,275 up to $41,775
3. Calculate as follows:
    a. 10% of the first $10,275 = $1,027.50
    b. 12% of the remaining $30,275 = $3,633
    c. Total Tax Liability: $1,027.50 + $3,633 = $4,660.50

In this example, the estimated federal tax liability is $4,660.50. Using this calculation provides you with a simplified estimate of your federal tax liability. Compare it to your withheld taxes and payments to determine if you owe additional taxes or if you'll receive a refund. Remember to consider any other credits or deductions that apply to your specific situation.

Next, you will enter any amounts previously paid for the current tax year. Do not include any amount you plan to pay with your extension. Enter the total payments you paid through quarterly estimated payments and tax refunds applied to the current year.



Once you enter any previously paid amount, you will enter any amount that needs to be paid with your extension. Your **"Tax Liability"** minus your **"Tax Payments"** (if applicable) would be the total **"Balance Due"** on your return. You can choose to pay that amount in full, in part, or you can choose not to pay any amount with your extension. If you do not pay the amount in full, you may owe interest on any amounts not paid by the mid-April deadline, plus a late payment penalty if you have paid less than 90 percent of your total tax by that date *and* the IRS has not waived these penalties for your disaster area.

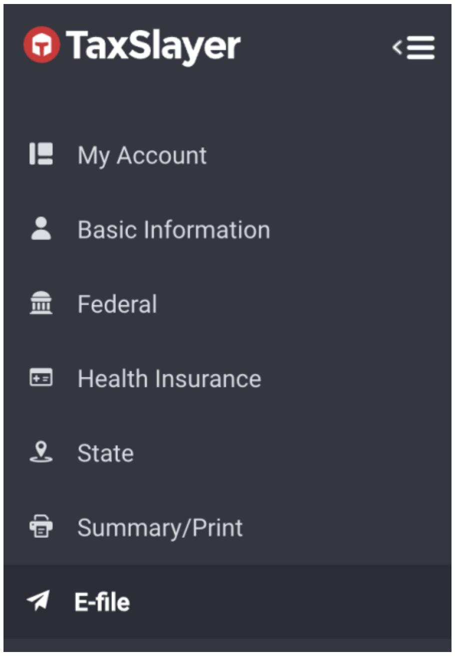


If you plan on making a payment with your extension, select **"Go to Extension Payment"**. Otherwise, click **"Continue"**.

All amounts that you enter on your Form 4868 should be close to the amounts that you expect to report on your return. They do not have to be the exact calculations, but they should be relatively accurate estimates.

You are now ready to file the extension. Extensions must be filed by the original due date of the return. For most tax years that is April 15th. For the 2023 filing year, the date is April 15, 2024.

You can e-file the extension in the program or file the extension by mail (postmarked by the original filing deadline). To file the extension through the program, go back to the left-hand navigation bar and select **"E-file"**.



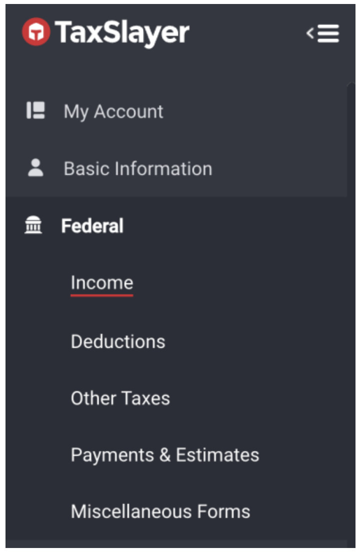
From here, you can see that the program has detected your extension and can select **"Make Changes"** if you need to make any, or **"File Return"** to submit your extension.

Reporting a Personal Casualty Loss Deduction

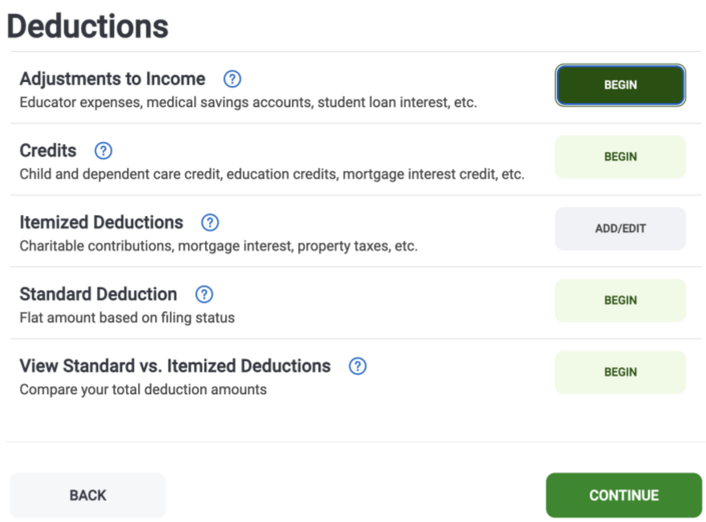
Before you begin reporting any forms of income or regular deductions, we recommend that you start by preparing your Form 4684 if you have experienced any disaster-related losses.

In many situations, whether your disaster-related loss was related to personal property or tied to a business partnership you are engaged in, the loss amount from Form 4684 will flow to your personal return. Therefore, by completing this form first, you will be better prepared to report your losses in any other tax form you may be required to file.

Start by selecting **"Federal"** from the left-hand side navigation bar. If you do not see the navigation bar, click the three horizontal lines on the left-hand side of your screen.

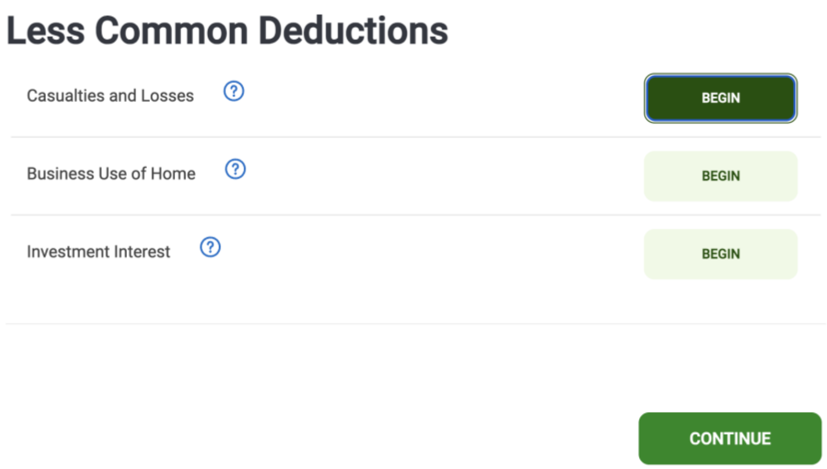


Click on "**Deductions"** to show the screen below.

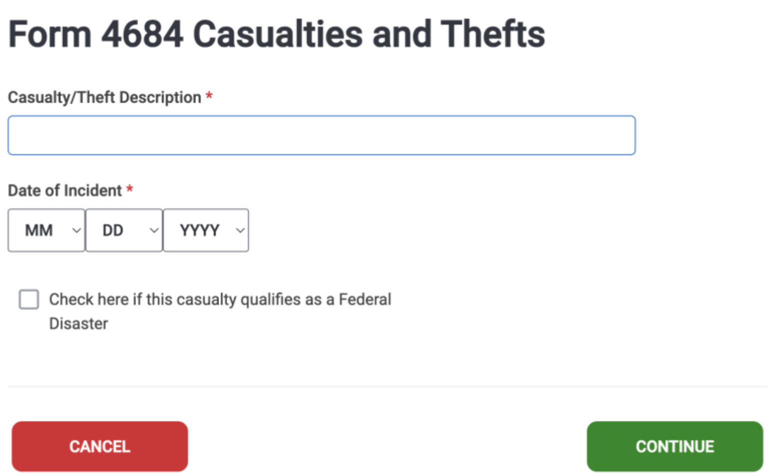


From here, select **BEGIN** or **ADD/EDIT**, depending on how the program displays it, next to "Itemized Deductions". On the next screen, scroll to the bottom and select **BEGIN** next to "Less Common Deductions."

Choose **BEGIN** across from Casualties and Losses".

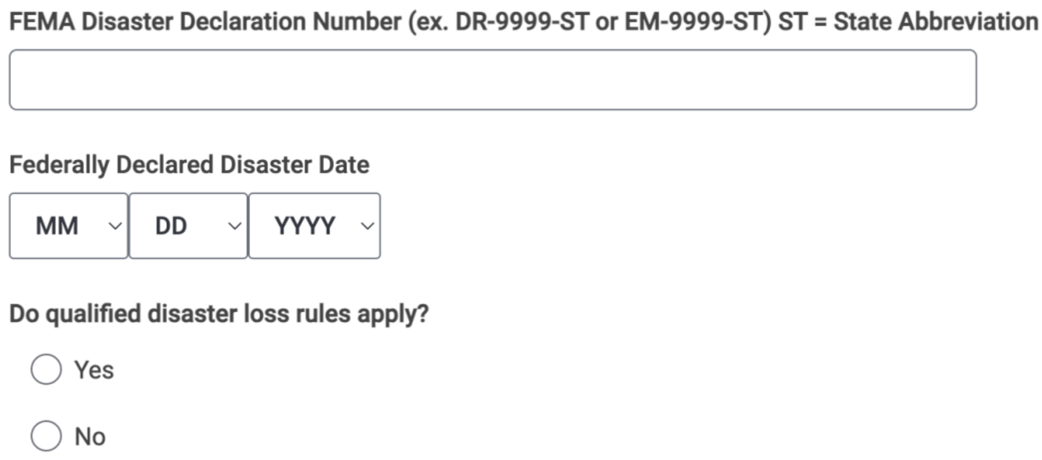


This will bring up Form 4684. Begin by entering a description of the casualty and the date of the loss. If the disaster you experienced was declared a federal disaster area, check off the box next to “Check here if this casualty qualifies as a Federal Disaster”.

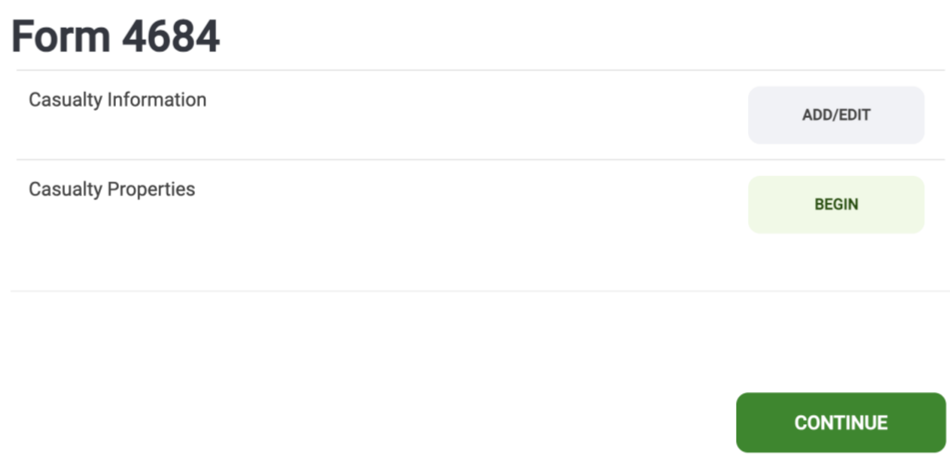


From here, enter the FEMA Disaster Declaration Number and the date of the disaster designation.

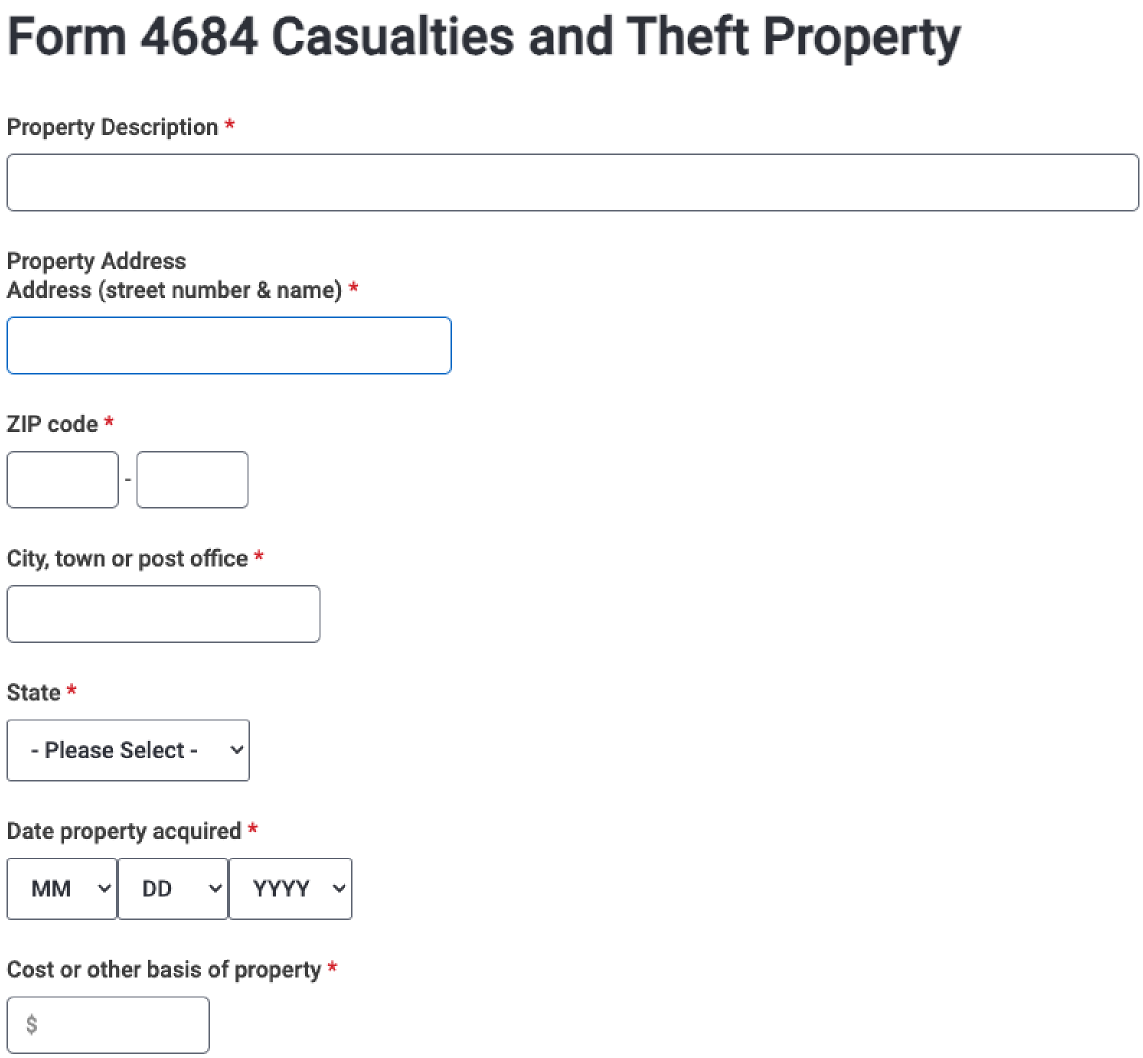
Note: if the special provisions for a Qualified Disaster Loss apply (see here for more information), click Yes under "Do qualified disaster loss rules apply?”. Otherwise, select No.



Select **"Continue"** to proceed.



On the next page, enter information on the property you are claiming the loss on.



Form 4684 Casualties and Theft Property

Property Description *

Property Address
Address (street number & name) *

ZIP code *

-

City, town or post office *

State *

- Please Select -

Date property acquired *

MM DD YYYY

Cost or other basis of property *

$

In the first box of Form 4684 Causalities and Theft Property, type in the property description (for example, furniture, jewelry, car, etc.). Enter the address of the property/where the property was located or stored, and the date you acquired the property.

The “Cost or other basis of property” is the cost you paid for the property.

Insurance or other reimbursement

$

Fair market value before the casualty / theft *

$

Fair market value after the casualty / theft *

$

☐ Check here if this is a business or income producing property and complete the information below.

In the “Insurance or other reimbursement” box, input the total amount of insurance or other reimbursements you received or anticipate to receive for the property. This should include your insurance coverage, regardless of whether you are currently filing a claim for reimbursement.

For example, your car worth $2,000 is totaled during a hurricane when a tree falls on it. You are insured with a $500 deductible, but decide not to report it to your insurance company because you are afraid the insurance company will cancel your policy. In this case, enter $1,500 on this line.

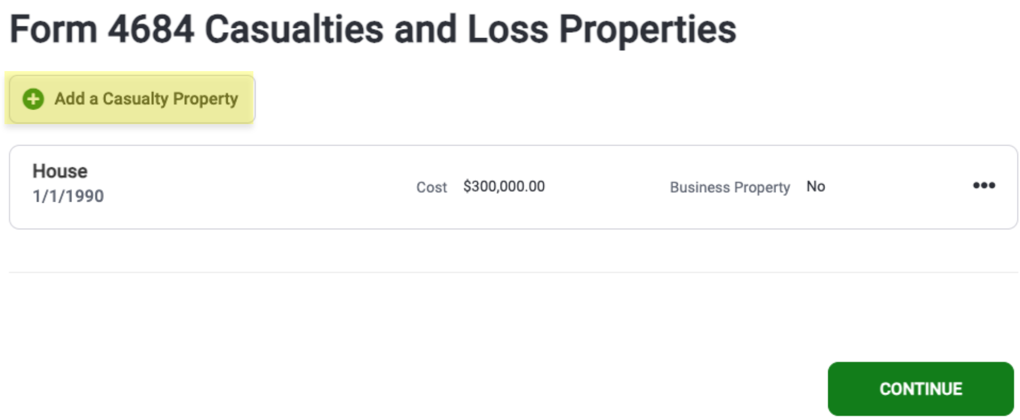
Fair market value (FMV) is the amount at which the property would be sold between a willing buyer and a willing seller, both fully informed of all relevant facts. The difference between the FMV immediately before the disaster and the FMV immediately after represents the decrease in FMV resulting from the disaster. MV is generally determined by an appraisal conducted by a qualified professional.

The appraised value of property immediately after the casualty must be adjusted, which likely means increased, to account for any potential general market decline that may coincide with the disaster.

For example, if the entire area experiences a decrease in property values due to repeated storm damage, this overall market value decline should not be considered a part of the property's decrease in FMV caused by the disaster.

Since this pertains to personal property, do not check the "Check here if this is a business..." box. For instructions on completing a business casualty loss, proceed to Reporting My Business Casualty Deduction.

Hit **"Continue"** to move to the next screen.

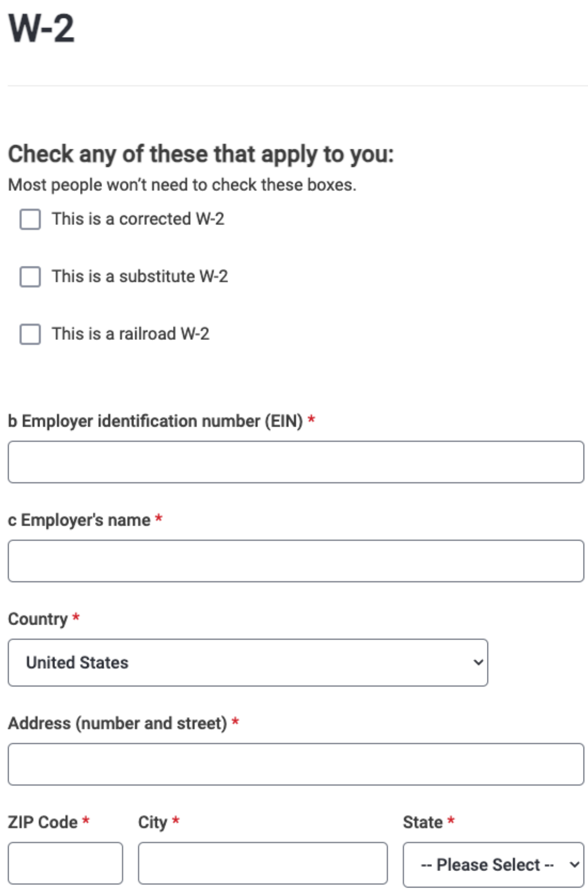


If you have another Casualty Loss to report, you can add it to your return here by selecting "Add a Casualty Property".

Once you are done with reporting your Casualty Loss information, click **Continue**. To begin reporting your personal income on your return, access the left-hand navigation bar, select **"Federal"** and then click on **"Income"**.

Reporting Form W-2

While you can start in any order you wish to report your income, we recommend starting with your W-2 (if applicable) for a smoother process.



W-2

Check any of these that apply to you:

Most people won't need to check these boxes.

- [ ] This is a corrected W-2
- [ ] This is a substitute W-2
- [ ] This is a railroad W-2

b Employer identification number (EIN) *

c Employer's name *

Country *

United States

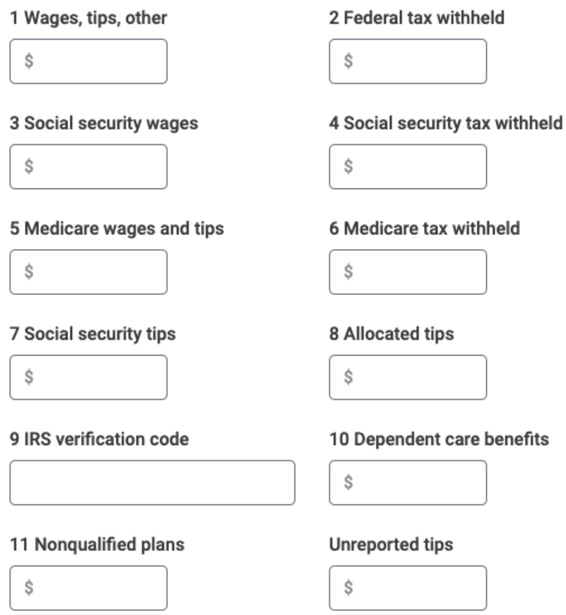
Address (number and street) *

ZIP Code * | City * | State *

-- Please Select --

Start by entering your employer's information. Each lowercase letter on the W2 screen corresponds to the lettered boxes on your W-2 form.

After inputting your employer's information, move on to reporting your wages and withholdings.


1 Wages, tips, other
$

2 Federal tax withheld
$

3 Social security wages
$

4 Social security tax withheld
$

5 Medicare wages and tips
$

6 Medicare tax withheld
$

7 Social security tips
$

8 Allocated tips
$

9 IRS verification code

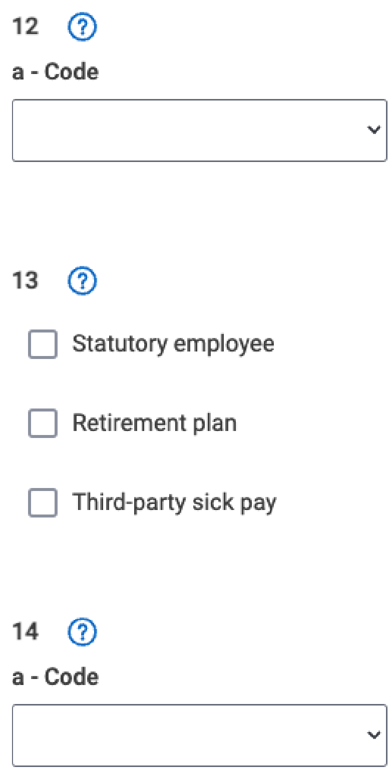
10 Dependent care benefits
$

11 Nonqualified plans
$

Unreported tips
$

Like above, the numbers here correspond to the numbers on your W-2 form.

The next part of your return involves reporting the information in boxes 12, 13, and 14 of your W-2. Not all of these boxes will apply to every individual. The next page contains more information on each box.


12 ?

a - Code

13 ?

Statutory employee

Retirement plan

Third-party sick pay

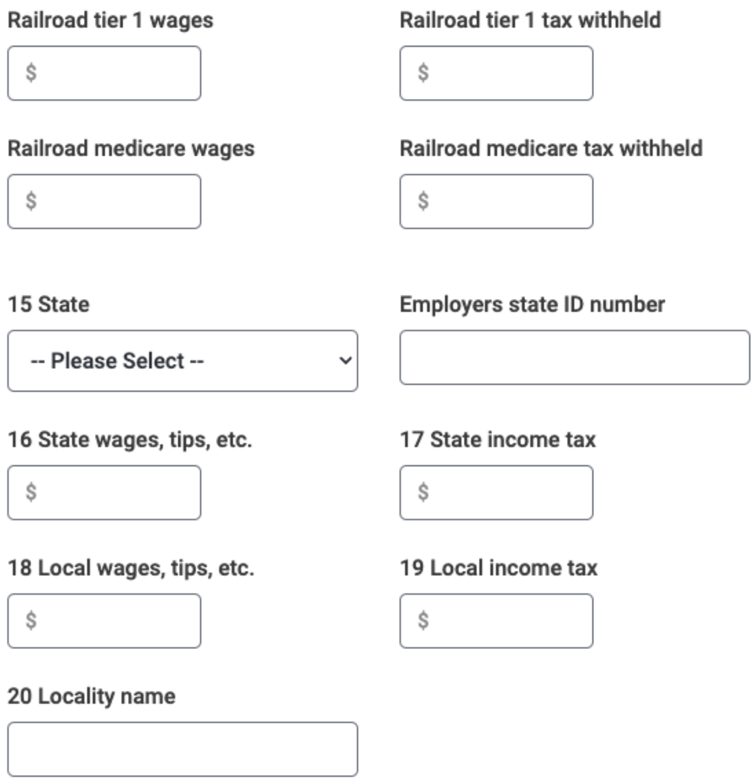
14 ?

a - Code

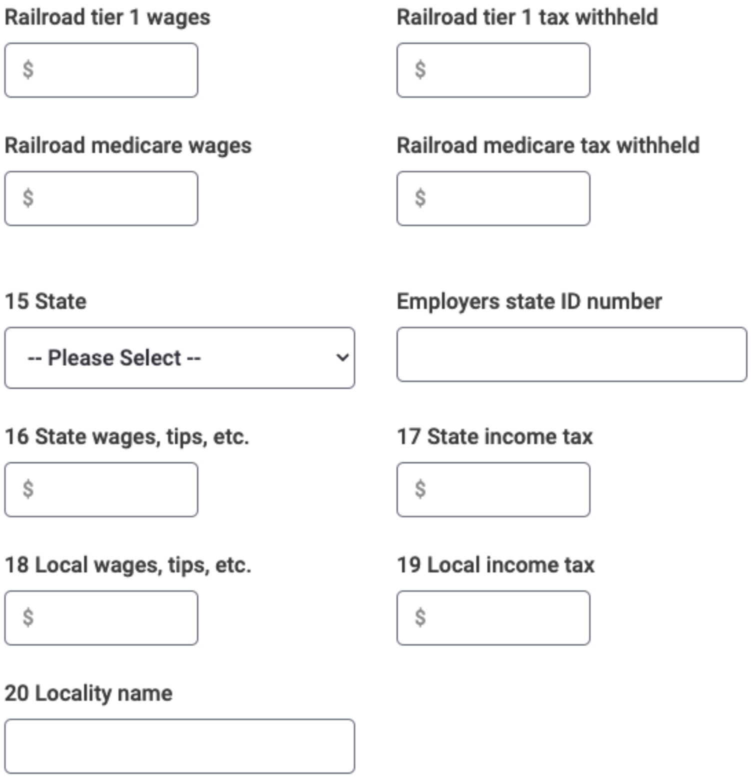
Box 12: If you have codes, on your W-2, choose them using the program's dropdown menu and enter the corresponding amount listed on your W-2.

Box 13: Three check boxes appear in Box 13. They'll be marked off if any of these situations apply to you as an employee. Do not check any of the boxes on the screen unless they are reported to you on your W-2 with the box already checked.

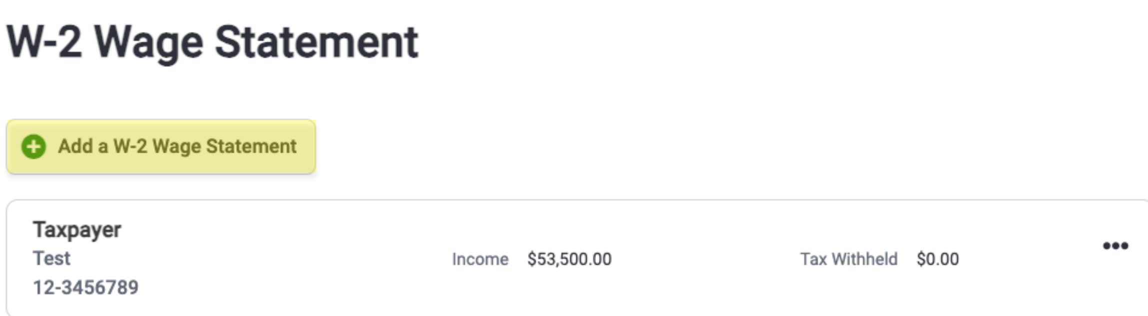
Box 14: If any amounts are reported in Box 14, they should include a brief description of what they're for. In most cases, the information listed in Box 14 does not affect your federal tax return. It is for informational and state return purposes only.



Railroad employers use the corresponding "Railroad" boxes to report railroad retirement (RRTA) compensation, Tier 1 tax, Tier 2 tax, Medicare tax, and Additional Medicare Tax. Include tips reported by the employee to the employer in railroad retirement (RRTA) compensation. For most filers, this information will be blank.



Boxes 15-20 are designated for reporting your state income tax information, which should match the numbers on your W-2. Once you are done entering this information, click **"Continue"**.

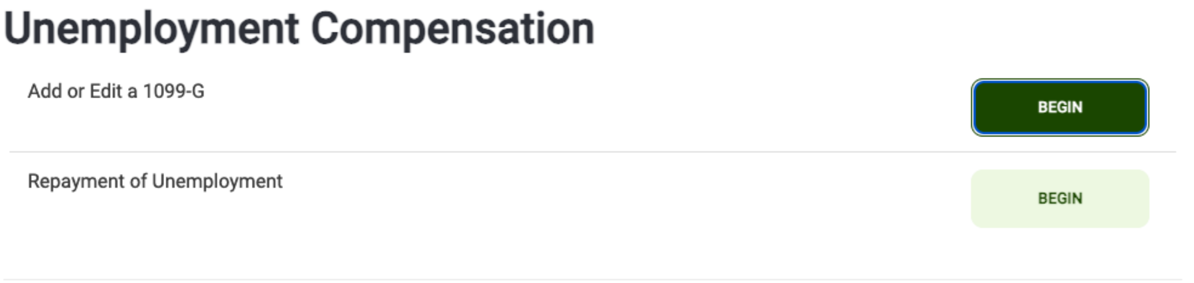


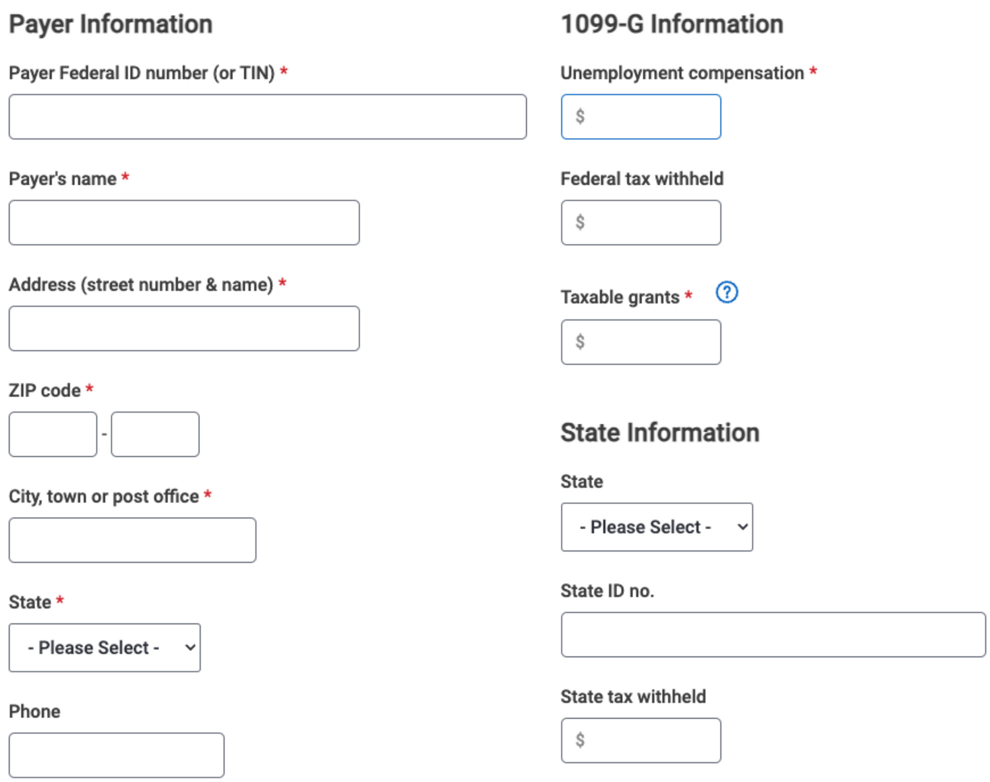
If you have another W-2 to report, add it to your return here by selecting "Add a W-2 Wage Statement". After reporting your W-2 information, select **"Continue"** to bring you back to the main "Income" page, where you can choose your next form.

Reporting Form 1099-G: Certain Government Payments

Form 1099-G is issued by a government agency to inform you of funds you have received that you may need to report on your federal income tax return. The most common use of the 1099-G is to report unemployment compensation, as well as any state or local income tax refunds you received that year.

To report your 1099-G, select **BEGIN** next to the 1099-G line on the main "Income" page followed by **BEGIN,** next to "Add or Edit a 1099-G".





Start on the left-hand side with the payer's information. This will most likely be your state's department of labor. You can then move to the right-hand side.

If you received unemployment benefits during the year, you'll see the total amount of your compensation reported in Box 1 of your 1099-G. Enter this where it says "Unemployment compensation". The total federal tax withheld will appear in Box 4 and can be entered where it says "Federal tax withheld".

Box 6 of Form 1099-G lists taxable grants of $600 or more. This includes grants for subsidized energy financing, projects that produce or conserve energy, and grants approved by an Indian tribal government.

Your state's ID number can be found in Box 10b of your 1099-G; input that number in the box labeled "State ID no".

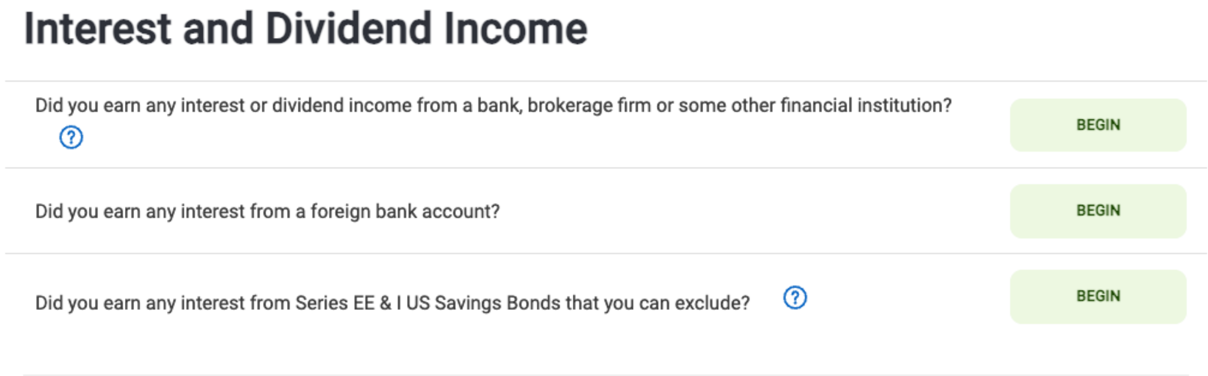
The state tax withheld will appear in Box 11 of your 1099-G form can be entered in the box labeled "State tax withheld".

Select **"Continue"** to be brought to the next screen and save your progress.

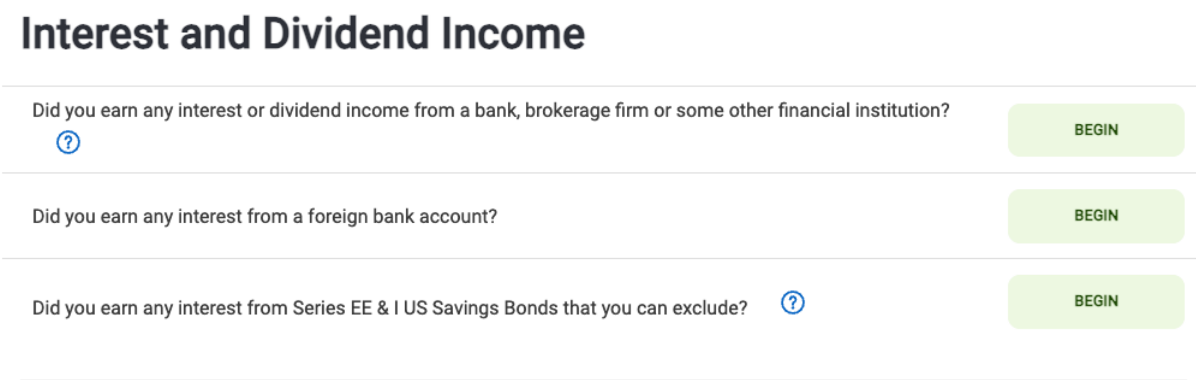
If you have another 1099-G to report, add it to your return here by selecting "Add an Unemployment Statement". After reporting your 1099-G information, click **"Continue"**.

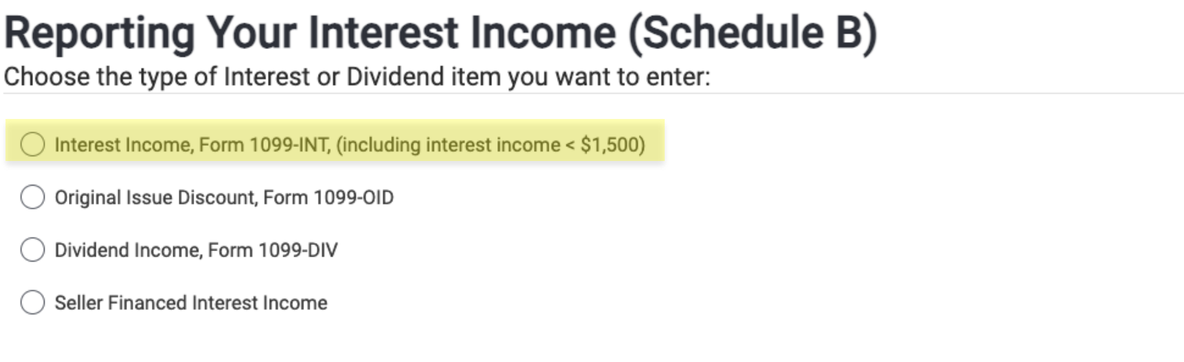
Reporting Form 1099-INT: Interest Income

To report your 1099-INT, select **BEGIN** next to the 1099-INT line on the main "Income" page.



Not all the options available on the Interest and Dividend Income screen may apply to your tax situation. This guide will cover interest income from a bank, brokerage firm, or other financial institution, as it is the most common. Select **BEGIN** next to "Did you earn any interest or dividend income from a bank, brokerage firm...".





Select “Interest Income, Form 1099-INT, (including interest income < $1,500)” and **“Continue”** to proceed to the next page.

Interest Income (Form 1099-INT)

Type of transaction
Interest Income

Payer's Name *

Payer TIN or EIN

Payer's Address

Country

-- Please Select --

Address (street number & name)

ZIP code

City

State

-- Please Select --

Enter the Payer's information, matching the information on your 1099-INT form.

Next, enter your interest and withholding information.

Interest Income (Box 1)

$

Early Withdrawal Penalty (Box 2)

$

Interest on U.S. Savings Bonds and Treasury obligations (Box 3)
(Note: Enter Taxable amount only)

$

Federal Tax Withheld (Box 4)

$

Investment Expenses (Box 5)

$

Foreign Tax Withheld (Box 6)

$

Tax Exempt Interest (Box 8)

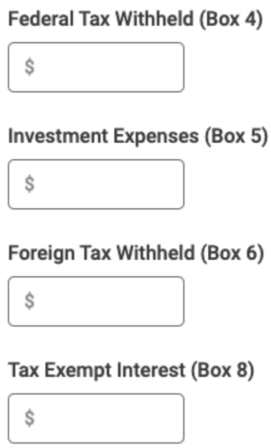
$

Box 1: This box reports all taxable interest you receive, such as your earnings from a savings account.

Box 2: This box reports interest penalties you were charged for withdrawing money from an account before the maturity date.

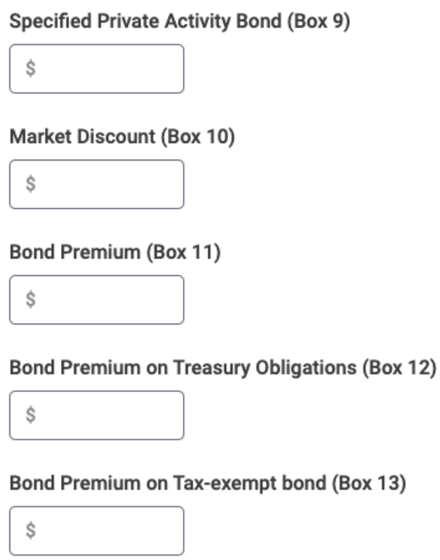
Box 3: This box reports interest earned on U.S. savings bonds or Treasury notes, bills or bonds. Some of this may be tax-exempt.

Box 4: This box reports any federal tax withheld on your interest income by the payer.



Boxes 5-7 are less common. Box 5 covers real estate mortgage investment conduits (REMIC), representing a pool of mortgages. Foreign taxes withheld are reported in Box 6, followed by the foreign country in Box 7.

Box 8: This box reports tax-exempt interest and relates to interest-bearing investments you hold with state and local governments, such as municipal bonds. Although the amount entered here isn’t taxable, you'll need to report it for informational purposes and for certain other tax calculations.


Specified Private Activity Bond (Box 9)

$

Market Discount (Box 10)

$

Bond Premium (Box 11)

$

Bond Premium on Treasury Obligations (Box 12)

$

Bond Premium on Tax-exempt bond (Box 13)

$

Specified private activity bond interest is reported in Box 9. This is the amount in Box 8 which is subject to the Alternative Minimum Tax. An alternative minimum tax (AMT) places a floor on the percentage of taxes that a filer must pay to the government, no matter how many deductions or credits the filer may claim. The United States currently has an alternative minimum tax for taxpayers who earn above certain income thresholds.

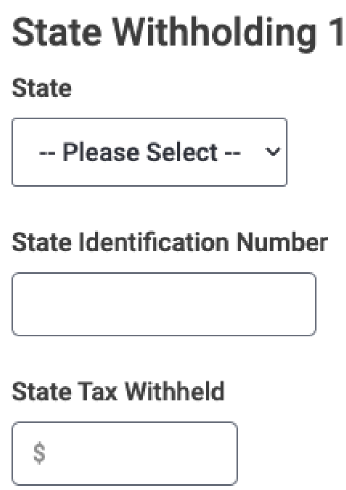
Box 10: Reports market discount. A bond bought at a discount leads to a profit at maturity. That profit can be taxed at maturity (or when it's sold) or it can spread out over the life of the bond or however long you own it. You need to tell your broker beforehand whether you elect to accrue the discount annually over the life of the bond. That annual accrual amount is reported here.

Box 11: The bond premium. A bond bought at a premium leads to a loss at maturity. That loss can be taken at maturity or it can be spread out over the life of the bond. When the loss is amortized in this way, that amount is reported here.

Box 12: The tax-exempt bonds that paid interest income by CUSIP number. If you entered a net amount of interest in Box 3, Box 12 can be left blank.

Box 13: Bond premium for the year for covered non-taxable securities. Any amount in Box 13 that exceeds the amount reported in Box 8 is considered a non-deductible loss.

Box 14: Not pictured because it is for informational purposes and is not entered anywhere in the tax return.



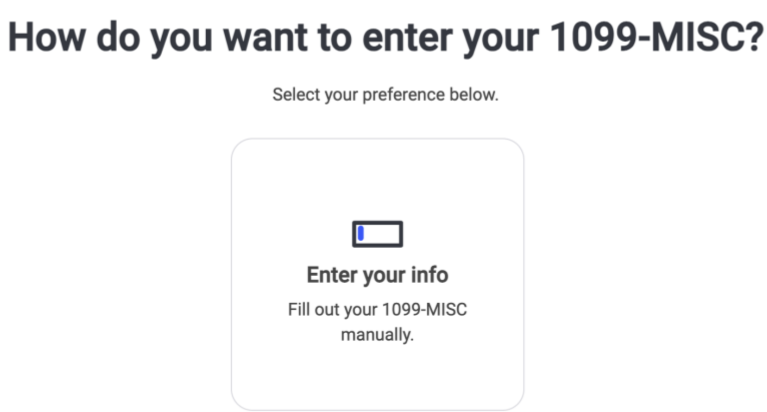
<u>Boxes 15 -17:</u> State withholding information related to the income.

From here, you can select “Save and add Another” if you have additional 1099-INTs or any 1099-OID, 1099-DIV, or 1099-Rs. Once you are done, you can select **“Continue”** on the next two screens to begin the next form.

Reporting Form 1099-MISC: Miscellaneous Information

Form 1099-MISC is used to report various types of income other than regular wages or salary. It is typically used for reporting income related to self-employment, freelance work, and other types of miscellaneous income, like rent, royalties, or prizes.

To start reporting your 1099-MISC, select **BEGIN** next to the 1099-MISC line on the main “Income” page. This will bring you to the following screen:



Select “Enter your info” and then hit **“Continue”** to go to the next screen.

1099-MISC

Miscellaneous Income

You receive Form 1099-MISC for miscellaneous income, such as rents, prizes, awards, medical and health care payments, etc. Enter the following information using your form.

Payer Information

Payer's name *

Payer's name is required

Country *

United States

Address (street number & name) *

ZIP code *

-

City, town or post office *

State *

- Please Select -

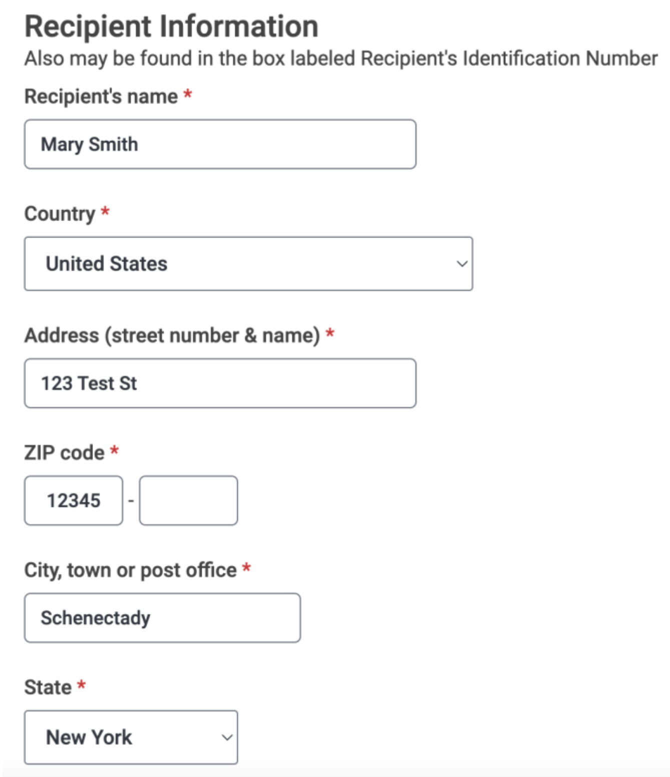
Use payer's SSN as ID

Payer's TIN *

Also may be found in the box labeled Payer's Federal Identification Number

Here, you will enter the information of the person, business, or entity who issued you the 1099-MISC.

The following section should already be populated for you by the program automatically. If not, enter your information here.


Recipient Information

Also may be found in the box labeled Recipient's Identification Number

Recipient's name *

Mary Smith

Country *

United States

Address (street number & name) *

123 Test St

ZIP code *

12345 -

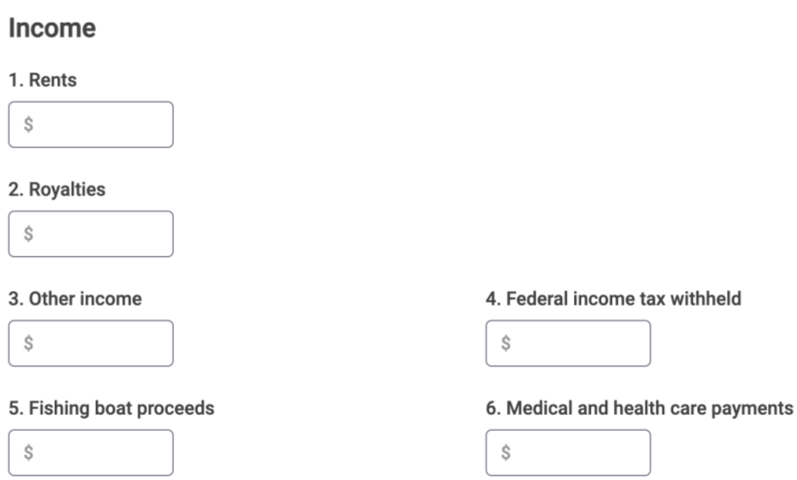
City, town or post office *

Schenectady

State *

New York

After you have confirmed your information, you can begin reporting any miscellaneous income you have received.


Income

1. Rents

$

2. Royalties

$

3. Other income

$

4. Federal income tax withheld

$

5. Fishing boat proceeds

$

6. Medical and health care payments

$

<u>Box 1:</u> This box is to report all types of rents of $600 or more, except rents paid to you as a real estate agent or property manager.

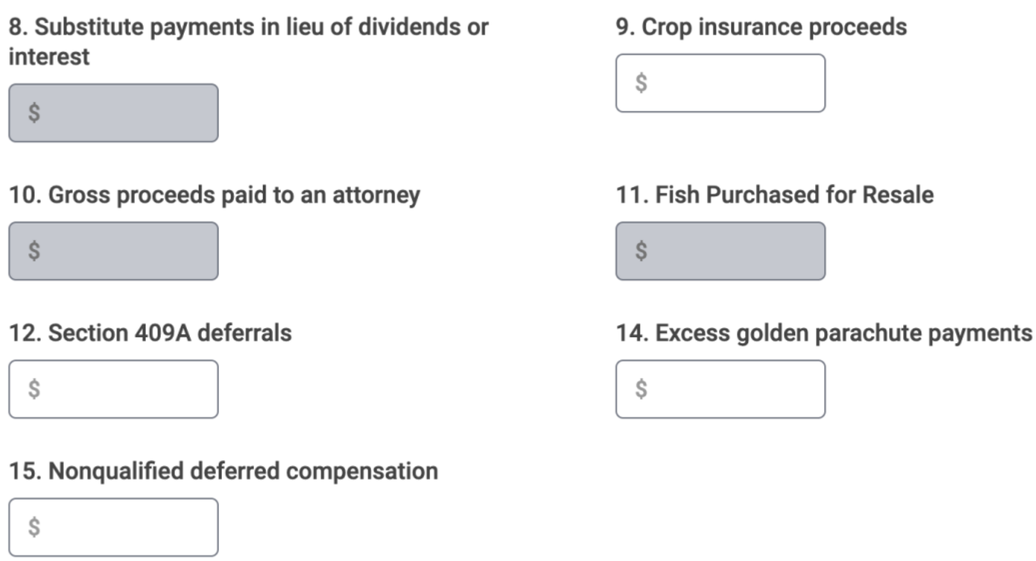
Box 2: Include gross royalties of $10 or more. Royalties include certain gross royalties from oil, gas, and mineral properties and intangible property. Intangible property includes patents, copyrights, trade names, and trademarks.

Box 3: Box 3 is for other income is applicable income of at least $600 not reported elsewhere on Form 1099-MISC. Box 3 is also for reporting prizes and awards not requiring services performed, the fair market value of prizes from game shows, and sweepstakes not requiring a wager. Box 3 doesn't include prizes and awards to employees, which are reported on your W-2.

Box 4: In Box 4 of Form 1099-MISC, report any amount of federal income tax withheld.

Box 5: Any fishing boat proceeds should be reported in Box 5 for fishing boats normally having fewer than 10 crew members. The individual's share of proceeds from the catch sale or fair market value of goods distributed to crew members should be reported in Box 5.

Box 6: If performed for trade or business, Box 6 is for reporting payments of $600 or more for physicians or suppliers or providers of other medical or health care services, excluding prescriptions. Report amounts charged for items like injections, drugs, and dentures if they're included in the payments for health care services.


8. Substitute payments in lieu of dividends or interest
$
9. Crop insurance proceeds
$
10. Gross proceeds paid to an attorney
$
11. Fish Purchased for Resale
$
12. Section 409A deferrals
$
14. Excess golden parachute payments
$
15. Nonqualified deferred compensation
$

Box 8: This box is for $10 or more paid in broker payments in lieu of dividends or tax-exempt interest (and royalties reported in Box 2).

Box 9: This box is to report crop insurance proceeds of at least $600 that insurance companies paid to farmers.

Box 10: Gross proceeds of $600 or more paid to an attorney include the entire amount paid for a claim or settlement agreement. Attorney fees deducted from the gross proceeds by the attorney are still included in the gross amount instead of being reported on Form 1099-NEC. Generally, filers don't have to include the claimant's attorney fees in Form 1099-MISC.

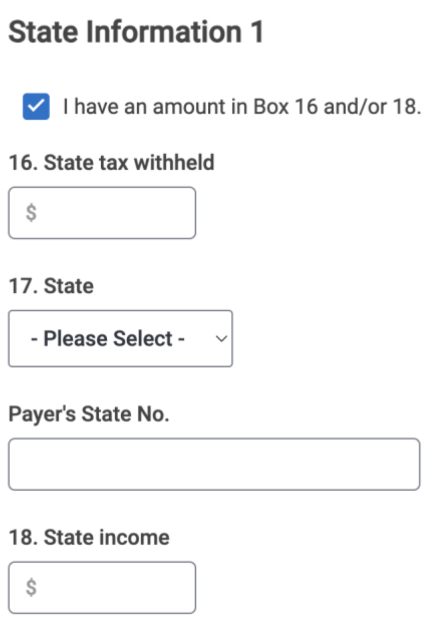
Box 11: The amount of cash payments for fish (fish or other forms of aquatic life) purchased from a trade or business for resale in your trade or business for at least $600 belongs in box 11.

Box 12: This box is optional. According to IRS instructions: "If you complete this box, enter the total amount deferred during the year of at least $600 for the nonemployee under all nonqualified plans. The deferrals during the year include earnings on the current year and prior year deferrals…"

Box 14: Report excess golden parachute payments in Box 14. According to IRS instructions: "An excess parachute payment is the amount over the base amount (the average annual compensation for services includible in the individual's gross income over the most recent 5 tax years)."

Box 15: Enter all amounts deferred (including earnings on amounts deferred) that are includable/allowed in income under section 409A because the nonqualified deferred compensation (NQDC) plan fails to satisfy the requirements of section 409A.

Do not include amounts properly reported on a Form 1099-MISC, corrected Form 1099-MISC, Form W-2, or Form W-2c for a prior year. Also, do not include amounts that are considered to be subject to a substantial risk of forfeiture for purposes of section 409A.



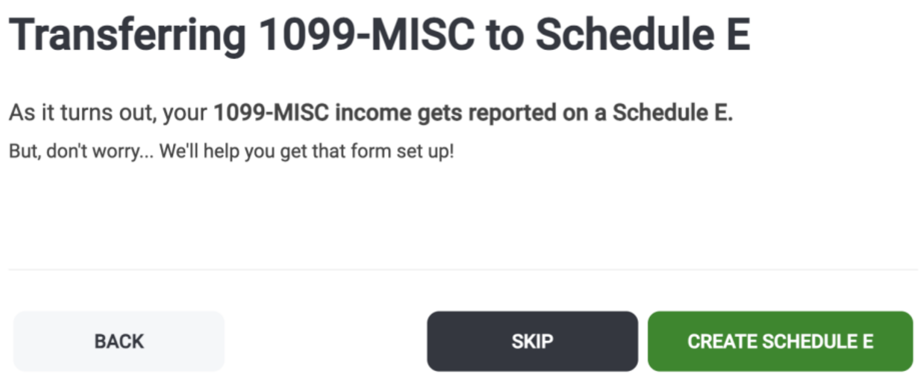
If you have information in boxes 16 and/or 18, check off "I have an amount in Box 16 and/or 18".

Box 16: Enter state income tax withheld in Box 16.

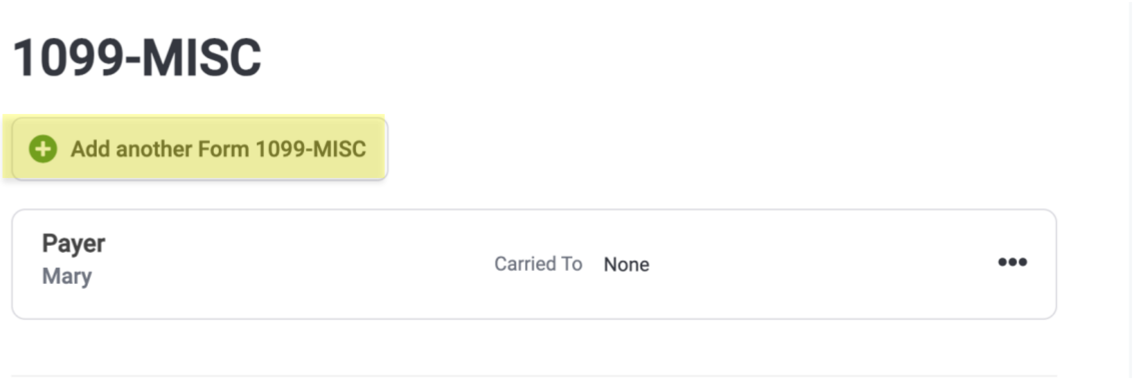
Box 17: Enter the abbreviated name of the state and the payer's state identification number. The state number is the payer's identification number assigned by the individual state.

Box 18: Enter the amount of the state payment.

After you have completed entering the information, you can select **"Continue"** to move to the next screen. Depending on the type of income reported, you may receive this prompt:



To have the program prepare the Schedule E for you, select **"Create Schedule E".** If you do not receive this prompt, or you choose to select "Skip", you will see this screen:



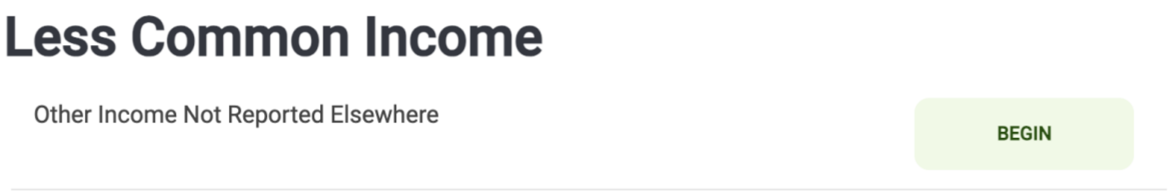
If you have another 1099-MISC to report, you can add it to your return here by selecting "Add another Form 1099-MISC". Once you are done with reporting your 1099-MISC information, you can select **"Continue"**.

Reporting Other Income Not Included on My 1099

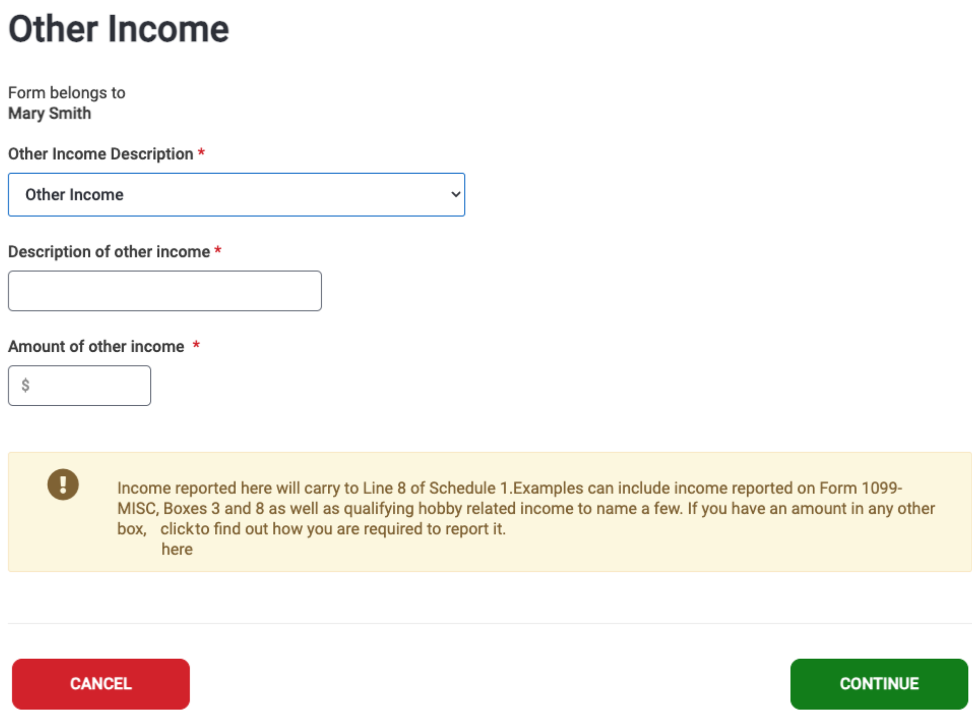
The 1099-MISC is used to report various types of miscellaneous income, like nonemployee compensation, rents, royalties, etc., but it is just one potential source of other income. You can have other income that needs to be reported on your personal return, even if no 1099-MISC was received. One such example is if your insurance provider sent you proceeds for a loan or mortgage on property that was damaged during a disaster.

To do this, you will navigate to “Other Income Not Reported Elsewhere” under the “Less Common Income” page of the tax program.

Select **BEGIN** on the “Less Common Income” line. This will bring you to the following screen:

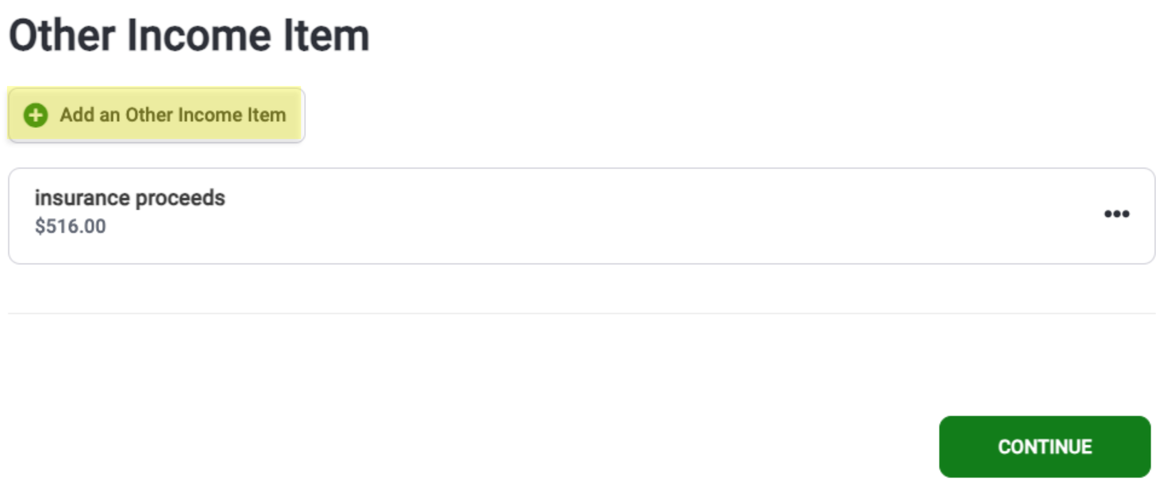


“Other Income Not Reported Elsewhere” will be the first option. Select **BEGIN** to start reporting.



The first box, “Other Income Description” provides a drop-down list of options to choose from. Select the description that best fits your situation, in the case of reporting proceeds for a loan or mortgage on property that was damaged, choose “Other Income”.

Enter a description of the income in the “Description of other income” box, such as “insurance proceeds” and the amount of these proceeds in the “Amount of other income” box. Select **“Continue”** to move to the next screen after you have finished.

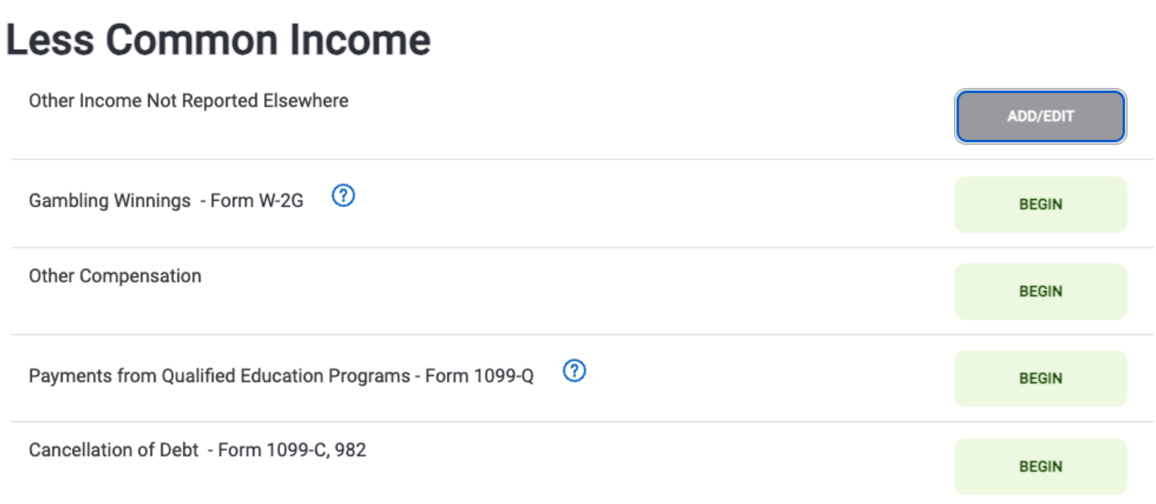


If you have other proceeds or income to report, you can add it to your return here by selecting “Add an Other Income Item”. Once you are done with reporting your other income, you can select **“Continue”**.

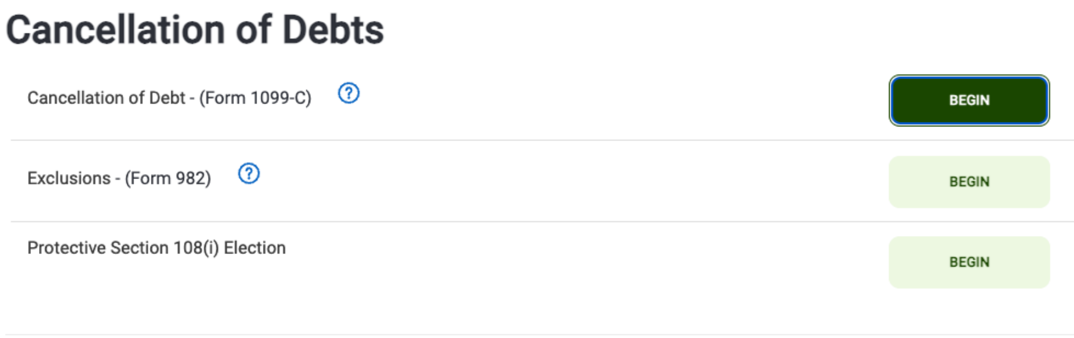
Please note, when you report the canceled debt amount in “Other Income”, you must also fill out Form 982 to claim an exclusion for any amount used for repairs. To learn how to file Form 982, read on.

Reporting Form 982: Reduction of Tax Attributes Due to Discharge of Indebtedness

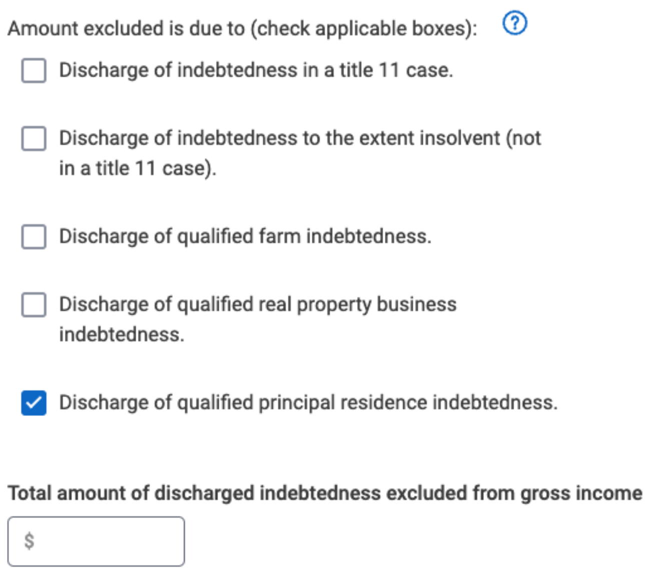
Selecting **“Continue”** from the “Other Income” screen will bring you back to the “Less Common Income” screen. From here, choose **BEGIN** across from “Cancellation of Debt - Form 1099-C, 982”.



On the next screen, you will see these options:



Choose **BEGIN** across from “Exclusions - (Form 982)”. While the next screen may appear overwhelming, there are only two entries we need to complete, so you will only need to focus on the top part of the form.



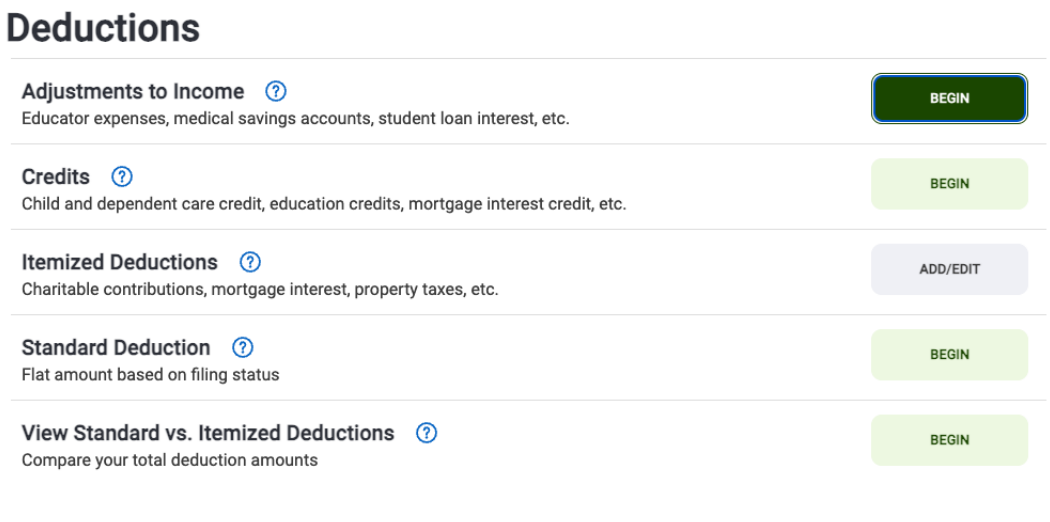
Check off "Discharge of qualified real property business indebtedness". Then enter the amount used for repairs in the “Total amount of discharged indebtedness excluded from gross income”.

Select **“Continue”** four more times to return to the main “Income” screen, or use the navigation bar on the left-hand side.

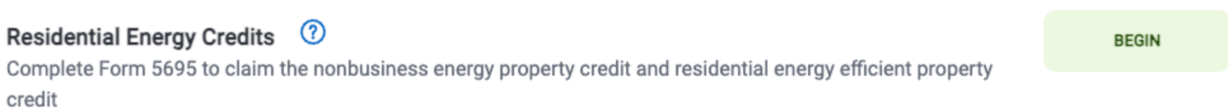
Note: The following sections relate to filers who own a home; if you do not presently own a home and did not experience any related property damage, please skip ahead to “Submitting Your Return”.

Reporting a Home Energy Credit

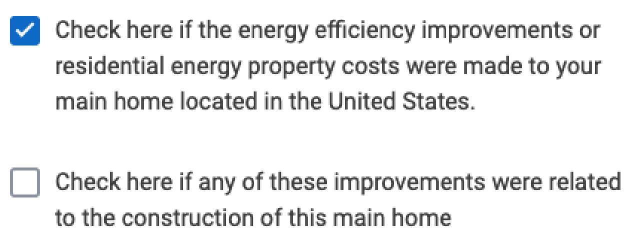
If you rebuild your home with energy-efficient improvements, you may qualify for energy efficiency tax credits. To report these improvements and receive any eligible credit, navigate to the "Deductions" screen and select **BEGIN** across from the "Credits" line.



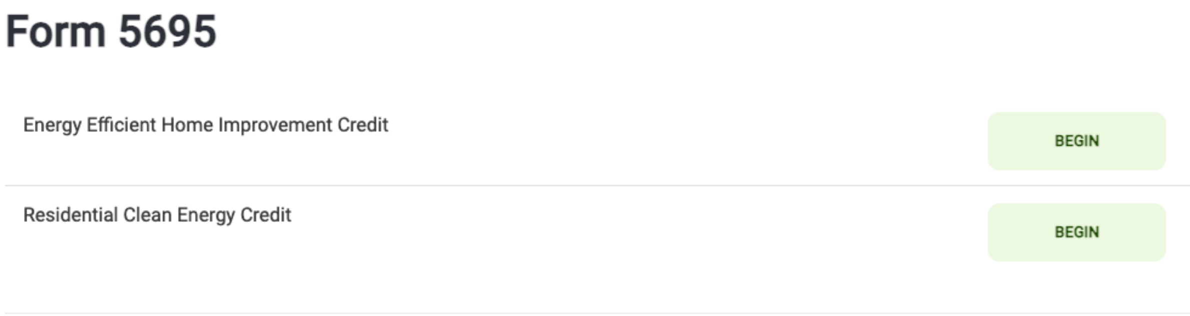
From here, you want to look for "Residential Energy Credits" and select **BEGIN**.



On the next screen you will be asked to check a box if the improvements were made to your main residence. Check it off if this applies to you and then select **"Continue"**. If it is not applicable, you cannot take this credit.



If you had to construct a new home after a disaster, check off the second box, as well. On the next screen, you will have two options.



Form 5695

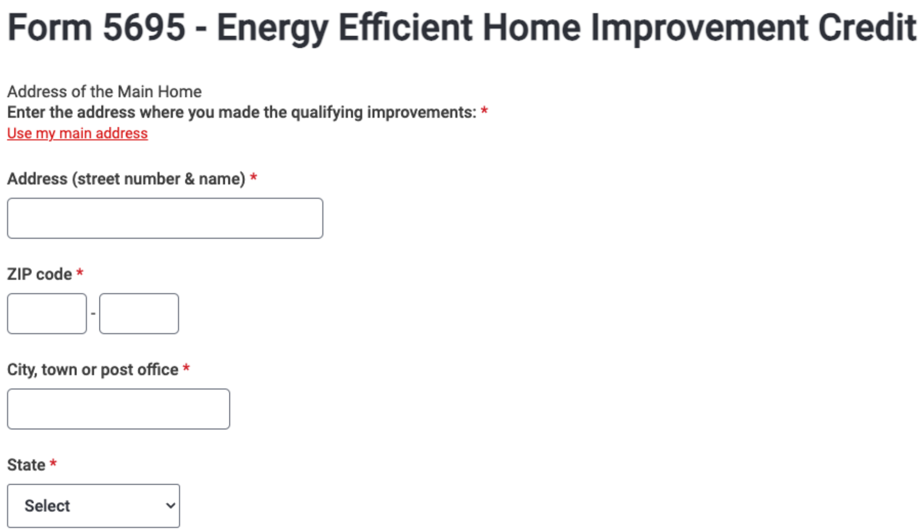
Energy Efficient Home Improvement Credit BEGIN

Residential Clean Energy Credit BEGIN

The Energy Efficient Home Improvement Credit provides tax credits for the purchase of qualifying equipment, home improvements, and energy audits to reduce your taxes. Some examples are exterior windows and skylights, central A/C units, electric panels and related equipment, natural gas, propane and oil water heaters, furnaces or hot water boilers.

The Residential Clean Energy Credit provides tax credits for the purchase of qualifying equipment including solar, wind, geothermal and fuel-cell technology.

We will start with the Energy Efficient Home Improvement Credit.



Form 5695 - Energy Efficient Home Improvement Credit

Address of the Main Home
Enter the address where you made the qualifying improvements: *
Use my main address

Address (street number & name) *

ZIP code *

City, town or post office *

State *

Select

Enter your property's information in the top part of the form. Once complete, you can advance to the next section by scrolling down.

Metal or asphalt roof with appropriate pigmented coatings or cooling granules that meet the Energy Star program requirements and is specifically and primarily designed to reduce heat gain in your home

$

Energy-efficient building property

$

Qualified natural gas, propane, or oil furnace or hot water boiler

$

Advanced main air circulating fan used in a natural gas, propane, or oil furnace

$

Qualifying Improvements

Insulation material or systems specifically and primarily designed to reduce heat loss or gain in your home

$

Exterior doors

$

Exterior windows (including skylights)

$

Enter any amounts claimed for exterior windows prior to 2022 from your Form 5695

$

For the boxes pictured above, enter the amounts of the improvements applicable to you. For example, if you spent $200 on an energy efficient exterior door, you would enter that amount in the box under “Exterior doors”.

Once you are done reporting the improvements, you can select “Continue” to return to the previous screen.

From here, you can select BEGIN across from the “Residential Clean Energy Credit” if you have credits to claim in this section.

Form 5695 - Residential Clean Energy Credit

Qualified Fuel Cell Property

☐ Check here if you installed a Qualified Fuel Cell Property on or in connection with your main home located in the United States

Other Qualified Costs

Qualified solar electric property costs

$

Qualified solar water heating property costs

$

Qualified small wind energy property costs

$

Qualified Geothermal heat pump property costs

$

Qualified biomass fuel property costs

$

You can check off the box at the top if you installed any fuel cells that rely on a renewable resource (usually hydrogen) to generate power for your home.

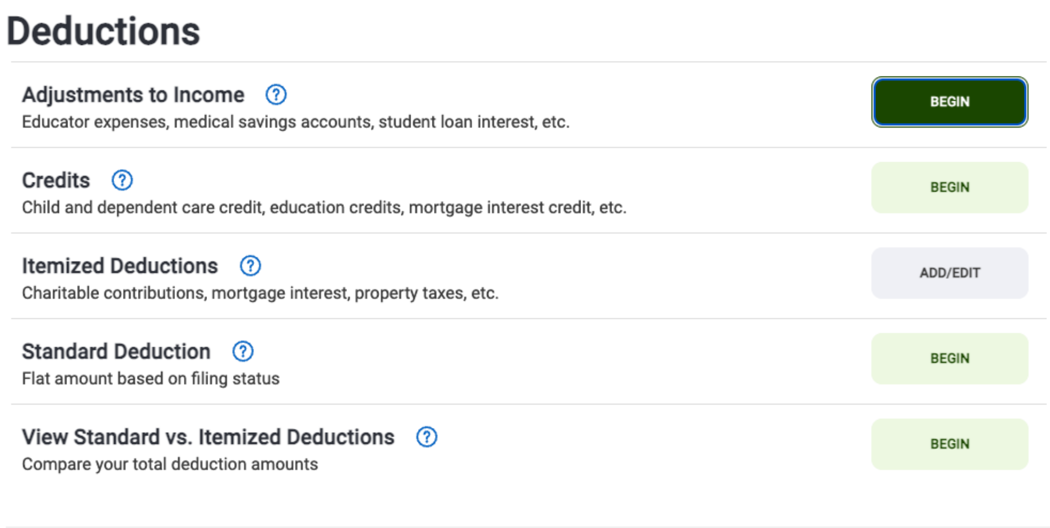
Begin entering in the amount of any relevant equipment purchased. For example, if you purchased solar panels for your home, you would enter that cost in the box under "Qualified solar electric property costs".

Once you are done reporting, you can select **"Continue"** to return to the previous screen, or use the navigation bar on the left-hand side to return to the main "Income" or "Deductions" page.

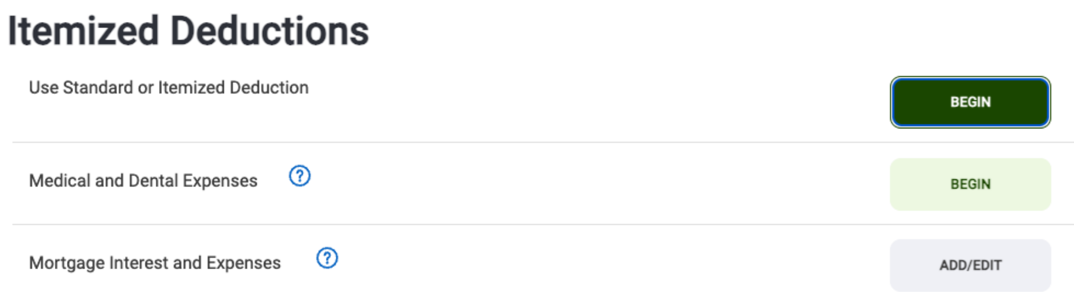
Reporting a Home Mortgage Interest Deduction

To report the mortgage interest paid on a repair loan on your personal tax return, you will have had to receive a Form 1098, Mortgage Interest Statement. This form details the amount of mortgage interest you paid during the year. You should receive this form from your lender.

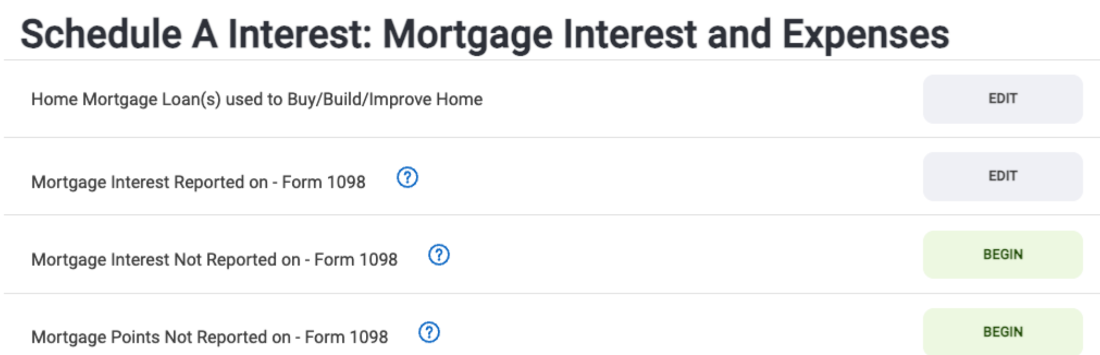
Navigate to the “Deductions” screen and select **BEGIN** across from the “Credits” line.



On the next screen, select **BEGIN** or **ADD/EDIT** across from “Mortgage Interest and Expenses”.

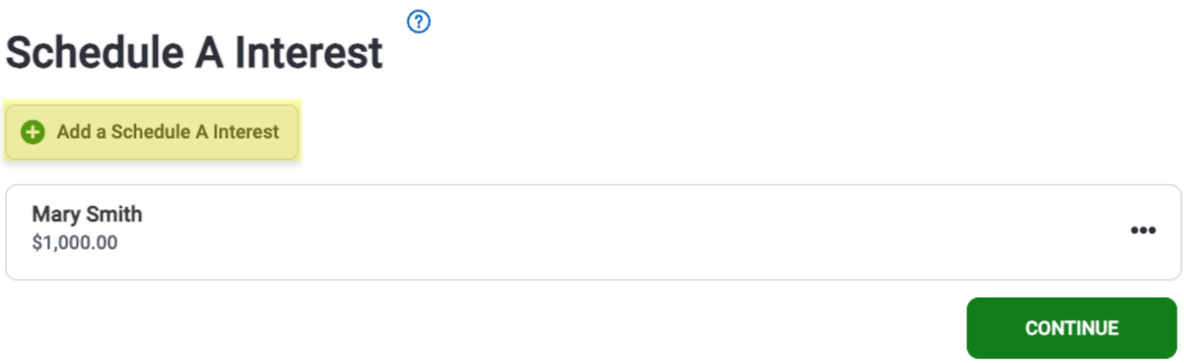


This will bring you to the following screen:



You will then select **BEGIN** or **EDIT** across from “Mortgage Interest Reported on - Form 1098”.

On this page, enter your name, any interest you have paid on your mortgage or loan from Box 1 of your 1098. If you have any points paid reported in Box 2, enter that information, as well.



Once you are done, select **"Continue"** to advance to the next screen. If you have another 1098 to report, you can add it to your return here by selecting "Add a Schedule A Interest". After reporting your 1098 information, select **"Continue"** or use the navigation bar on the left-hand side of your screen to return to a different section of your return.

Submitting Your Return

Once you have reported all your income and deductions, you will advance, or be guided to, the "Other Taxes" section. If you have any relevant information to report, you will select **BEGIN** across from the appropriate line or lines.

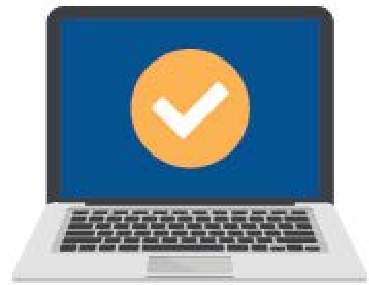
If you do not have other taxes to report or file, or have finished doing so, select "Continue" to advance to the "Payments and Estimates" section. Here, you can make estimated tax payments, report overpayments, or enter other withholdings not already reported, as they apply to your situation.

After you are done here, select **"Continue"** to move to the "Miscellaneous Forms" section. Complete this section if it applies to your situation. Then select **"Continue"**. From here, you will enter information confirming health insurance coverage if you have not already reported it. Finally, you will advance to confirm your household members reported on your return.

Congratulations! You have completed your federal return. At this time, the program will prompt you to begin your state filing.

Part II:

Business Perspective and Tax Filing



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Understanding and Navigating Tax Filing and Payment Deadlines

Standard tax deadlines are the typical due dates for various federal tax-related filings, including individual and business income tax returns, extension requests, estimated tax payments, and other tax-related obligations. Here are more details about the standard tax deadlines in the United States:

Individual Income Tax Return (Form 1040): The standard deadline for filing your federal individual income tax return (Form 1040) is April 15th of each year. If April 15th falls on a weekend or a legal holiday, the deadline is typically extended to the next business day.

Business Income Tax Returns (Various Forms): The due dates for business income tax returns vary depending on the type of business entity and the fiscal year. For corporations (Form 1120), the standard due date is the 15th day of the third month after the end of the tax year. For partnerships (Form 1065), the due date is typically the 15th day of the third month after the end of the tax year.

Estimated Tax Payments: If you expect to owe a substantial amount of taxes, you are required to make estimated tax payments throughout the tax year. These payments are generally due four times a year: April 15th, June 15th, September 15th, and January 15th of the following year. If any of these dates falls on a weekend or holiday, the due date may be adjusted.

Employment Tax Forms (Various Forms): If you are an employer, you must file various employment tax forms, including Form 941 for quarterly employment tax returns, by specific due dates. These due dates depend on the type of form and the frequency of filing, whether it's monthly, quarterly, or annually.

Quarterly Payroll Tax Deposits: If you are an employer, you are responsible for making federal payroll tax deposits on a regular basis, and the due dates depend on the deposit schedule assigned to the employer (monthly or semiweekly).

State Tax Deadlines: State income tax deadlines often align with federal deadlines but can vary by state. Check with your state's tax authority for specific due dates for state income tax returns, extensions, and other state-specific requirements.

It's important to note that tax deadlines can change due to various factors, including legislative changes, holidays, and special circumstances, such as natural disasters. Therefore, it's advisable to verify the exact due dates each tax year, especially if there have been any changes or extensions announced by the IRS or your state tax authority.

Common Forms of Relief

Disaster relief for businesses depends on the nature and severity of the disaster, as well as the specific programs and resources available. Some common forms of disaster relief for businesses include:

FEMA Assistance: The Federal Emergency Management Agency (FEMA) provides disaster assistance programs that may include grants and low-interest loans for your business if it was impacted by a federally declared disaster. These funds can help cover the costs of repairs, temporary facilities, and other disaster-related expenses.

Economic Injury Disaster Loans (EIDL): The U.S. Small Business Administration (SBA) offers low-interest disaster loans for businesses to repair or replace damaged property, inventory, and equipment. SBA loans are a common source of financial assistance for disaster-affected businesses.

Insurance Claims: If you have a business with insurance policies that cover property damage, business interruption, or other disaster-related losses, you can file insurance claims to receive compensation for covered losses. This may include property insurance, business interruption insurance, and other types of coverage.

Grants and Subsidies: In some cases, government agencies, non-profit organizations, or local relief programs may offer grants or subsidies to help businesses recover from disasters. These grants may be used for specific purposes, such as implementing energy-efficient upgrades or mitigating future disaster risks.

In-Kind Donations: In-kind donations, often referred to as non-cash or material donations (e.g., flooding clean-up kits), can be an essential form of disaster relief for businesses and communities. In-kind donations typically involve the provision of goods, services, or resources rather than direct financial assistance.

Tax Relief and Credits: Tax authorities may provide tax relief measures, such as deductions, credits, or extensions if your business was located in a disaster-affected area. These tax incentives can help reduce the financial burden associated with disaster recovery.

Community Development Block Grants (CDBG): Businesses located in areas designated for CDBG disaster recovery funds may receive grants or loans to support economic revitalization, infrastructure repair, and other recovery efforts.

Utility and Infrastructure Assistance: Some programs may offer assistance with repairing essential utilities and infrastructure, including water, electricity, and telecommunications services.

Employment and Training Assistance: Workforce development programs may provide resources to help your business retrain employees or hire new workers as part of any disaster recovery efforts.

Disaster Recovery and Business Continuity Planning: Organizations and government agencies may offer guidance and resources to help your business develop disaster recovery and business continuity plans to mitigate future risks.

Mental Health and Counseling Services: Disaster relief programs may include counseling and mental health support for you and your employees who have experienced trauma.

Business Support Services: Local chambers of commerce, business associations, and economic development organizations may provide resources, workshops, and networking opportunities to help recover and rebuild.

Be Prepared: The availability of these forms of disaster relief varies depending on the specific disaster, location, and government response. It's important for you to stay informed about available resources, document any losses, and apply for relief programs for which you are eligible. Consulting with a disaster recovery specialist or a Small Business Development Center (SBDC) can be beneficial in navigating the process and accessing the appropriate relief resources.

Documenting and Reporting Relief Payments and Assistance

The tax treatment of various forms of disaster support for businesses depends on the nature of the support and the specific tax laws in effect. Before we discuss how to document and report specific forms of assistance, here are some general guidelines to make documenting and reporting the use of relief payments easier:

Create a Detailed Accounting System: Establish a robust accounting system that tracks all incoming relief payments, including grants, loans, insurance proceeds, and in-kind donations. Consider using appropriate accounting software to maintain accurate records.

Categorize Relief Payments: Categorize relief payments based on their nature and purpose. Distinguish between grants, loans, insurance proceeds, and in-kind donations to maintain clarity in your records.

Designate Funds for Specific Uses: Allocate the received funds to specific expenses or purposes related to disaster recovery. This could include repair costs, property replacement, business continuity efforts, or other recovery-related expenditures.

Keep Detailed Receipts and Invoices: Maintain copies of receipts and invoices for all expenses associated with the use of relief payments. This documentation is crucial for substantiating the purpose of the funds and ensuring they are used appropriately.

Maintain Records of In-Kind Donations: If your business receives in-kind donations, document the fair market value of these donations and their intended use. Be prepared to demonstrate that these donations were used for the specified purposes.

Separate Funds: If possible, keep relief payments in a separate bank account to clearly distinguish them from regular business income and expenses. This separation can help streamline the tracking and documentation process.

Documenting Loan Repayments: If your business receives loans as part of disaster assistance, maintain records of loan agreements, repayment schedules, and interest payments. Clearly document the use of loan funds.

Prepare Reports and Summaries: Regularly generate financial reports and summaries that show how relief payments have been used and allocated within your business. These reports should be accessible for review and audit.

Consult with a Tax Professional: Consider seeking advice from a tax professional or accountant with experience in disaster relief and recovery. They can help you navigate tax implications and ensure proper documentation.

Comply with Reporting Requirements: Comply with any reporting requirements associated with specific relief programs. Some disaster assistance programs may require businesses to submit periodic reports or financial statements detailing the use of funds.

Transparency and Communication: Communicate with stakeholders, including employees, investors, and the public, to provide transparency about how relief payments are being used to support disaster recovery efforts.

Retain Records: Maintain records of relief payments and their use for an extended period, typically at least seven years. This retention period ensures that you have documentation available for potential audits or inquiries.

Regularly Review and Update Records: Continuously update and review your documentation to reflect any changes in the use of relief payments and to account for new expenses or funding received.

Tax Implications of Assistance Programs

In addition to the above general guidelines, different forms of assistance may have specific requirements to ensure compliance with both the program and the IRS. Here are how the above forms of relief can impact your taxes:

FEMA Assistance: IRS rules say qualified disaster relief payments are not counted as income as long as the reimbursed expense is not also paid by insurance or other reimbursement. According to the IRS, qualified disaster relief payments include payments received for the following:

- Reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a presidentially declared disaster. These may include medical, dental, housing, personal property or transportation needs caused by the disaster.
- Reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence due to a presidentially declared disaster. A personal residence can be a rented residence or one you own.
- Reasonable and necessary expenses incurred for the repair or replacement of the contents of a personal residence due to a presidentially declared disaster.

Qualified disaster relief payments also include amounts paid to those affected by the disaster by a state or local government in connection with a presidentially declared disaster.

Disaster assistance grants are not subject to income tax, self-employment tax, or employment taxes such as Social Security, Medicare, and federal unemployment taxes. No withholding is required. However, unemployment payments are considered income under tax rules.

Casualty losses reimbursed by disaster assistance grants are not deductible for income tax purposes. Do not deduct casualty losses or medical expenses specifically reimbursed by disaster relief grants.

<u>Economic Injury Disaster Loans (EIDL):</u> EIDL funds themselves are not considered taxable income for federal tax purposes. This means that when your business receives an EIDL, you generally won't have to report the loan amount as income on your federal tax return. EIDL funds are provided to help businesses recover from economic injuries caused by disasters, and they are not considered taxable income.

However, it's important to note that while the EIDL funds themselves are not taxable, how you use them can have tax implications. For example, if you use EIDL funds to cover deductible business expenses (e.g., rent, payroll, utilities), these expenses can be deducted on your tax return. In other words, while the loan amount itself isn't taxable, the expenses you pay with it can potentially be used as deductions to reduce your taxable income.

Additionally, if you receive an EIDL advance (also known as the Economic Injury Disaster Grant), this advance amount is generally considered taxable income. The IRS clarified that the EIDL advance should be reported as income on your tax return. However, the Tax Cuts and Jobs Act (TCJA) passed in 2017 allows businesses with gross receipts of less than $25 million to deduct the amount of the EIDL advance on their tax returns, effectively nullifying the tax on the grant.

The taxation of EIDL funds at the state level can vary depending on your specific state's tax laws and regulations. States have their own tax rules, and the treatment of EIDL funds may differ from one state to another. Some states may follow federal tax treatment and not tax EIDL funds, while others may have different rules.

It's essential to consult your state's department of revenue or a tax professional in your state to understand the specific tax implications of EIDL funds in your area.

Insurance Claims: Generally, insurance claims received as a result of a natural disaster for property damage, personal injury, or medical expenses are not considered taxable income. You do not need to report these on your tax return.

Typically, you'll report any taxable gains from insurance proceeds on your federal income tax return (e.g., Form 1040). Use the appropriate sections to report gains as specified in the IRS guidelines.

Be aware that state tax laws may also apply, and the tax treatment of insurance claims can vary by state. Check with your state's tax agency to understand the state-specific rules.

As a reminder, maintain comprehensive records of your insurance claims, including all claim documents, settlement agreements, and receipts. This documentation will be essential in case of any audit or questions from tax authorities.

Grants and Subsidies: Whether the grant or subsidy is taxable depends on its nature. In most cases, grants and subsidies received to cover necessary expenses after a disaster, such as business repairs, are not considered taxable income. However, it's essential to verify the taxability of each specific grant or subsidy.

If a grant or subsidy is deemed taxable, you should report it as income on your federal tax return. The payer or grantor may issue you a Form 1099 or a similar tax document to report the income. If you receive taxable grants or subsidies to cover specific disaster-related expenses, you may be able to offset the taxable income with corresponding disaster-related expenses. Be sure to maintain detailed records and receipts of these expenses for documentation.

The tax treatment of disaster-related grants and subsidies can vary by state. Check with your state's tax agency or a tax professional to understand the specific rules in your state.

Keep thorough records of all grants and subsidies you receive, including the source of the funding, the purpose, and any related expenses.

In-Kind Donations: When you receive in-kind donations, it's essential to determine their fair market value (FMV). FMV is the price that the donated items would sell for on the open market. You may need to get an appraisal or use other reasonable methods to establish this value.

If you received in-kind donations from a tax-exempt organization (such as a charitable organization) during a disaster, you generally don't need to report the donations as income on your tax return. If you receive in-kind donations from individuals, businesses, or other entities that are not tax-exempt organizations, the FMV of these donations would be considered taxable income, and you need to report it.

Certain in-kind donations intended for disaster relief are not considered taxable income. For example, if you receive donated clothing, food, or temporary shelter to assist with disaster recovery, these are often exempt from taxation. If you received a significant in-kind donation (e.g., real property, a vehicle, or valuable items), you need to report it to the IRS using Form 8283 for noncash charitable contributions.

Keep thorough records of all in-kind donations received, including the source of the donations, descriptions of the items, dates of receipt, and their fair market values. Proper documentation is crucial to support your tax reporting.

Tax Relief and Credits: Generally, tax relief, such as grants or assistance received from the government or charitable organizations, is not considered taxable income. You do not need to report this support as income on your tax return.

Tax credits, on the other hand, are different. Tax credits can directly reduce your tax liability, which can result in a lower tax bill or even a refund.

Depending on the specific tax credit you are eligible for, you may need to complete the corresponding tax form or schedule. The instructions for the specific form will guide you on how to report the credit. The MyFreeTaxes program will guide you through identifying if you are eligible for any tax credits and how to report/claim them.

Community Development Block Grants (CDBG): CDBGs received due to a natural disaster are typically considered federal assistance and are not taxable. They are generally not included in your taxable income because they are provided by the government for disaster relief and recovery efforts.

Utility and Infrastructure Assistance: These types of assistance are generally provided by government agencies or organizations involved in disaster relief efforts. The IRS and other relevant authorities typically do not consider them as taxable income.

Employment and Training Assistance: Employment and training assistance received due to a natural disaster is generally not considered taxable income.

Disaster Recovery and Business Continuity Planning: Recovery and business continuity planning assistance received due to a disaster is generally not considered taxable income.

Mental Health and Counseling Services: Mental health and counseling services provided in response to a natural disaster are typically not considered taxable income for individuals. This is because these services are aimed at helping you cope with the emotional and psychological impact of the disaster.

Mental health and counseling services provided to employees by a private entity in response to a natural disaster are often considered non-taxable fringe benefits. This means the cost of providing these services to employees is generally tax-deductible for your business, and the value of the services provided to employees is not considered taxable income for them.

Ensure that your business properly documents the cost of providing these services to employees and deducts them as a business expense.

Business Support Services: If the support services are provided to help your business recover from a disaster, such as assistance from government agencies, non-profit organizations, or disaster relief agencies, they are typically considered non-taxable. Here's how you should handle them:

- Documentation: Maintain records of the support you receive, including any agreements, correspondence, and receipts.
- Tax Reporting: Generally, you do not need to report non-taxable support as income on your business tax return.

If your business pays for support services related to disaster recovery, such as hiring consultants, contractors, or purchasing equipment or supplies, these expenses may be tax-deductible. To report them:

- Proper Record-Keeping: Maintain thorough records of all expenses related to the support services, including invoices, receipts, and documentation of the services provided.
- Tax Reporting: Deduct these expenses as business-related expenses on your business tax return. They can typically be reported on the appropriate forms, such as Schedule C for sole proprietors, partnerships, or corporations.

Disaster Relief's Impact on Business Insurance

Disaster relief can have significant implications for business insurance. The impact can vary depending on the type of relief received and the specific terms and coverage of your insurance policies. It's essential to maintain open communication with your insurance provider to understand how disaster relief may affect your coverage. Furthermore, consulting with a knowledgeable insurance professional can help you navigate the complexities of business insurance in the aftermath of a disaster and make informed decisions about your coverage.

Here's an overview of how insurance coverage works for businesses and the steps involved in the claims process.

Insurance Coverage

Coverage Determination: The impact of disaster relief on your business insurance depends on whether the relief is in the form of insurance claims, government assistance, grants, or other support. Insurance coverage is typically determined by the specific terms and conditions outlined in your insurance policy.

Insurance Claims: If your business has suffered damage or losses due to a natural disaster, you may file an insurance claim. The relief you receive from your insurance provider can help cover the costs of repairs, replacements, or business interruption. This may impact your insurance premiums or future coverage.

Government Assistance: Assistance from government agencies, such as the Federal Emergency Management Agency (FEMA), may complement your insurance coverage. These grants or subsidies can help with recovery efforts and may not directly impact your insurance policies.

Impact on Premiums: Filing an insurance claim for disaster-related damages can lead to increased premiums, particularly if your business is located in an area prone to such events. Insurance providers may view your business as a higher risk, which can result in higher premiums.

Risk Assessment: After a natural disaster, your insurance provider may reassess your business's risk profile. They may consider factors like your location, history of claims, and the impact of the disaster when determining your future coverage and premiums.

Loss Mitigation: Insurance providers may encourage or require you to take steps to mitigate future risks. This could include implementing safety measures, securing your property, or relocating to a safer area.

Tax Implications: Depending on the relief received, there can be tax implications. Insurance payouts for covered losses are typically not taxable income. However, government grants or subsidies may have specific tax reporting requirements.

Policy Review: After receiving disaster relief or experiencing a natural disaster, it's a good practice to review your insurance policies. Ensure they adequately cover your business's needs and are in line with any changes in your operations or risk profile.

The Claims Process

1. Report the Claim: You or a representative of your business need to contact your insurance company to report the claim. This can often be done through the insurer's claims department, either by phone or online.

2. Claims Adjuster Assignment: The insurance company will assign a claims adjuster to investigate and assess the loss. The adjuster will typically contact the you and may visit your business to inspect the damage or assess the situation.

3. Documentation: You must provide the claims adjuster with all necessary documentation related to the loss. This may include photographs, receipts, repair estimates, police reports, and any other relevant information.

4. Claim Evaluation: The claims adjuster reviews the documentation and evaluates the extent of the loss. They determine whether the loss is covered under the policy and calculate the amount to be paid based on policy terms.

5. Claim Settlement: If the claim is approved, the insurance company will make a settlement offer. You can either accept the offer or negotiate for a higher amount, depending on your understanding of the policy and the adjuster's findings.

6. Claim Payment: Once a settlement is agreed upon, the insurance company will issue a payment to you. The payment is intended to cover the insured loss, up to the policy limits and minus any applicable deductibles.

7. Repairs or Recovery: You can use the claim payment to repair the damage or replace the lost property, as appropriate. Business interruption insurance can help cover ongoing expenses during this period.

8. Policy Renewal and Premiums: The filing of a claim can affect your business' insurance premium. After a claim, your business may experience a premium increase. It's essential to discuss the impact of a claim on future coverage with the insurance provider.

9. Loss Mitigation and Prevention: After a claim is settled, you may be advised to take measures to prevent future losses, such as improving security, implementing safety measures, or addressing any vulnerabilities.

For example, a severe storm with high winds damages the roof of your retail store, allowing water to leak inside. Inventory and equipment are damaged from the water.

You contact your business insurance provider to file a property damage claim and provide details on damages and disruption to operations. The insurer sends an adjuster to inspect your property and evaluate the losses. They will document damage to the building, inventory, equipment, furnishings, etc.

For any business interruption loss from being closed for repairs, you gather sales data, profit and loss statements, payroll details, and fixed expense records to quantify lost income. You then submit your documented business interruption claim along with contractor estimates for repairs and inventory/equipment replacement costs.

The insurer may issue advance payment for immediate emergency fixes to prevent further damage as repairs are arranged. Meanwhile, claim checks are issued to you for business interruption losses at regular intervals as you demonstrate continuing impact.

When long-term repairs are complete, the contractors may invoice the insurance company directly, or the insurance company may issue you a claims check so you can manage, schedule, and pay for repairs yourself.

It's important for your business to maintain good records and keep all communication related to the claims process. You should work closely with your insurance company and provide accurate and timely information to expedite the claims process. If there are disputes or concerns, you can seek the advice of an attorney or insurance expert.

Tax Implications of Insurance Settlements

Business insurance settlements related to a disaster can have tax implications that depend on several factors, including the type of insurance, the nature of the settlement, and how the funds are used. Here are some key tax considerations:

<u>Income Taxation of Settlements:</u> Generally, insurance proceeds received as part of a settlement for property damage or business interruption due to a disaster are not considered taxable income. These settlements are meant to restore your business to its pre-loss condition.

<u>Loss Deductions:</u> If your business incurs a loss due to a disaster that is not fully covered by insurance, you may be eligible for a tax deduction. This can include a casualty loss deduction on your business tax return. To claim this deduction, you typically need to itemize your deductions.

<u>Business Interruption Insurance:</u> Business interruption insurance may cover lost income and ongoing expenses during a disaster-related disruption. The proceeds from such insurance are generally treated as reimbursement for lost income and are not taxable.

<u>Tax Treatment of Reimbursement:</u> When you use insurance proceeds to repair or replace damaged property or assets, this is typically not a taxable event. However, the repairs or replacements should be consistent with the purpose of the insurance coverage.

<u>Premium Deductibility:</u> Business insurance premiums are generally tax-deductible as ordinary and necessary business expenses. This includes property, liability, and other insurance premiums.

<u>Documentation:</u> Proper documentation is essential for tax purposes. Keep records of all transactions related to the insurance settlement, including the settlement agreement, invoices, and receipts for repairs or replacements.

It's important to note that tax laws and regulations can change, and specific rules may vary depending on your location and the nature of your business.

Business Taxes and Revenue Considerations

Tax Deductions for Business Losses

There are tax deductions available for business losses related to a disaster. These deductions can help businesses recover some of the financial losses incurred due to a disaster. The tax deductions include:

Casualty Loss Deduction: If your business property, such as buildings, equipment, or inventory, is damaged, destroyed, or lost due to a disaster like a hurricane, flood, or fire, you can typically claim a casualty loss deduction on your business tax return. Here are some key points to consider:

- The loss must result from a sudden, unexpected, or unusual event, and it should be both real and identifiable.
- The amount of the deduction is generally based on the decline in fair market value of the property.
- You may need to subtract any insurance reimbursements or other recoveries from the loss when calculating the deduction.

For example, your business, XYZ Company, is a small retail store in a coastal town that gets hit by a major hurricane. The storm causes extensive wind and flooding damage to your store building, destroying walls and inventory inside.

You have business property insurance, but it only covers a portion of the damages. The total cost to repair the retail space is $50,000 based on contractor estimates. Your business insurance covers $30,000 after applying deductibles. Your damaged inventory is valued at $20,000. The insurance settlement covers $8,000 after your deductible.

For the tax year when the hurricane hit, your business can claim the unreimbursed casualty losses as a deduction. The building repair loss deduction would be $20,000 ($50,000 total less $30,000 insurance covered). The inventory loss deduction would be $12,000 ($20,000 total less $8,000 insurance payment).

You would report these casualty losses on Form 4684. Proper documentation on the valuation of damages, repair costs, and insurance claims would be maintained with the tax records.

This allows your business to deduct its unreimbursed hurricane-related losses and reduce its taxable business income for the year.

Reporting a casualty loss deduction for your business involves several steps, and the specific requirements may vary depending on the nature of the loss, the amount, and the type of business entity. This will be covered in the Reporting My Business Casualty Loss Deduction section of this guide.

Business Interruption Insurance Deduction: If your business has business interruption insurance, which compensates you for lost income and ongoing expenses during a disaster-related disruption, you can typically deduct the premiums you pay for such insurance. This will be covered in the Reporting an Insurance Deduction section of this guide.

Tax Credits and Incentives: Depending on the location and nature of your business, there may be specific tax credits, incentives, or grants available at the state or local level for businesses affected by disasters. These can help reduce your overall tax liability.

Reporting tax credits and tax incentives on a business tax return involves several steps and can vary depending on the type of credit or incentive you're claiming.

Depreciation and Expensing: Your business may be able to accelerate depreciation on assets damaged or destroyed in a disaster, allowing you to recover their costs more quickly. This includes using the bonus depreciation (80% for the 2023 tax year) and Section 179 expensing provisions. For more information on depreciation, see Appendix E.

Other Provisions for Disaster-Affected Businesses

There are several special tax provisions aimed at helping businesses that have been affected by disasters. These provisions are designed to provide tax relief and support to businesses dealing with the aftermath of a disaster. Here are some of these provisions:

Extended Tax Filing Deadlines: The IRS often extends tax filing deadlines for businesses located in federally declared disaster areas. This extension provides additional time to file returns, make tax payments, and meet various tax-related deadlines.

Exemption from Certain Penalties: If your business is in a disaster-affected area, it may be eligible for penalty relief on certain tax payments or filings.

State and Local Provisions: In addition to federal tax provisions, state and local governments may offer their own tax relief measures. Be sure to check with your state's tax authorities for specific programs and incentives.

Keep in mind that the availability and specifics of these provisions may vary depending on the nature of the disaster and the location of your business.

Filing Your Business Return Online

The goal of this guide is to allow you to accurately report your business income while claiming important deductions. For assistance preparing and completing your normal Schedule C tax return, visit this MyFreeTaxes link to access the Small Business Owners Tax Guides.

The following information in this guide is to help supplement your business return reporting by providing you with instructions on how to report any relief and/or assistance your business received after experiencing a disaster.

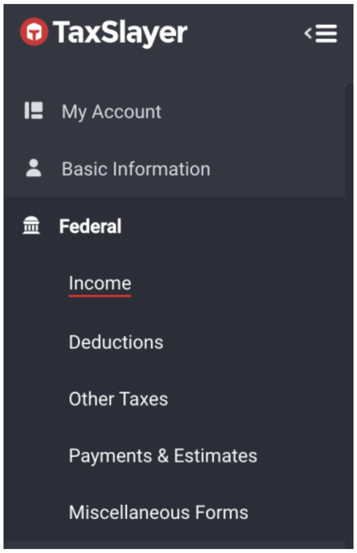
Follow the instructions in the Small Business Owners Tax Guide to enter your information and prepare your Schedule C.

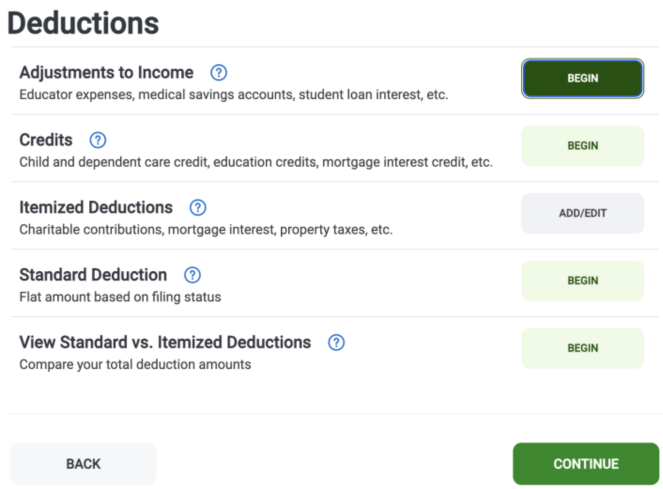
Reporting a Business Casualty Loss Deduction

Before you begin reporting any forms of income or regular deductions, we recommend that you start by preparing your Form 4684 if you have experienced any disaster-related losses.

In many situations, whether your disaster-related loss was related to personal property or tied to a business partnership you are engaged in, the loss amount from Form 4684 will flow to your personal return. Therefore, by completing this form first, you will be better prepared to report your losses in any other tax form you may be required to file.

Start by selecting **"Federal"** from the left-hand side navigation bar, followed by **Deductions**. If you do not see the navigation bar, select the three horizontal lines on the left-hand side of your screen to open it up.

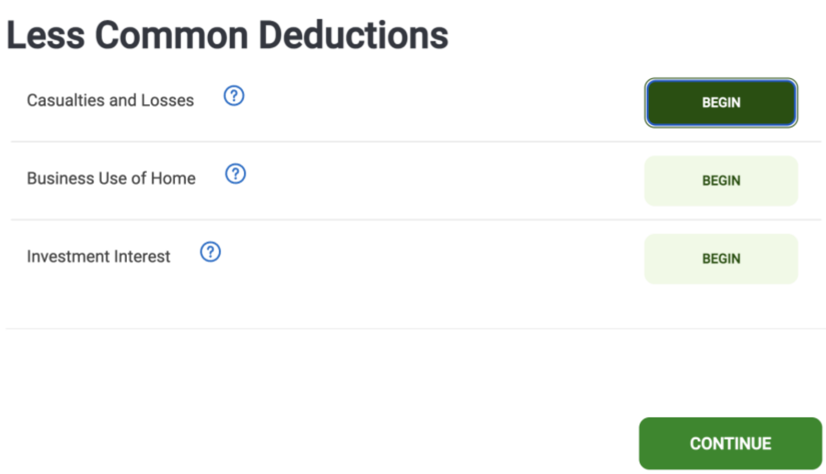




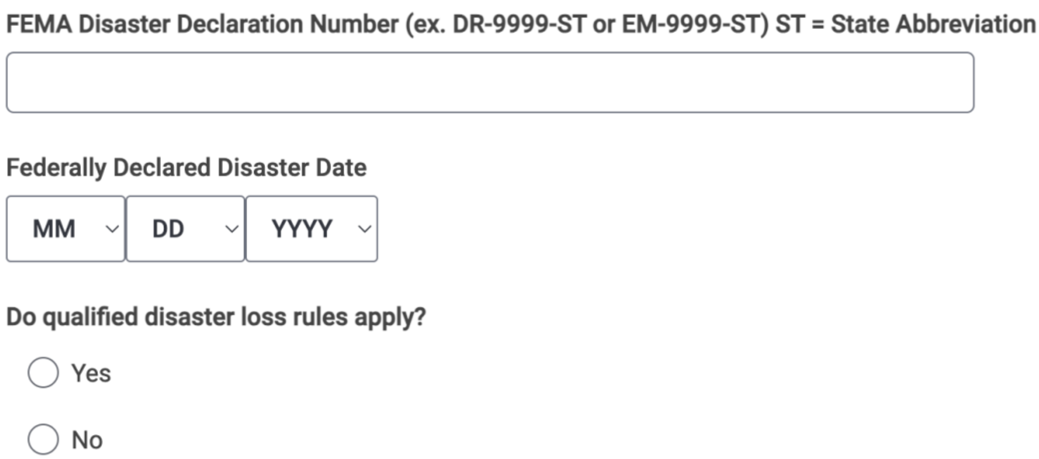
Select **BEGIN** or **ADD/EDIT**, depending on how the program displays it, next to "Itemized Deductions".

Scroll to the bottom of the screen and select **BEGIN** next to "Less Common Deductions".

On the next screen, choose **BEGIN** across from "Casualties and Losses", this will open up Form 4684.



Start by entering a description of the casualty and the date of the loss. If the disaster you experienced was declared a federal disaster area, check off the box next to “Check here if this casualty qualifies as a Federal Disaster”.


FEMA Disaster Declaration Number (ex. DR-9999-ST or EM-9999-ST) ST = State Abbreviation

Federally Declared Disaster Date

MM DD YYYY

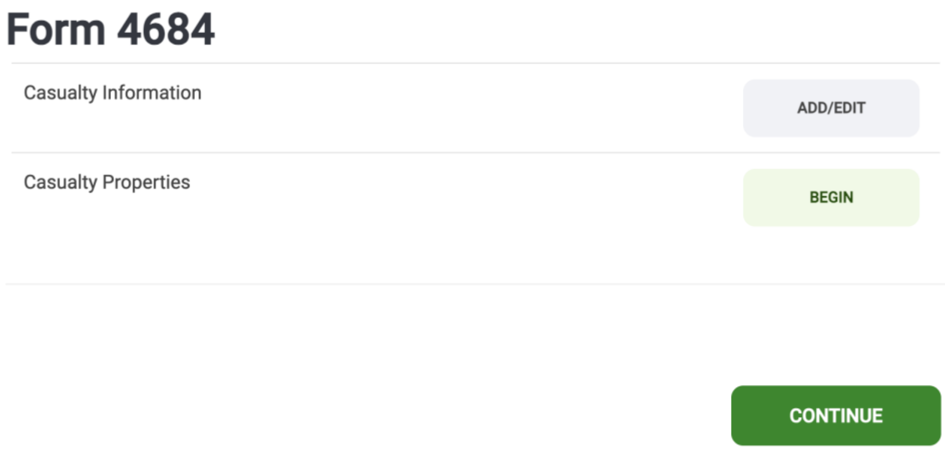
Do qualified disaster loss rules apply?

Yes

No

Enter the FEMA Disaster Declaration Number and the date of the disaster designation. If the special provisions for a Qualified Disaster Loss apply (see here for more information), click Yes under "Do qualified disaster loss rules apply?”, otherwise, select No.

Select **“Continue”** to proceed.



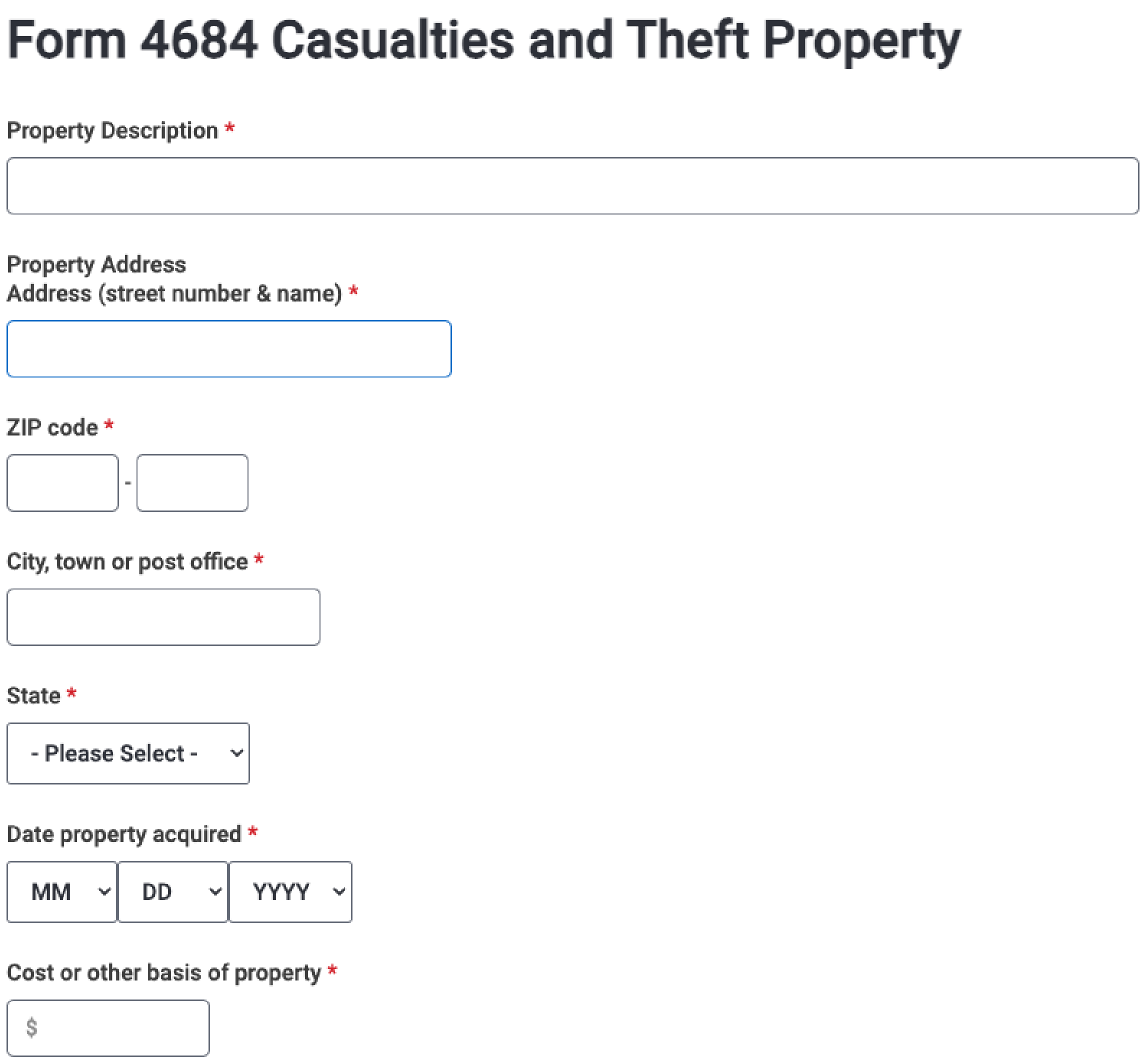
Form 4684

Casualty Information — ADD/EDIT

Casualty Properties — BEGIN

CONTINUE

On the next screen, you will enter information about the property you are claiming the loss on.



Form 4684 Casualties and Theft Property

Property Description *

Property Address
Address (street number & name) *

ZIP code *

-

City, town or post office *

State *

- Please Select -

Date property acquired *

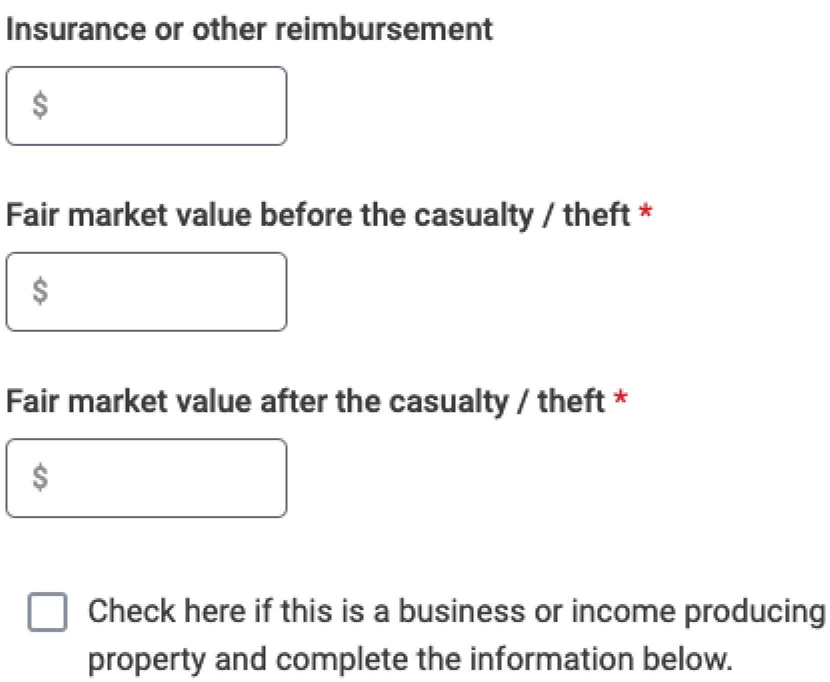
MM DD YYYY

Cost or other basis of property *

$

In the first box, describe the property (for example, furniture, jewelry, car, etc.). Then enter in the address of the property/where the property was located or stored, as well as the date you acquired the property.

The cost or other basis is simply the cost you paid for the property. From here, scroll down to continue.



Insurance or other reimbursement

$

Fair market value before the casualty / theft *

$

Fair market value after the casualty / theft *

$

Check here if this is a business or income producing property and complete the information below.

For the "Insurance or other reimbursement" box, enter the amount of insurance or other reimbursement you received or expect to receive for the property. Include your insurance coverage whether or not you are filing a claim for reimbursement.

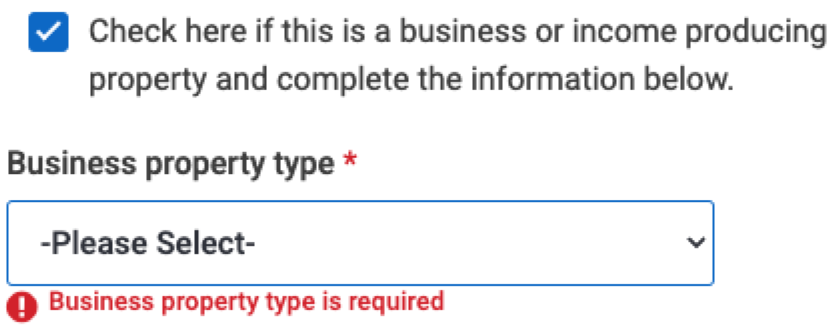
For example, your business vehicle worth $2,000 is totaled during a hurricane when a tree falls on it. You are insured with a $500 deductible, but decide not to report it to your insurance company because you are afraid the insurance company will cancel your policy. In this case, enter $1,500 on this line.

Fair market value (FMV) is the price at which the property would be sold between a willing buyer and a willing seller, each having knowledge of the relevant facts. The difference between the FMV immediately before the casualty or theft and the FMV immediately after represents the decrease in FMV because of the casualty or theft.

The FMV of property after a theft is zero if the property is not recovered.

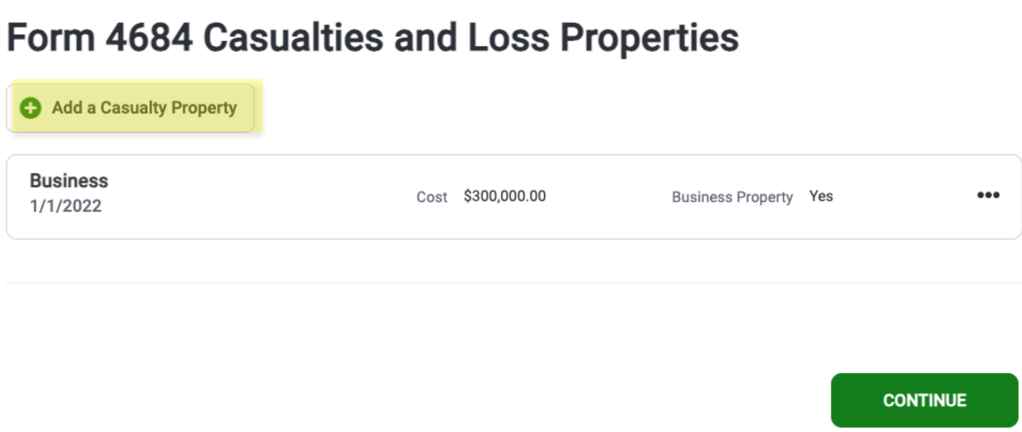
FMV is generally determined by a competent appraisal. The appraiser's knowledge of sales of comparable property about the same time as the casualty or theft, knowledge of your property before and after the occurrence, and the methods of determining FMV are important elements in proving your loss.

The appraised value of property immediately after the casualty must be adjusted (increased) for the effects of any general market decline that may occur at the same time as the casualty or theft. For example, the value of all nearby property may become depressed because it is in an area where such occurrences are commonplace. This general decline in market value is not part of the property's decrease in FMV as a result of the casualty or theft.



Once that information has been entered, check off the “Check here” box. Select the option that applies to your type of business property from the drop-down menu.

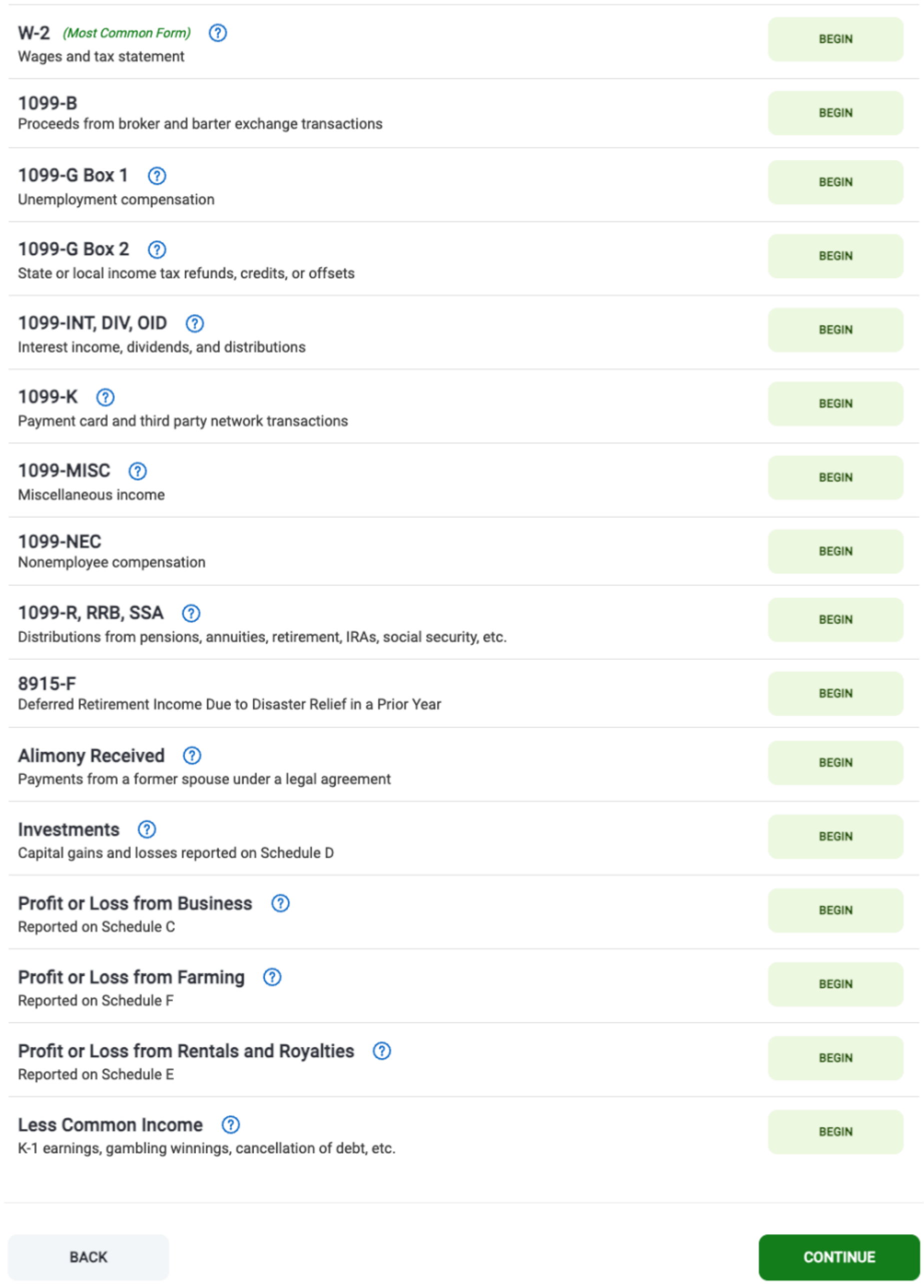
Hit **“Continue”** to move to the next screen.



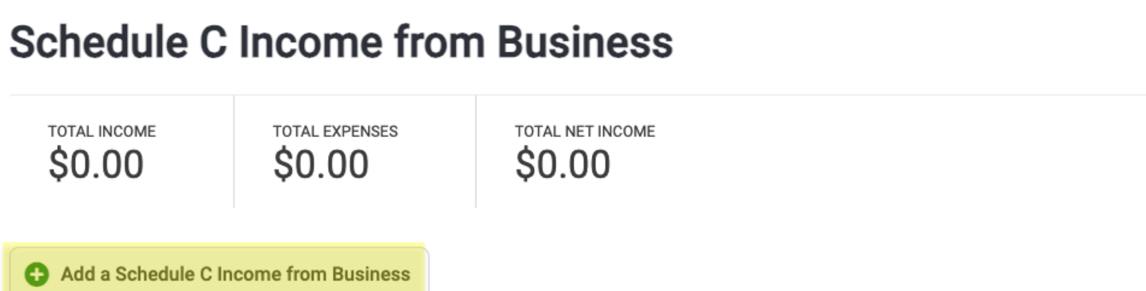
If you have another Casualty Loss to report, you can add it to your return here by selecting “Add a Casualty Property”. After reporting your Casualty Loss information, select **“Continue”** four times to return to the main “Deductions” screen. You can also use the left-hand navigation bar to select **“Federal”** and then **“Income”** to continue with the rest of your return.

Report a Business Loss on My Schedule C

On the main “Income” page, look for “Profit or Loss from Business, Reported on Schedule C”.



Select **BEGIN** on this line to bring up the next screen.

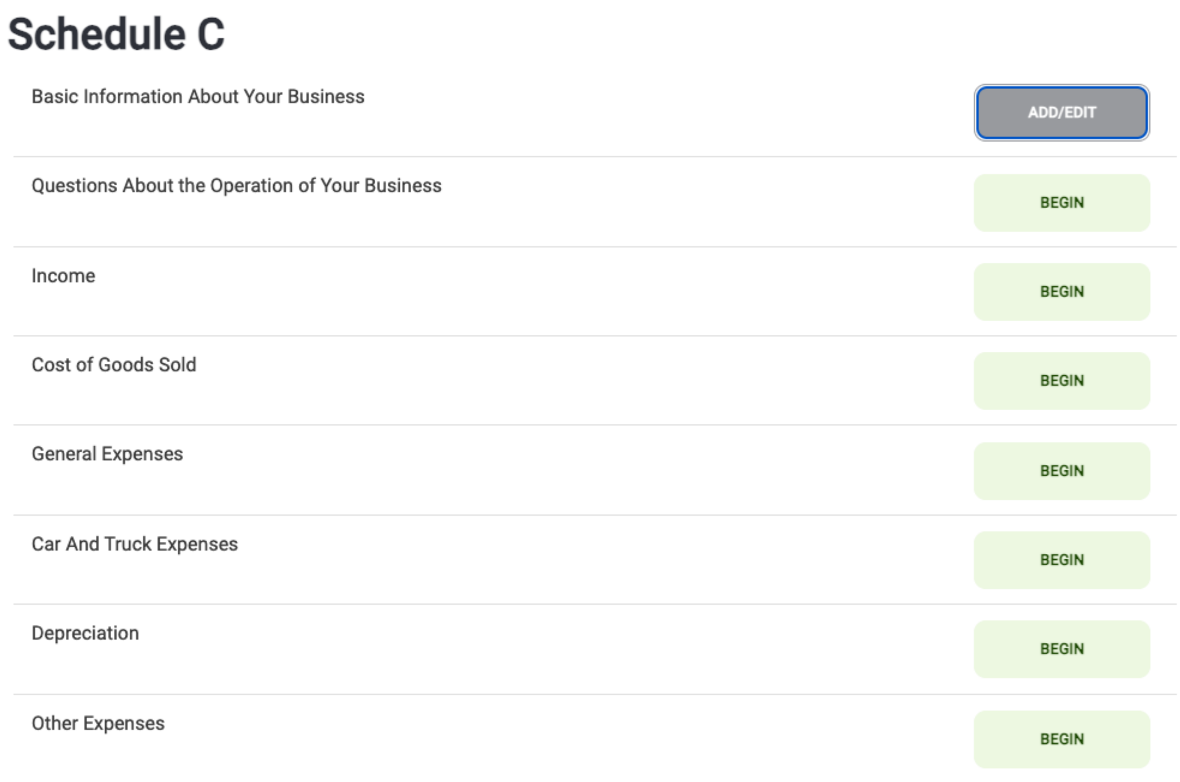


If you have not added your Schedule C yet, do so now by clicking on "Add a Schedule C Income from Business" or select "Edit" to edit one you have already added.

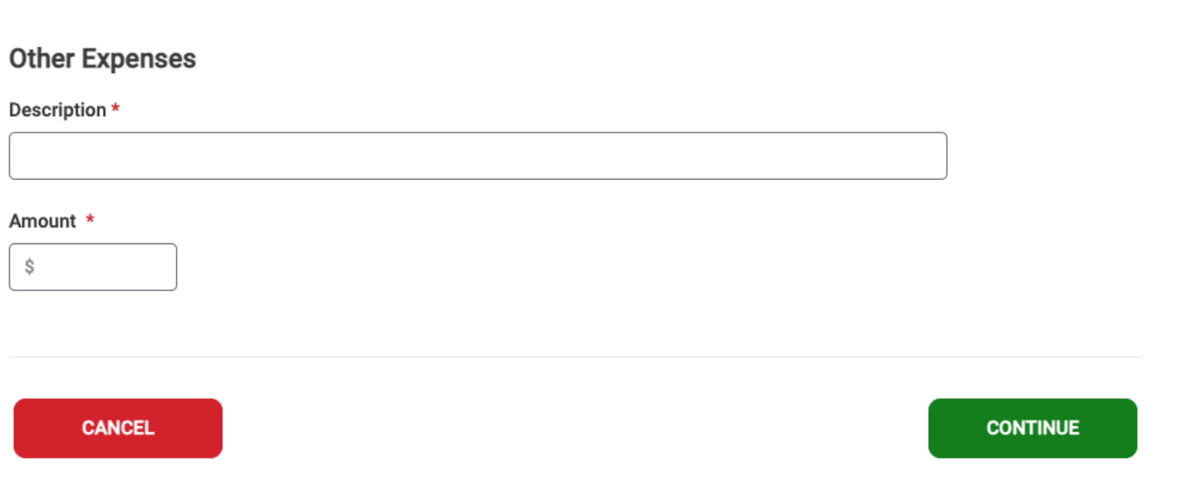
Please note that there is an important difference between reporting a net business loss in your net profit versus reporting a casualty loss from a disaster.

A net loss in your net profit or loss (line 7 on Schedule C) simply means your business expenses exceeded your business income for the year. This gets reported in the normal income and expense section.

A casualty loss from a federally declared disaster is a specific type of deduction that gets reported separately on line 27a (Other Expenses) of Schedule C, and must be calculated using Form 4684.



Look for "Other Expenses" then choose **BEGIN** on the corresponding line.



Enter a description of the disaster-related loss and its amount. Reduce the amount by any insurance proceeds you have received.

Here is an example of how to report a disaster-related casualty loss on Schedule C:

You own a retail store that was damaged by a hurricane in August 2022. Your store inventory worth $15,000 was destroyed.

Store equipment like shelves and registers were damaged, with a repair cost of $5,000. You had to close the store for 2 weeks, resulting in $10,000 of lost business income.

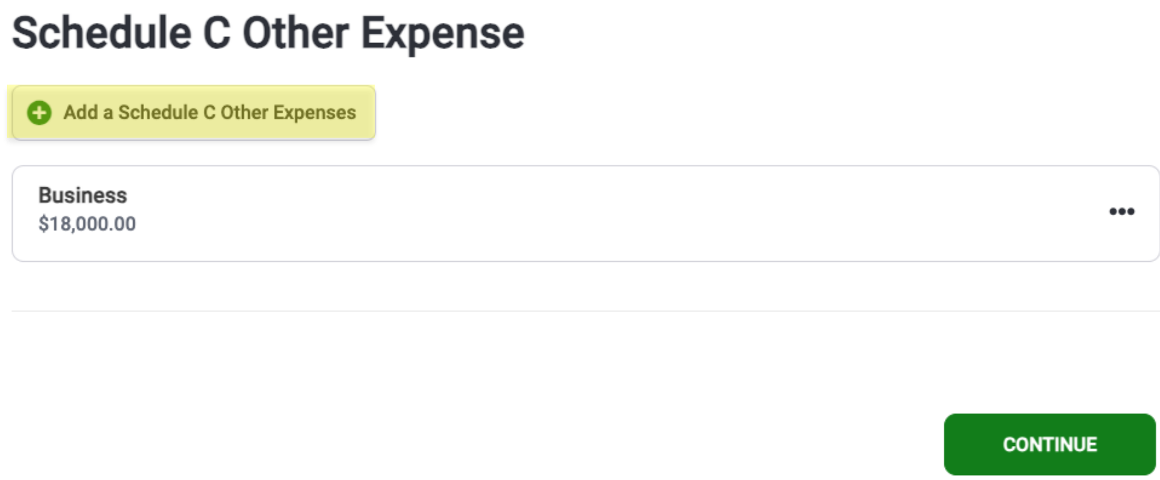
Your insurance company reimbursed you $12,000 total for your inventory and equipment damages.

You would complete Form 4684 to calculate your casualty loss deduction:

- Inventory loss: $15,000
- Equipment repair: $5,000
- Lost business income: $10,000
- Total loss: $30,000
- Insurance reimbursement: ($12,000)
- Deductible casualty loss amount: $18,000

On your Schedule C, you would report the $18,000 loss as an “Other Expense”.

After you enter your disaster-related loss, select **“Continue”** to move to the next screen.



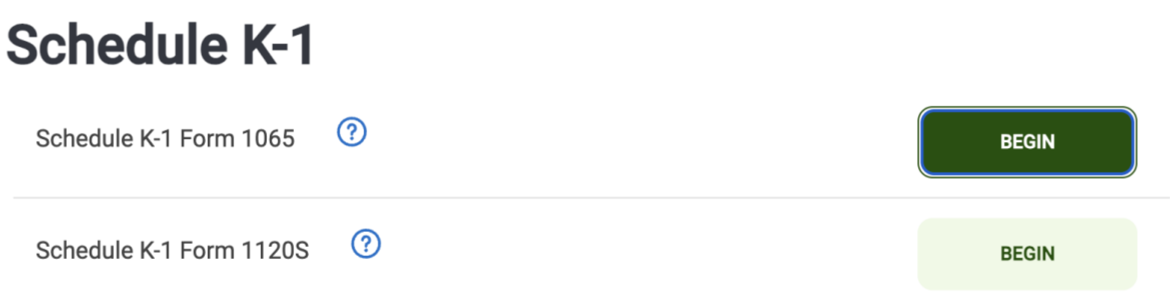
If you have another disaster-related expense to report, you can add it to your return here by selecting “Add a Schedule C Other Expenses”. Once you are done with reporting your other expenses, you can select **“Continue”**.

Reporting My Schedule K-1

The Schedule K-1 is the form used to report the amounts that are passed to each party that has an interest in an entity, such as a business partnership or an S corporation. The parties use the information on the K-1 to prepare their individual income tax returns.

Partnerships prepare a Schedule K-1 to report each partner’s share of the income, losses, tax deductions, and tax credits that the business reported on the 1065 tax form.

S corporations provide a Schedule K-1 that reports each shareholder’s share of income, losses, deductions, and credits that are reported to the IRS on Form 1120-S.



Reporting My Form 1065

For businesses that operate as partnerships, the partners are typically responsible for paying taxes on the business’ income, not the business. Each partner is responsible for filing a tax return reporting their share of income, losses, tax deductions and tax credits that the business reported on the informational 1065 tax form. As a result, the partnership must prepare a Schedule K-1 to report each partner's share of these tax items.

K-1s are provided to the IRS with the partnership's tax return and also to each partner so that they can add the information to their own tax returns.

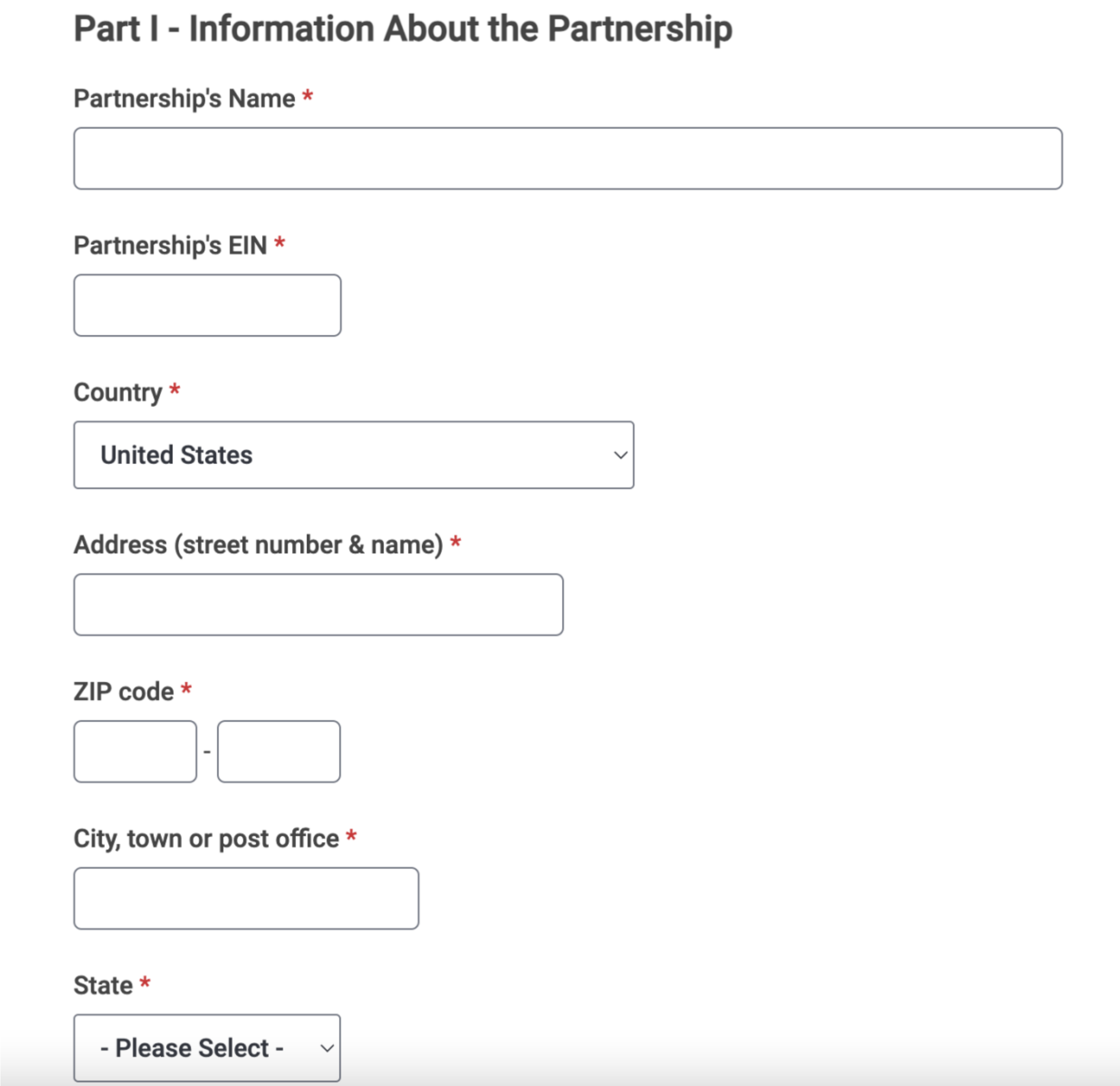
For example, if your business earns $100,000 of taxable income and has four equal partners, each partner should receive a K-1 with $25,000 of income on it.

Please note that if your partnership has experienced a disaster related loss, you must follow the below steps:

- Calculate the deductible casualty loss amount on Form 4684. This is the form for Casualty Deductions.
- Then, on Form 1065, enter the loss amount from Form 4684 "under Ordinary Income (Loss)".

Losses are claimed per partnership, not per partner. As a partner, you will see your share of the loss on your K-1.

To report this income, select **BEGIN** across from "Schedule K-1 Form 1065" to get started.



Part I - Information About the Partnership

Partnership's Name *

Partnership's EIN *

Country *

United States

Address (street number & name) *

ZIP code *

-

City, town or post office *

State *

- Please Select -

Enter the partnership's information in Part 1, then check off the box or boxes that apply to your partnership's situation.

Check the box if...

- [ ] This K-1 is from a passive entity.
- [ ] There is an amount on line 2 of the K-1 and this is a non-passive entity and you materially participate.
- [ ] There is an amount on line 2 of the K-1 and you actively participate.
- [x] All Investment is At-Risk
- [ ] Entire Interest in Investment has been disposed.
- [ ] Basis Computation is Required.
- [ ] K-1 is from a publicly traded partnership (PTP).

Part II - Information About the Partner

- [ ] Check here if the partnership is Foreign

Partnership Belongs To
Mary Smith

Nothing will have to be done for Part 2, since it’s automatically completed for you. Click **“Continue”** to advance to Part 3, where you’ll report the partner's share of the partnership's financial activity for the tax year. This includes income, deductions, and credits.

Part III - Partner's Share of Current Year Income, Deductions, Credits, etc.

Actively Managed Passive Loss Carryover

$

Disposition Gain/Loss

$

Other Passive Loss Carryover

$

Carry Gain/Loss to

Form 4797

1 Ordinary Business Income (Loss)

$

2 Net Rental Real Estate Income (Loss)

$

3 Other Net Rental Income (Loss)

$

4a Guaranteed payments for services

$

4b Guaranteed payments for capital

$

9a Net Long-Term Capital Gain (Loss)

$

9b Collectibles (28%) Gain (Loss)

$

9c Unrecaptured section 1250 Gain

$

10 Net Section 1231 Gain (Loss)

$

☐ Check if the Section 1231 Gain (Loss) is Passive

5 Interest Income

$

6a Ordinary Dividends

$

6b Qualified Dividends

$

6c Dividend Equivalents

$

7 Royalties

$

8 Net Short-Term Capital Gain (Loss)

$

11f Section 743(b) positive income adjustments

$

12 Section 179 Deduction

$

Box 1 to Box 10 Net Section 1231 Gain (Loss): Report the amounts as reported to you.

Check if the Section 1231 Gain (Loss) is Passive: Checking this box will affect how the gain or loss from Box 10 is reported.

Generally, this income is passive if it is from a rental activity or if you did not materially participate in the business activity or trade. If this is passive income, please check this field. If you did materially participate do not check this box.

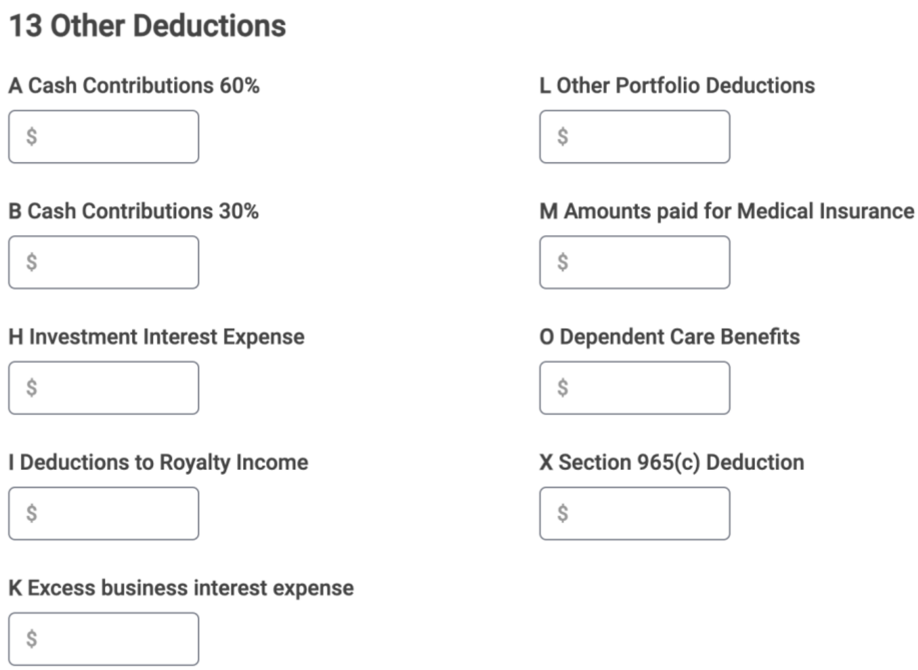
Please be aware that if the Publicly Traded Partnership (PTP) box is checked on Line D of Part I of the Schedule K-1 (should be already noted in the Entity section of this Schedule K-1 entry), a net passive loss from a publicly traded partnership will not be deducted from other passive income on the 1040 and this amount will not carry to Form 4797 or Form 8582.

Instead, this passive loss from a publicly traded partnership is suspended and has to be carried forward to be applied against passive income from the same publicly traded partnership within the Entity Information section in future years.

Box 11: This box has several codes reported with some not directly reported within the Schedule K-1 entry. Please review this article for details on Box 11 Schedule K-1 1065.

Box 12 Section 179 Deduction: The IRS does limit Section 179 deductions and the program does not calculate these limitations. You should only enter the amount of section 179 expenses for this partnership that are within the limitation amount.

To determine the amount to be entered in this field, Form 4562 must be completed. Specifically, the amounts reported in Box 12 are used, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of Form 4562. You can use this IRS Form 4562 and instructions to determine this limited Section 179 amount.



Box 13 has many codes, not all of which are direct entries or supported by the TaxSlayer program. Enter the amount reported to you on your form, as it will automatically pull this information to your Schedule A. Below are the Box 13 codes for which the program currently contains direct entries:

Code A, Cash Contributions 60%: Enter the amount reported to you on your Box 13 Code A; this amount will automatically pull to Schedule A, subject to the 60% AGI limitation on such contributions.

Code B, Cash Contributions 30%: Report the amount as it is reported to you on your Box 13 Code B This amount will automatically pull to Schedule A (Form 1040), subject to the 30% AGI limitation on such contributions.

Any contributions reported in Box 13, Codes A and B may affect the Qualified Business Income (Loss) coming from the partnership. If you have Itemized Deductions on Schedule A, the entire amount of the Charitable Gifts claimed on the Schedule A that were from the partnership, will reduce the QBI coming from that partnership.

The charitable contributions entered in the tax program on the following Line 13, Codes A and B that are allowed contribution on Schedule A - Itemized Deductions will carry to the Schedule A and will automatically reduce the Qualified Business Income from that partnership. Therefore, this will affect any allowable Qualified Business Income Deduction appropriately.

Code H, Investment interest expense to Code X, Section 965(c) deduction: Report the amounts as reported to you.

After this information is entered into the program, advance to Box 14.

14 Self Employment Earnings (Loss)

A Net Earnings Loss from Self Employment
*The amount entered here will automatically be reduced by any Section 179 expense listed in box 12.

$

B Gross Farm Income

$

C Gross Non-Farm Income

$

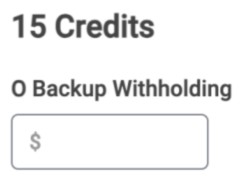
Code A, Net Earnings or Loss from Self Employment Income: If there is a positive amount reported to you in this box, please report the amount as it is reported to you. This will be reduced appropriately by the program by any section 179 deduction you previously reported. If there is a loss reported to you, please report the deductible amount as a negative in this field. You can review the loss limitations here.

Code B, Gross Farm Income (or Fishing): Report the amount of income as it is reported to you in Box 14 Code B of your form. This income will pull to the Schedule E automatically. However, if you elect to use the optional farm method to calculate self-employment tax, you will need to make a manual entry under the Federal Section > Other Taxes > Self-Employment Tax (Schedule SE). You can review this optional farm method information in these Schedule SE instructions.

Code C, Gross Non-Farm Income: Report the amount as it is reported to you in Box 14 Code C. This amount will be included in the self-employment income total and used to calculate self-employment tax appropriately. If you wish to elect to use the optional non-farm method, you will need to make a manual entry under the Federal Section > Other Taxes > Self-Employment Tax (Schedule SE). You can review this optional non-farm method information in these Schedule SE instructions.

Please be aware that the program does not allow for direct entries for all Box 14-20 information.

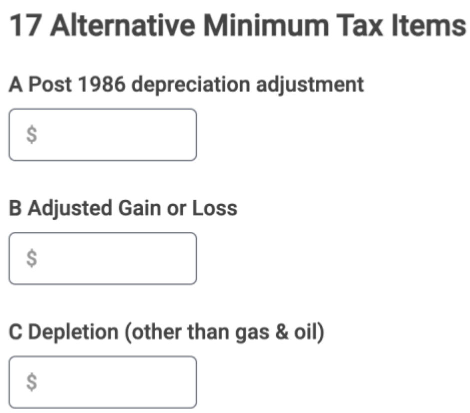
After reporting this information, move on to Box 15.

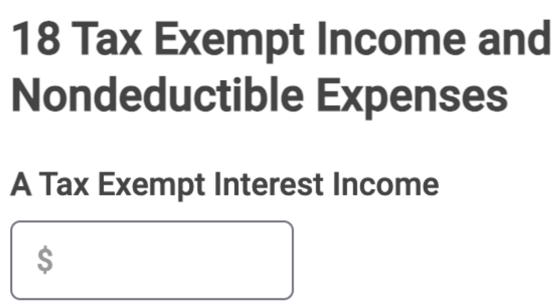


Code O, Backup Withholding: Report the amount as it is reported to you in Box 15 Code O. This is a taxpayer's share of the Credit for Backup Withholdings on dividends, interest, and other types of income. It will pull to the 1040 form appropriately with a statement for the partnership and entity information.

There are other Box 15 Codes the program does not currently support for direct entries in this section. If you have another Box 15 Code, please review these Partnership instructions and you can contact the program's customer support for further information regarding that specific credit.

From here, we will go over how to report information in Boxes 16-19.





Box 16 Foreign Transactions: These transactions cannot be directly reported within the tax program. The amounts may affect any Foreign Tax Credit Form 1116 entries you make in the Federal Section > Deductions > Credits > Foreign Tax Credit Form 1116 section, but please review these Partnership Instructions and Foreign Tax Credit Form 1116 Instructions prior to making entries for that credit.

Box 17 has several codes that may require information.

Code A, Post 1986 depreciation adjustment: Report this amount as it is reported to you on your form Box 17 Code A. This amount will pull to the depreciation Form 6251 appropriately.

Code B, Adjusted Gain or Loss: Report the amount as it is reported to you with Box 17 Code B. This adjusted gain or loss will appropriately pull to the depreciation Form 6251.

Code C, Depletion (other than gain and oil): Report the amount as it is reported to you so that this depletion adjustment will be reported on the Form 6251.

Other Box 17 codes are not currently supported as direct entries in the program at this time.

Box 18 also has several codes that may require information.

Code A, Tax Exempt Interest Income: Report the amount of tax-exempt interest as it is reported to you in Code A. This will accurately pull to the 1040 Line 2a.

Code B, Other Tax-exempt Income: Amounts reported as Code B will increase your basis of interest in the partnership. However, this amount will not be included as income on your tax return. You can find additional information about how to adjust your basis on the attached statement from the partnership. Included in this information is a description of the income as well as any exemption reasons under section 892.

Code C, Nondeductible expenses: Amounts reported as Code C are not considered deductible as these are expenses paid or incurred by the partnership. You will use this amount to adjust your basis of interest in the partnership.

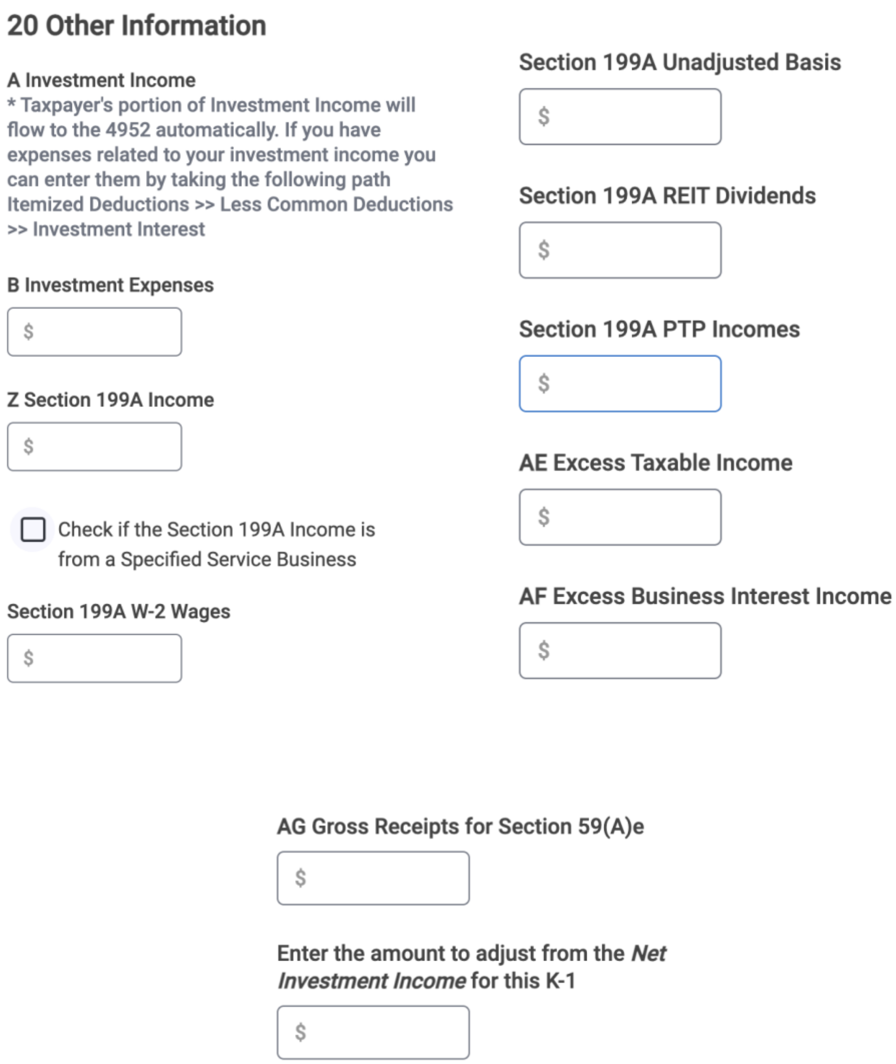
Like Boxes 17 and 18, Box 19 may require entries in one or more codes. However, these codes are not able to be reported directly within the program because these codes generally are not reported on your return, but affect your overall basis in the partnership. They are provided here for your information.

Code A, Cash & Marketable Securities: This is the cash and marketable securities distributed to the taxpayer by the partnership. These items reduce the basis that the taxpayer has in the partnership so please be sure you adjust your basis appropriately in your records.

Code B, Distributions subject to section 737: This is the amount of section 737 property which is property that was contributed to the partnership by another partner. This should adjust your basis in the partnership for your records. In addition to a basis reduction there may be a requirement to recognize a gain on any distribution of property designated as section 737 property. Please see the partner's instructions provided by the partnership or contact the issuer directly for further information on the treatment of this distribution.

Code C, Other Property: This amount includes any property distributed to the taxpayer that is not cash, marketable securities, or property that was contributed to the partnership by another partner. These items reduce the basis that the taxpayer has in the partnership and are not reported on the tax return directly. See the partner's instructions provided by the partnership for further information on the type of property distributed and the treatment of this distribution.

Once you have completed the entries allowed by the program, you can move on to the final section of your form 1065, Box 20. Please note that not all entries on your form are supported by this program.



20 Other Information

A Investment Income
* Taxpayer's portion of Investment Income will flow to the 4952 automatically. If you have expenses related to your investment income you can enter them by taking the following path Itemized Deductions >> Less Common Deductions >> Investment Interest

B Investment Expenses
$

Z Section 199A Income
$

Check if the Section 199A Income is from a Specified Service Business

Section 199A W-2 Wages
$

Section 199A Unadjusted Basis
$

Section 199A REIT Dividends
$

Section 199A PTP Incomes
$

AE Excess Taxable Income
$

AF Excess Business Interest Income
$

AG Gross Receipts for Section 59(A)e
$

Enter the amount to adjust from the *Net Investment Income* for this K-1
$

Line 20 A, Investment Income: This amount is the taxpayer's share of investment income (interest, dividends, etc.) from the partnership. This income should have been reported elsewhere on this K-1 in the Income items. The amount in Box 20, code A is provided for informational reasons only and will not pull to any other form which is why the program does not include the field entry.

Line 20 B, Investment Expense: Report the amount as it is reported to you in Box 20 code B. Please be aware that if you have investment expenses to claim, you should report them under the Federal Section, Deductions, Itemized Deductions, Less Common Deductions, Investment Interest.

Line 20 Z, Section 199A Information: Amounts reported in Box 20, Code Z is the information needed by a partner/taxpayer to claim the Qualified Business Income Deduction. The information reported may consist of some or all of the following items.

Section 199A W-2 Wages: These are the wages paid by the partnership that were reported to the Social Security Administration on a W-2. The amount entered as W-2 Wages does not carry to Form 8995 - Qualified Business Income Deduction Simplified Computation because W-2 Wages are not used to calculate the QBID for taxpayers that are permitted to use Form 8995 because the taxpayer's income is below certain thresholds. This amount will automatically pull to Form 8995-A - Qualified Business Income Deduction under the Tax Computation Menu and is used in the calculation of the QBID for taxpayers above the taxable income thresholds.

Section 199A Unadjusted Basis: This is the unadjusted basis of qualified property held by the partnership. Qualified property is generally defined as the original cost of assets that were placed in service by the partnership in the past ten years and still used by the partnership and the original cost of assets still being depreciated by the partnership because the recovery period is greater than ten years. The amount entered as an unadjusted basis of Qualified Property does not carry to Form 8995 - Qualified Business Income Deduction Simplified Computation because it is not used on that worksheet to calculate the QBID for taxpayers that are permitted to use Form 8995. This amount will automatically pull to Form 8995-A - Qualified Business Income Deduction under the Tax Computation Menu and is used in the calculation of the QBID for taxpayers above the taxable income thresholds.

Section 199A REIT dividends: This is the REIT dividends received by the partnership. This amount will automatically pull to the applicable QBID form under the Tax Computation Menu and is used in the calculation of the QBID.

Section 199A PTP income: This is the Publicly Traded Partnership income reported by the partnership. This amount will automatically pull to the applicable QBID form under the Tax Computation Menu and is used in the calculation of the QBID.

Line 20 AE, Excess taxable income: Amounts reported in Box 20, Code AE is the excess taxable income determined by the partnership for the purpose of the limitation placed on the partnership's ability to deduct business interest.

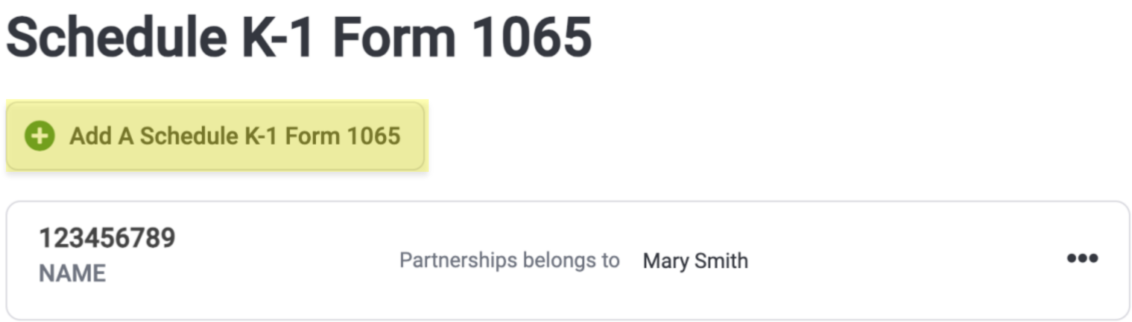
Line 20 AF, Excess business interest: Amounts reported in Box 20, Code AF represent the business interest that was subject to a business interest limitation at the partnership level.

Line 20 AG, Gross Receipts for Section 59(A)e: The amount shown represents the partner's distributive share of the partnership's current year gross receipts. See here for more information about what this number is for.

Line 20 AH, Other Information: Box 20, Code AH are other items of information not found elsewhere on the Schedule K-1 (Form 1065) Partner's Share of Income, Deductions, Credits, etc. The taxpayer should receive instructions from the partnership needed to address the items contained in this box.

Enter the amount to adjust from the Net Investment Income for this K-1: Use this field to make any adjustments necessary to the net investment income previously reported on this K-1. See these Form 8960 Instructions for further information.

After entering this information, select **"Continue"** to move to the next screen.



If you have another Form 1065, you can add it to your return by selecting "Add A Schedule K-1 Form 1065". Once you are done with reporting your 1065 information, you can select **"Continue"** to return to the K-1 screen.

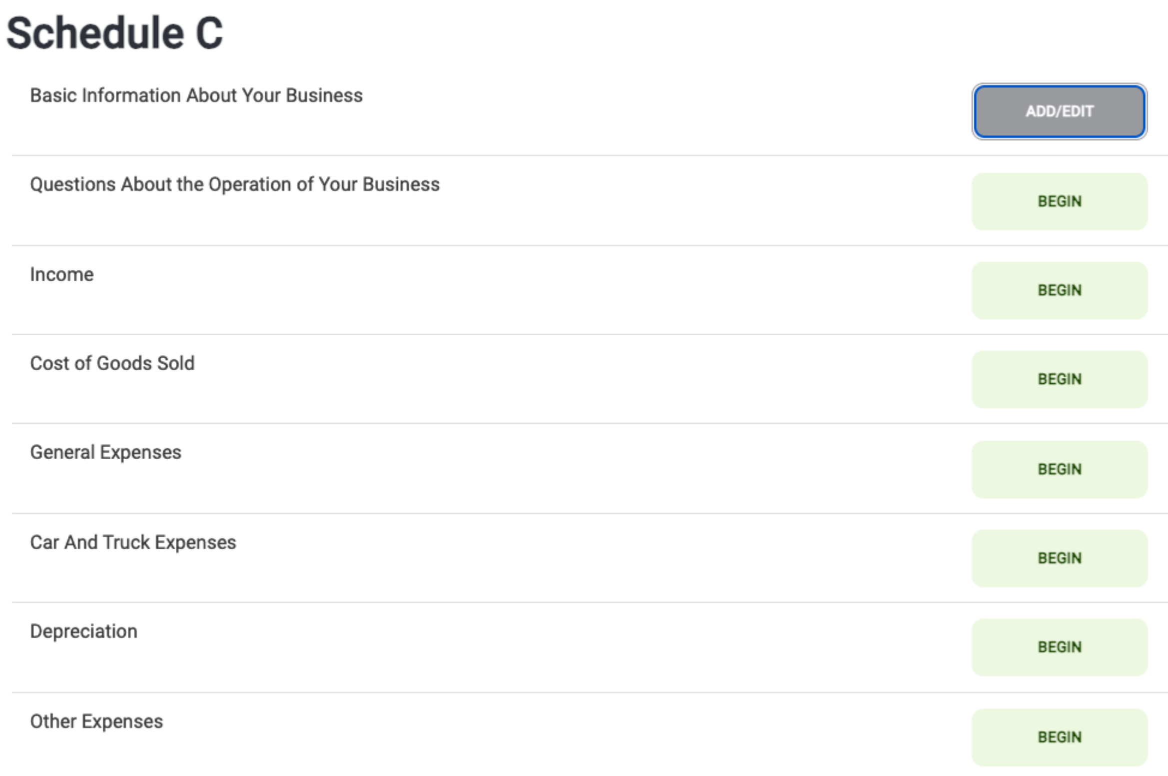
If you are finished reporting your income information, select "**Continue"** twice more to return to the "Income" page and advance to the SECTION NAME. If you need to report a K-1 for an S Corporation, read on.

Reporting an EIDL Interest Deduction

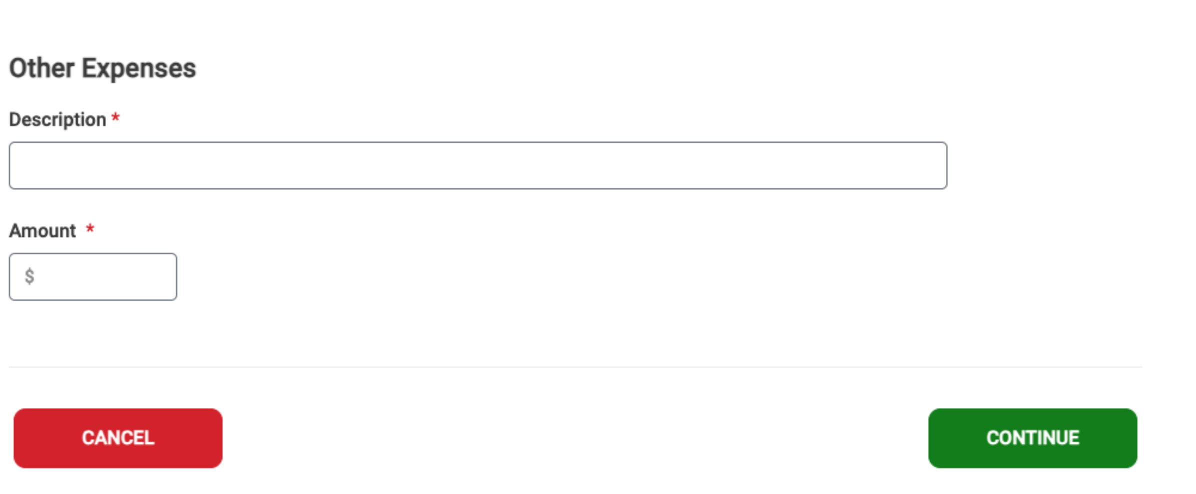
If you received an EIDL while the EIDL is not directly reported or deducted on your Schedule C, the interest paid on the EIDL can be deducted.

The Small Business Administration may have sent you a Form 1099-INT as a record of how much interest you have paid on the disaster loan. This is the amount that you can report on your Schedule C as an "Other Expense".

Begin at the main "Schedule C" page.

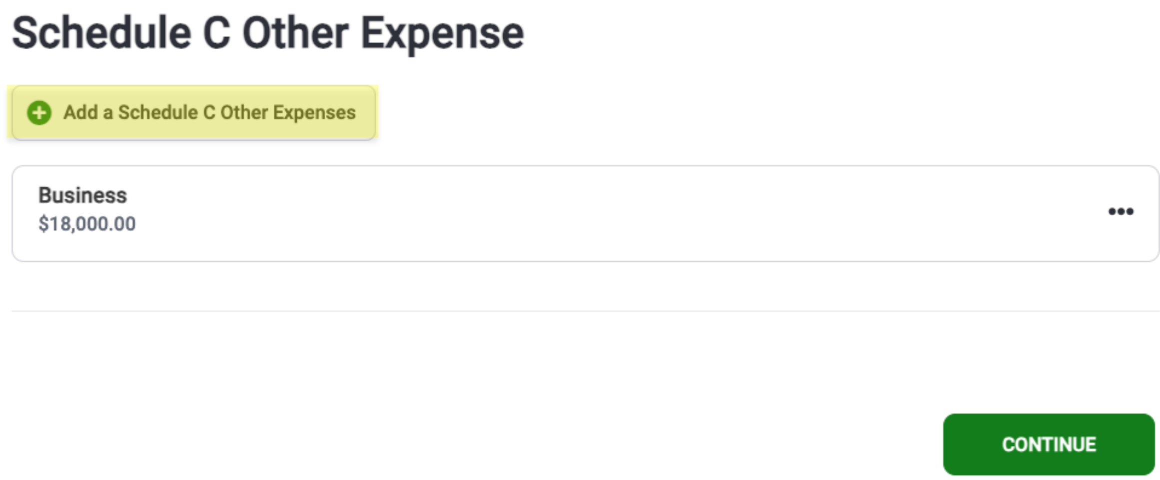


Look for “Other Expenses” then choose **BEGIN** on the corresponding line.



Enter a description of the expense, such as “EIDL Interest Payments” and the amount.

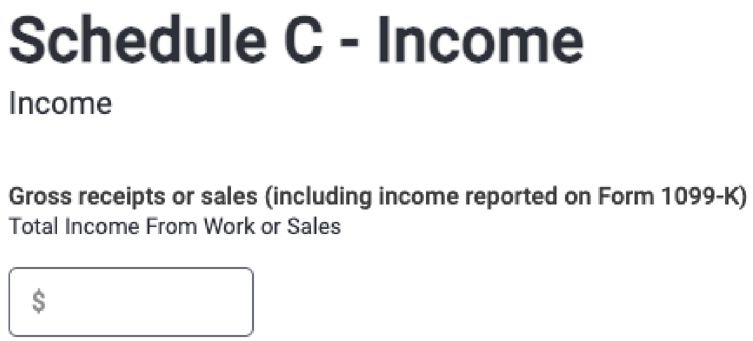
After you enter your disaster-related loss, select **“Continue”** to move to the next screen.



If you have another disaster-related expense to report, you can add it to your return here by selecting “Add a Schedule C Other Expenses”. After reporting your other expenses, select **“Continue”**.

Reporting Grants and Subsidies

Taxable subsidies, like certain state or local grants, are reported as income on Schedule C, line 1. “Gross receipts or sales”.

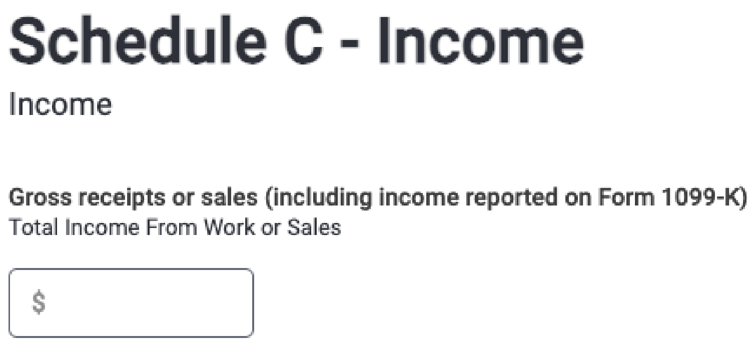


If you received an applicable grant or subsidy, report in this box. Once you are done, select **“Continue”** to move to the next screen.

Reporting Received In-Kind Donations

If your business received an in-kind donation after experiencing a disaster, you will need to report it on your Schedule C. There are two ways for you to do this.

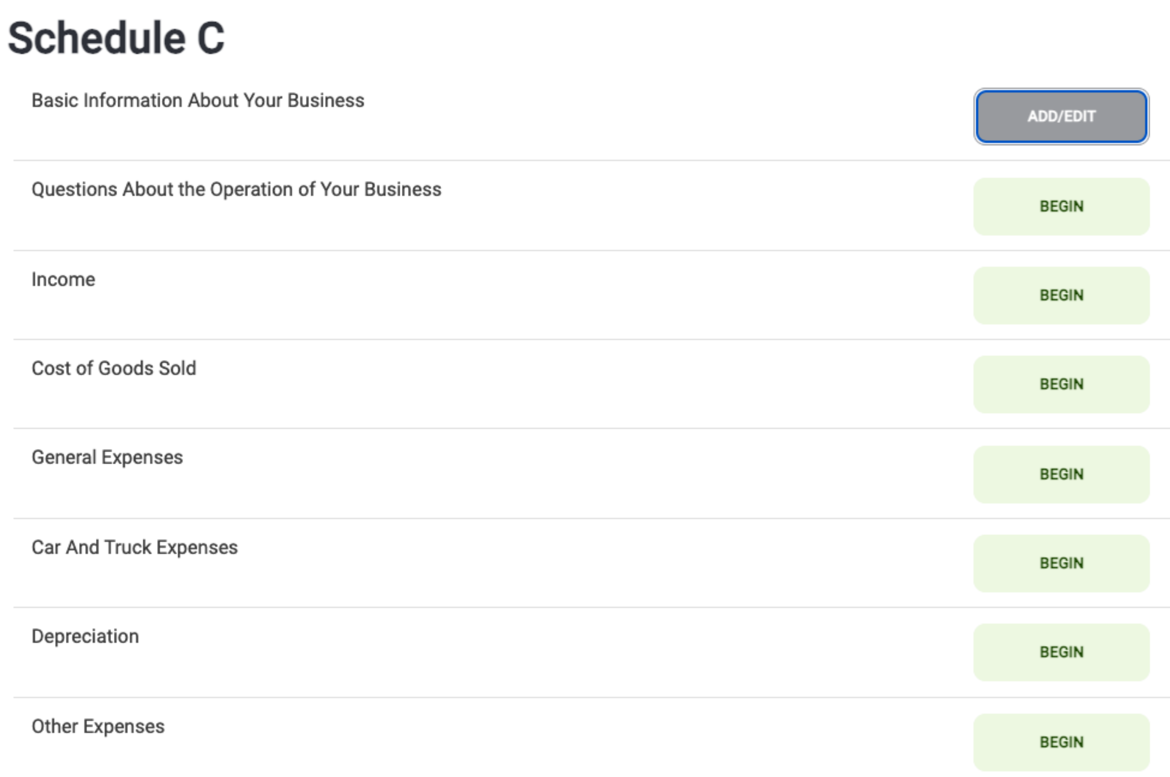
First, you need to report the fair market value of the donation(s) on your Schedule C. You would report this in Box 1 as a gross receipt like you would any other regular income.



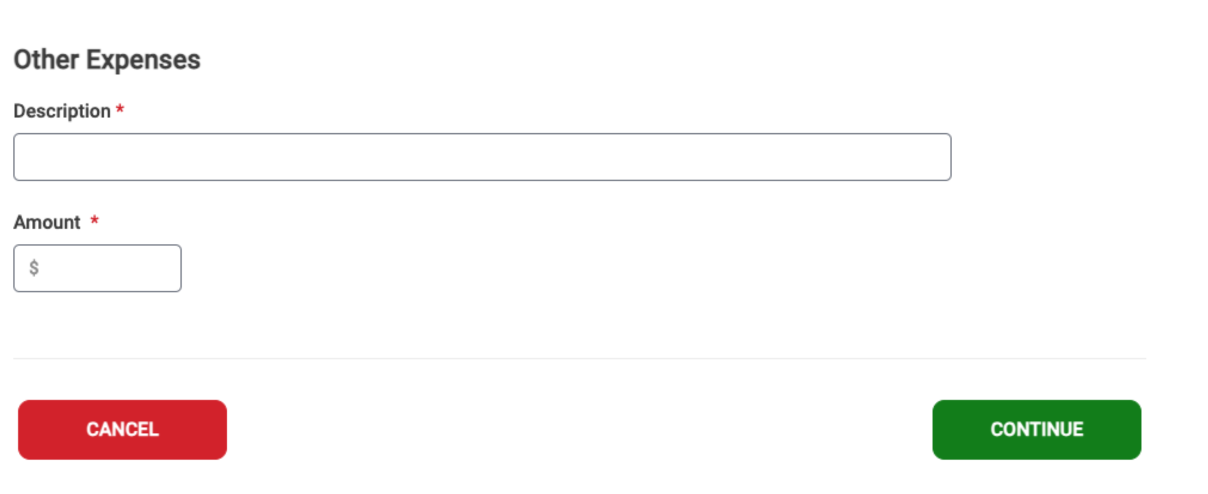
You will also want to report the value of the donations on Schedule C, line 13 as other business expenses. You would want to do this for two reasons.

1. To offset the income: By reporting the donations as income, it increases your gross receipts amount. But since it was a gift and not actual earned income, you want to offset this increase by also recording the value as an expense. This way it ultimately doesn't increase your taxable profit.
2. Consistency in valuation: By recording the donation's fair market value as both income and expense, it creates consistency in how the donation is valued on your books.

Begin at the main “Schedule C” page.

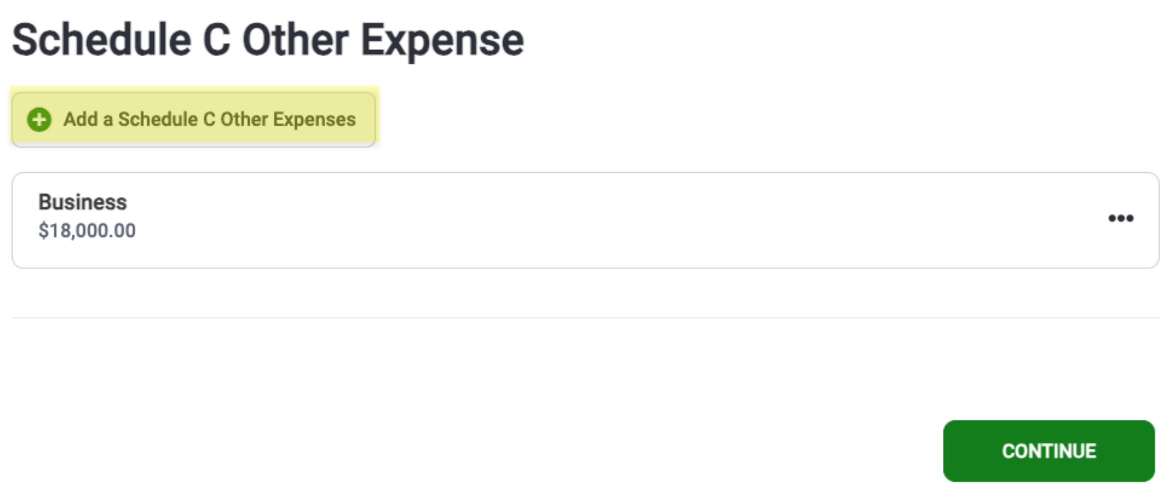


Look for “Other Expenses” then choose **BEGIN** on the corresponding line.



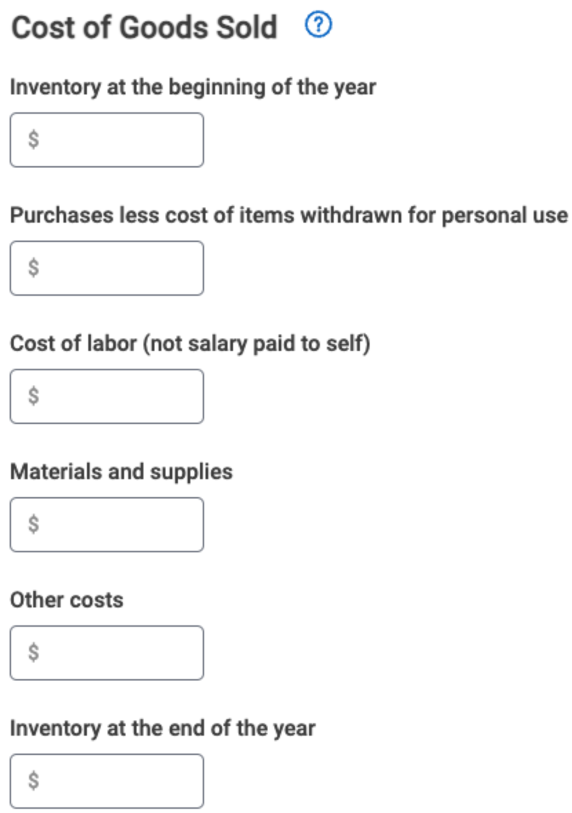
From here, enter a description of the expense, such as “donated supplies” and then enter the value.

After you enter your in-kind donation value, select **“Continue”** to move to the next screen.



If you have any other in-kind donations to offset, add it to your return here by selecting “Add a Schedule C Other Expenses”. Once you are done with reporting your other in-kind donations, select **“Continue”**.

The other option available to you is, if the items donated are inventory items that will be resold, you could report it under cost of goods sold:


Cost of Goods Sold

Inventory at the beginning of the year

$

Purchases less cost of items withdrawn for personal use

$

Cost of labor (not salary paid to self)

$

Materials and supplies

$

Other costs

$

Inventory at the end of the year

$

Report the fair market value of the donated inventory under “Inventory at the beginning of the year” as your opening inventory.

When you sell the donated inventory to customers, include the amount from opening inventory for those items as COGS under “Purchases less cost of items withdrawn for personal use”.

Lastly, remove the remaining unsold donated inventory items from your ending inventory valuation under “Inventory at the end of the year”.

Here is an example of how a business could report donated inventory as costs of goods sold (COGS) on Schedule C:

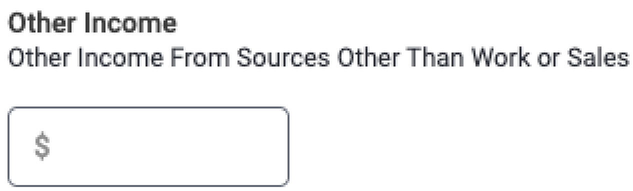
- ABC Company is a retail store that suffered inventory loss from a fire in 2022.
- Another retailer donates $10,000 worth of new clothing inventory to ABC Company to help them rebuild.
- On ABC Company's 2022 Schedule C, they would report the $10,000 fair market value of the donated clothing under “Inventory at the beginning of the year” as part of their opening inventory.
- Throughout 2022, ABC Company sells $7,000 of the donated clothing inventory.

- On their 2022 Schedule C, ABC Company would include that $7,000 as COGS under "Purchases less cost of items withdrawn for personal use".
- The remaining $3,000 of unsold donated inventory would be backed out of ABC Company's ending inventory valuation under "Inventory at the end of the year".

Once done, hit **"Continue"** to return to the main "Schedule C" page.

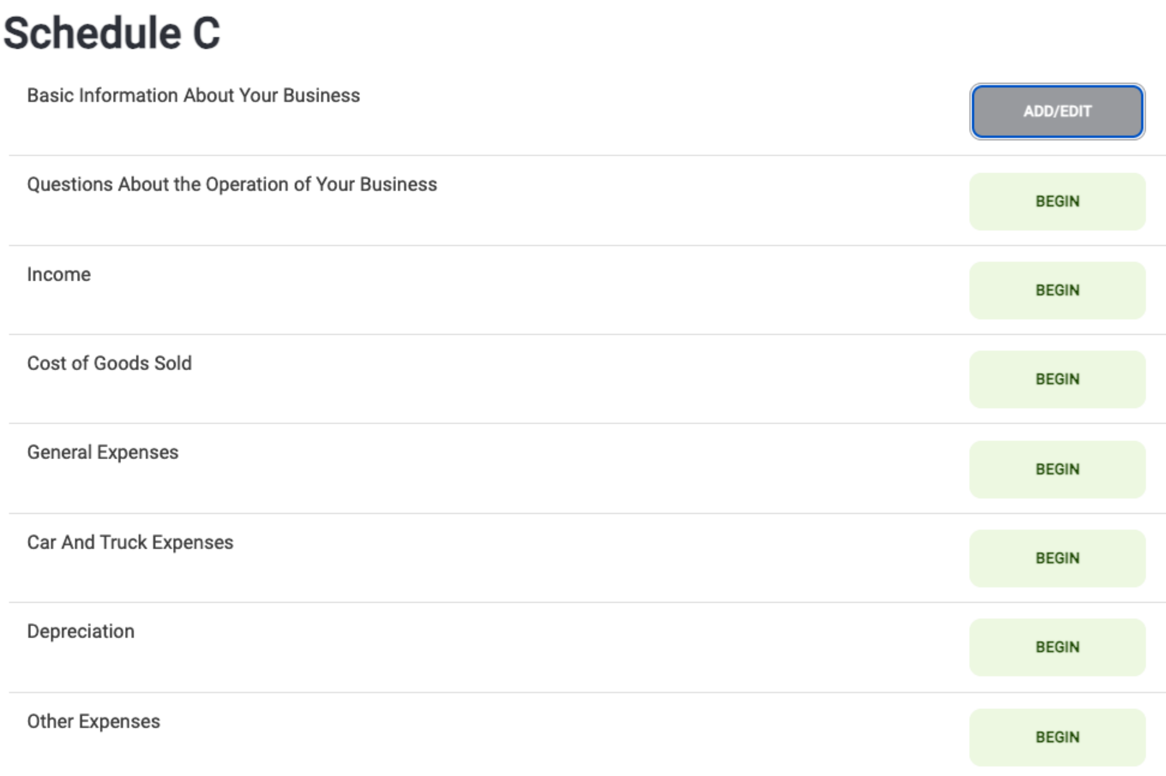
Reporting an Insurance Loss Deduction

First, report any insurance proceeds you received on your Schedule C as "Other income". This includes payments received from your insurance company to cover losses.

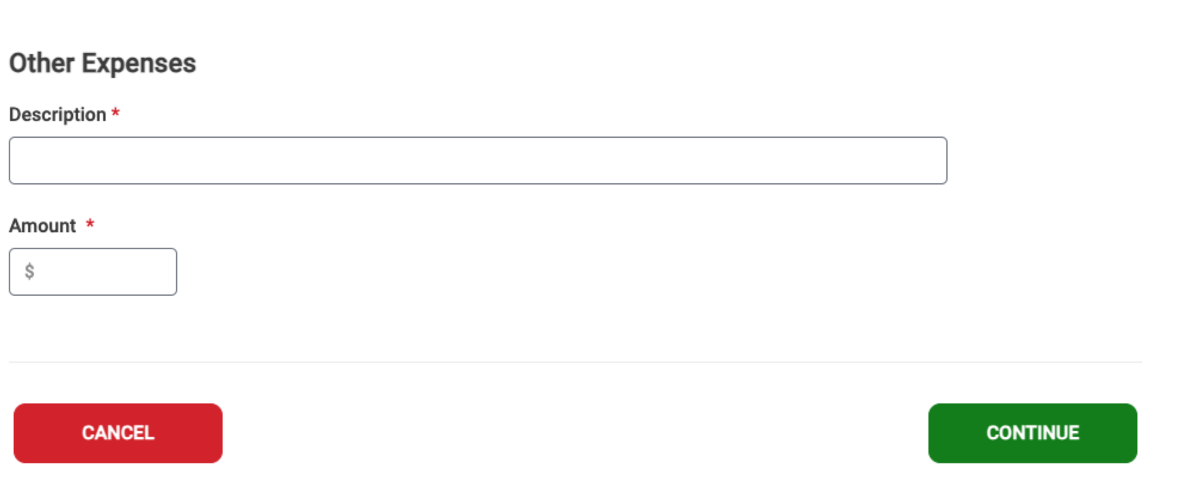


Then, you can claim the related business loss as an expense under "Other Expenses".

Begin at the main "Schedule C" page.



Look for "Other Expenses" then choose **BEGIN** on the corresponding line.



Enter a description of the expense, such as "Fire damage to business inventory" or "Flood damage to office equipment", then enter the value or amount. The expense amount should be the full loss sustained, before any insurance reimbursement.

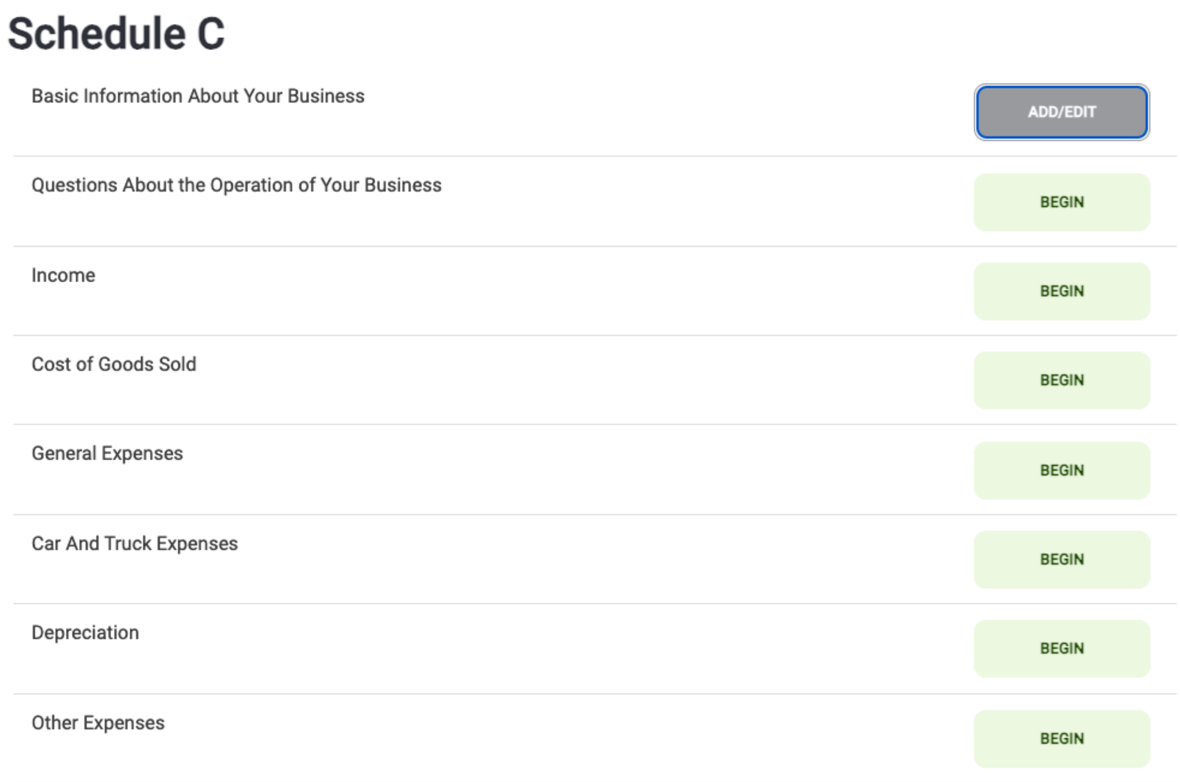
If you have any other insurance loss deduction, you can add it to your return here by selecting "Add a Schedule C Other Expenses". Once you are done with reporting your loss deductions, you can select **"Continue".**

Reporting an Insurance Deduction

Business interruption insurance provides coverage for lost income if your business is forced to temporarily close or reduce operations due to an event like a natural disaster.

In addition to business interruption insurance, your regular premiums are deductible as an ordinary and necessary business expense. You can report your business interruption insurance with your regular insurance expenses, however, any business interruption insurance proceeds you receive would be reported as taxable income on your Schedule C under “Other income”.

To report an insurance premium deductible, begin at the main “Schedule C” page.



Look for “General Expenses” then choose **BEGIN** on the corresponding line.

Schedule C - Expenses

Advertising

$

Contract Labor

$

Commission and fees

$

Depletion

$

Employee benefit programs

$

Health Insurance
(will carry automatically to worksheet)

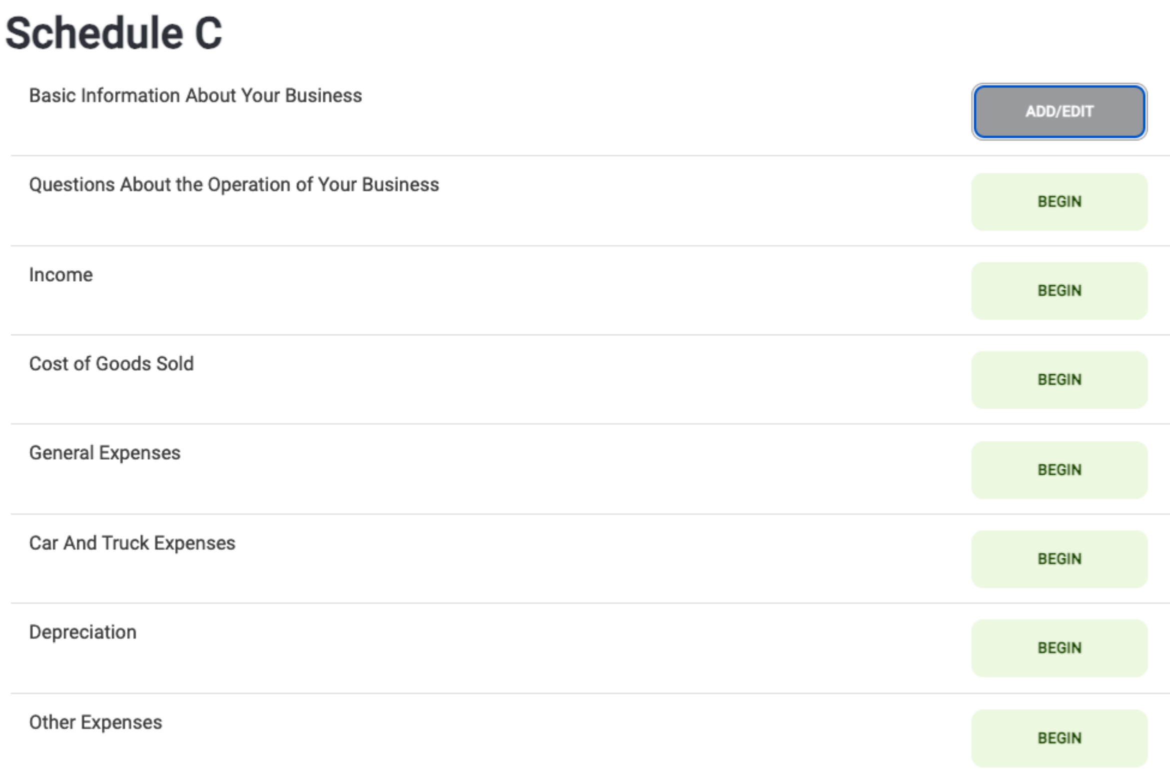
$

Insurance
(other than health)

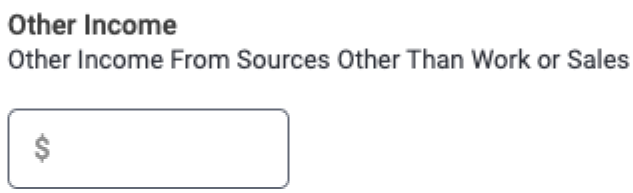
$

Under the "Insurance (other than health)" box, enter the amount you have paid for your insurance premium(s). Select "Continue" to return to the main "Schedule C" page.

If you need to report business interruption insurance proceeds on your Schedule C, begin at the main "Schedule C" page.



Look for “Income” then choose **BEGIN** on the corresponding line.



From here, you will go to "Other Income” and enter the amount of the proceeds you have received.

Once you are done with reporting your business interruption insurance, regular insurance premiums, and/or proceeds, you can select **“Continue”.**

If you have other information related to your regular filing, you may proceed with that a t this time.

Once you have entered all your relevant business information, **congratulations!** You can now complete the rest of the screens to finish and submit your tax return.

Conclusion

Coping with a disaster often means navigating challenging tax situations. From insurance proceeds to property damage deductions, the tax implications can be complex. By understanding the available options, both individuals and businesses can navigate the aftermath more effectively.

Accessing tax relief provisions, claiming eligible disaster-related losses, and taking advantage of available federal assistance, can ease the recovery process and set you on the path to restoring financial and emotional wellbeing.

Remember, staying updated on tax policies and seeking additional expert advice when needed can be key in making the most of the available relief programs.

Appendix A: FEMA Assistance

In addition to the resources and assistance already discussed in this guide, FEMA also provides lesser-known forms of assistance, including:

Transitional Sheltering Assistance: Direct payment to lodging providers for hotel rooms for disaster survivors who cannot return home right away.

Disaster Legal Services: Free legal help for disaster survivors with legal issues like dealing with insurance claims, replacing documents, transfers of titles, etc.

Disaster Supplemental Nutrition Assistance: Provides extra monthly food benefits to families suffering in the aftermath of a disaster.

Crisis Counseling Assistance: Funding to state/local governments to provide crisis counseling to help survivors recover from trauma.

Disaster Unemployment Assistance: Unemployment benefits to those who lost their jobs due to a disaster but don't qualify for regular unemployment.

Emergency Prescription Assistance: One-time fill of medicine for survivors with immediate medical needs who lack insurance coverage and cannot pay.

Disaster Case Management: Case managers work closely with survivors on their recovery plan, find needed resources, and provide guidance.

Disaster Survivor Assistance Teams: These teams go door-to-door in affected areas after a disaster to inform survivors of available services and assistance.

Mass Care and Emergency Assistance: Supports emergency shelters, feeding programs, distribution of emergency supplies after a disaster.

Appendix B: Record-Keeping Practices

Whether you are only one person or have a company of hundreds, maintaining accurate records is extremely important. A complete record-keeping system can help you to easily access your documents when needed and alleviate any fears of misplacing them.

For example, having well-organized business records allow you to quickly provide requested documents (like proof of expenses for relief funding, or past profit and loss statements for loans) to the government or lenders.

What types of records should I keep?

Whether it is for personal purposes or business-related, there are key records that you should maintain. For example, all businesses should keep their state and federal tax returns, including all supporting and backup documentation. Suggested records to keep include:

For Personal:

- Keep records that support income, deductions, credits, and payments on your tax return. Include forms W-2, 1099s, receipts, statements, etc.
- Track medical expenses, charitable donations, home improvements, moving expenses, childcare costs and other deductible items.
- Hold on to records for major purchases, home improvements and investments until they are sold or disposed of.
- Keep all records pertaining to retirement accounts like 401ks and IRAs.
- Retain mortgage statements, closing paperwork, and property tax records for real estate holdings.

For Business:

- Carefully track income, expenses, assets, deductions, payroll, invoices, receipts, and credits.
- Maintain records for depreciable assets until final disposition showing original cost, date placed in service, depreciation method, and accumulated depreciation.
- Keep documentation on employee payroll and benefits, contracts, insurance, and operating expenses.
- Hold records that support tax deductions as these may be questioned if audited.
- Retain receipts and proofs of payment, signed contracts, inventory lists, sales records, etc.

How long should I keep my records?

You should keep most records for at least three years. Depending on the type of record, you may need to hold onto it for longer. We recommend keeping all tax records for as many as seven years, just in case, especially for instances where you claim on your taxes for a loss.

Accounting documents, including invoices and checks, should be kept for five years. Payroll records and print time cards (if applicable) should be held for between three to seven years. For nonprofits or corporations that complete audit reports, plan to keep those records indefinitely. Annual statements should remain in your records indefinitely as well.

How should I store my records?

Digital records

The perks of maintaining digital records are that they don't take up space to store and there are many free or low-cost options that are simple to use. Setting up your digital records can be as simple as saving digital copies or photos of your documents on your computer. You can also save copies in a cloud-based system such as Google Drive, OneDrive, or Dropbox. These cloud-based systems help keep your records accessible even if your electronics are physically damaged by a disaster. These systems are generally free to use. You can even email yourself on a service like Gmail with the digital files attached to the message.

Paper records

A paper record-keeping system can be one of the simplest to set up but should be clearly organized and labeled to help you quickly find your documents when you need them. We also recommend that these paper records are stored in a weather-safe container and/or are taken with you in the event of an evacuation (should you safely be able to do).

Records Index

In addition to having at least two sets of records stored, we strongly recommend also having an index. An index is a way you can easily look up, find, and reference your files. In its simplest forms, this could be a file folder system, with each section labeled to make finding what you need easier. For more complex records, you may want to put together an index on a spreadsheet, indicating where each important record can be found.

Where can I find additional help?

In some cases, you may not have the bandwidth to handle your records entirely on your own. However, it is still critical for to maintain an accurate record-keeping system. If needed, there are a few additional avenues of support that may be available to you.

- Look for apps or software that have features that meet your specific needs.
- Utilize trials or demos to find platforms you are comfortable using and are easy to navigate.
- Consider the benefits of something that's accessible on a mobile device or by other team members, if it's for your business.

Appendix C: IRS Guidance and Publications

Special tax law provisions may help taxpayers and businesses recover financially from the impact of a disaster, especially when the federal government declares their location to be a major disaster area. Depending on the circumstances, the IRS may grant additional time to file returns and pay taxes. Both individuals and businesses in a federally declared disaster area can get a faster refund by claiming losses related to the disaster on the tax return for the previous year, usually by filing an amended return.

The IRS also offers audio presentations on Planning for Disaster. These presentations discuss business continuity planning, insurance coverage, record-keeping and other tips to stay in business after a major disaster.

Get the Latest Tax Relief Guidance in Disaster Situations

Recent special tax law provisions may help taxpayers recover financially from the impact of a major disaster in their location.

Preparing for Disasters

Are your home and/or business ready if a disaster strikes? Get information and suggestions or paperless record-keeping, documenting assets and valuables.

Around the Nation

This section of the IRS website provides IRS news specific to local areas, primarily disaster relief or tax provisions that affect certain states.

Tax Topic 515, Casualty, Disaster, and Theft Losses

Casualty losses can result from the destruction of or damage to your property from any sudden, unexpected, and unusual event such as a flood, hurricane, tornado, fire, earthquake or even volcanic eruptions.

FAQs for Disaster Victims

This section provides guidance for those affected by disasters and answers to frequently asked questions.

Reconstructing Your Records

Reconstructing records after a disaster may be essential for tax purposes, getting federal assistance or insurance reimbursement. After a disaster, taxpayers might need certain records to prove their loss. The more accurately the loss is estimated, the more loan and grant money there may be available.

Disaster Planning Video Presentations

- Disaster Loss Deductions
- IRS Disaster Assistance

- Planning for Business Continuity after a Disaster
- Reconstructing Records after a Disaster

Appendix D: Non-Profit, Charity, and Non-governmental Support

After a disaster, various non-profit organizations, charities, and non-governmental entities offer support to affected individuals and communities. Here are some examples of the types of assistance they provide:

Emergency Relief Services: Many organizations offer immediate emergency relief, including shelter, food, water, and medical assistance to disaster survivors. Prominent organizations like the American Red Cross, Salvation Army, and Médecins Sans Frontières (Doctors Without Borders) are known for their swift responses.

Donations and Fundraising: Charitable organizations frequently launch fundraising campaigns to collect donations for disaster relief efforts. These funds are used to provide immediate aid and support long-term recovery.

Volunteer Mobilization: Non-profits, such as Team Rubicon, often rely on volunteers to assist with disaster response. Volunteers help with various tasks, including search and rescue operations, medical care, distributing aid, and providing emotional support to survivors.

Counseling and Psychological Support: NGOs like the National Alliance on Mental Illness (NAMI) offer mental health and counseling services to individuals dealing with the emotional impact of disasters. They provide critical support for mental well-being.

Recovery and Rebuilding: Many non-profit organizations engage in long-term recovery and rebuilding efforts. They assist communities in rebuilding homes, schools, infrastructure, and essential services. Organizations like Habitat for Humanity are well-known for these efforts.

Legal Aid and Advocacy: Some nonprofits, like legal aid organizations, and NGOs provide legal assistance and advocacy for disaster survivors, particularly in cases related to insurance claims, housing disputes, and other legal matters. You can search your address on the Legal Services Corporation website, here, to locate a local legal aid organization.

Public Awareness and Education: Non-profit organizations often raise awareness about disaster preparedness and safety. They provide educational resources and training to help individuals and communities prepare for future disasters.

Crisis Hotlines and Helplines: Nonprofits and charitable organizations frequently establish crisis hotlines and helplines to provide information, support, and resources to individuals affected by a disaster. These services are essential for those seeking assistance or information.

Appendix E: Depreciation

What is Depreciation?

Whenever you make a business purchase that you will use for more than one year, the IRS requires it to be depreciated. This means that you will deduct the cost on your business taxes over time, rather than only the year when you purchase it. Instead of getting all of the deduction in one year, you get it slowly, over a number of years.

Depreciation can apply to many things in your business including:
• Furniture
• Appliances such as dishwashers
• Computers
• Buildings that you own and renovations
• Vehicles

To determine if a purchase that you make for your business is subject to depreciation you need to ask the following questions.

1. Is the item "ordinary and necessary" for your business? – that is, do you need this to run your business?

If it is, then move to the next question. If the item is not "ordinary and necessary" for your business, then it is a personal expense that is not deductible on your business taxes at all.

2. Can the item last more than one year? – For example, paper towels will likely be used up in a year, so they would not be eligible. However, a car or a newly installed dishwasher would be items that will last more than one year.

If the item can last more than a year, then move to the next question. If the item cannot last more than one year, then treat it as a typical business expense that would not be subject to depreciation.

3. Is the value more than $2,500? – Any item, even one that could last for years, that has a value of less than $2,500 is considered a "safe harbor" and can be deducted all in one year and without being subject to depreciation. Keep in mind, this is a per-item limit. For example, if you purchased 50 chairs for $100 each, even though the total bill was $5,000, each chair is less than $2,500 so depreciation will not need to be applied.

If the value is more than $2,500, then move to the next question. If it is less than $2,500, then treat it as a typical business expense.

4. Is this a repair or maintenance cost? – Costs to repair or maintain items for your business can be expensed in one year and will not be subject to depreciation. For

example, let's say you have your roof shingles of your commercial property repaired and it cost $3,500. As a repair, you would still be able to deduct it in one year and depreciation will not be applied.

If it is not a repair or maintenance cost, you'll need to depreciate the item. If it is a repair or maintenance cost, report it as an expense on your tax return.

How do I depreciate an item?

Once you have identified a depreciable item, you need to determine how you can expense it. The most basic way to figure out how much you can expense in a given year is called straight line depreciation (though there are some other methods your tax professional may use).

In this calculation, you take the total cost of the item and divide it by the total number of years that the IRS says is the life of the item. Here are some common useful life values from the IRS:

- Office furniture, fixtures, and equipment - 7 years
- Automobiles – 5 years
- Land improvements – 15 years
- A building (or house) used in part or whole for business – 39 years
- You can find the current list of all life values in IRS Publication 946.

For example, a land improvement such as a new driveway is considered by the IRS to have a 15-year life. So, if you paid $15,000 for the new driveway, you could deduct $1,000 a year in depreciation for it, for 15 years ($15,000 divided by 15).

Accelerating Depreciation

Another option in addition to straight line depreciation is to accelerate your depreciation faster which allows you to expense your purchase quicker. Namely, you can accelerate your depreciation through three special rules:

1. Section 179 depreciation is allowable for physical property used for your business more than 50% of the time. Examples of allowable property are office equipment, furniture, vehicles, and most other assets that are not buildings, or improvements to your building.

   As another example, for a vehicle, such as a van for transporting inventory, you will need to show that the miles driven for business purposes are at least 50% or of the total miles driven for a year if you are using this method (alternatively, you can depreciate the car based on the percentage of use for business versus personal driving using straight line depreciation).

2. Bonus Depreciation allows you to deduct 100% of certain assets in one year without an upper limit on the total amount you can deduct. To qualify for Bonus Depreciation, the

item needs to have a useful life of 20 years or less (so it does not apply to your home office) and be used for business 50% or more of the time.

One exception, similar to Section 179 depreciation, is for vehicles. For vehicles under 6,000 pounds, you can expense $19,200. Vehicles over 6,000 pounds, but less than 14,000 pounds, do not have a limit. Just like Section 179 depreciation, you need to use the vehicle for your business at least 50% of the time based on the total miles driven and the amount of depreciation must be adjusted by the business use.

3. The Safe Harbor for Small Taxpayers can provide another vehicle for accelerating depreciation. This rule comes out of the IRS Tangible Property Regulations and allows business owners with a home office to deduct repairs or improvements (including leasehold improvements) to the home or a facility that are the lessor of $10,000 or 2% of the unadjusted basis (that is the value of the property less the value of the land).

   For example, let's say you owned a restaurant building that was worth $350,000 and the land is worth $50,000. The unadjusted basis would be $300,000. Two percent of the unadjusted basis would be $6,000. So, an improvement like adding an awning that was $5,500, could be deducted in one year since the cost of the awning was less than $6,000.

   For home offices, you need to also include the business use of home calculation. So, let's say a home is valued at $400,000 and the land is $65,000. The unadjusted basis would be $335,000. Further, let's assume the business use of home calculation shows the business owner is using the home for business 35% of the time.

   Now, the unadjusted basis would be $117,250 (that is 35% of $335,000). Two percent of $117,250 is $2,345. So, costs under $2,345 related to repair or renovation could be deducted in one year rather than depreciated over time.

   If you use this rule, make sure you include a statement with your tax return reading:

   "Section 1.263(a)-3(h) De Minimis Safe Harbor Election
   Your name _________________
   Your address __________
   EIN or Social Security Number __________
   For the year ending December 31, 20__ I am electing the safe harbor election for small taxpayers under Treas. Reg. Section 1.263(a)-3(h) for the following: (list your improvements)."

It is important to note that state limitations can vary, so depreciation, as described above, may only apply to your federal tax return.