

Flood victims may be able to deduct some losses on taxes

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Most years, last-minute tax-filing tips focus on matters such as taking advantage of new tax credits and remembering to fund retirement accounts. This year, however, residents of flood-ravaged counties in Eastern Massachusetts are contemplating a whole new set of issues.

For one thing, the filing deadline for both federal and state taxes has been extended by nearly a month to May 11 for taxpayers in those counties declared a federal disaster area. That means folks in seven Massachusetts counties are getting an extra 26 days to file their tax returns, pay their taxes, and fund their individual retirement accounts. A similar extension applies to all of Rhode Island with the exception of Bristol County.

"This gives families time to cope with this disaster and to understand how flood-related hardships may affect their tax strategies for this year," says Jeff Pirner, Boston Metro district manager at tax preparer H&R Block.

For example, those with homes or businesses located in these disaster areas may be able to deduct a portion of any personal property losses not covered by insurance or other reimbursements. First, however, they will have to decide whether to take the loss in 2009 — as allowed under federal disaster relief law — or to wait until they file their 2010 return.

Coming up with the right answer will require some number crunching. Due to changes in the tax law, different sets of rules apply to losses claimed in each of those two years. If taken on the 2009 return, losses are subject to a \$500 reduction. On 2010 returns, however, only those losses that exceed 10 percent of adjusted gross income can be claimed, and then only after the amount is reduced by \$100.

"In most cases, our clients would probably be better off claiming the loss in 2009," says Pirner. But taxpayers should calculate the impact in both years, since changes in income and other factors could make it more advantageous for some people to claim these losses in 2010, he says.

Of course, not everyone will be able to put a number on their flood damage by May 11. Not to worry. Taxpayers can file an amended return anytime within three years of their original filing. Or they can file for a six-month extension, although such an extension does not relieve filers of the requirement that they pay their full tax liability by the initial deadline.

Those whose tax documents were destroyed or lost in the flooding may need help from the IRS in reconstructing their tax paperwork. In such cases, the IRS will waive its usual fees and expedite requests for copies of previous tax returns.

The new filing deadlines are also benefiting those who didn't actually experience flooding as long as they live in those counties declared disaster areas by President Obama. With the exception of Cape Cod and the Islands, that includes everyone living in the eastern half of Massachusetts.

Even if they aren't busy pumping water out of their basements, taxpayers in these disaster counties can take the extra time to look for deductions, fund their IRAs, and wrap up their paperwork. Among the things they should consider this year are:

Home buying credits

Lots has been written about the first-time home buyer's tax credit, which provides a 10 percent credit on the purchase price of a home, up to a maximum credit of \$8,000. But owners who sold their home and purchased a new one between Nov. 6 and the end of 2009 may also get a tax break. They can qualify for a tax credit of up to \$6,500 if they owned or lived in their previous home for at least five consecutive years out of the past eight. Income limits may reduce or eliminate the deduction. One caution, says Dana Levit, a Newton financial adviser and tax preparer: "You have to own that home for at least three years, or else you have to give the money back."

Green energy credits

If you installed new windows, replaced the furnace or water heater, upgraded your insulation, got central air

conditioning, or bought a wood stove, you may be eligible for a tax credit of up to \$1,500. Those who have gone greener and installed solar energy systems, small wind turbines, or geothermal heat pumps can qualify for a tax credit equal to 30 percent of cost with no upper limit.

Donations to Haiti

Taxpayers who itemize deductions can claim any cash contributions made to earthquake relief charities through Feb. 28. That includes contributions made by text message, credit card, debit card, or check. As with any charitable contribution, taxpayers need to keep a record of their donations, such as a canceled check or a receipt from the organization. For donations by text message, a telephone bill will meet the requirement as long as it shows the name of the organization, the date of contribution, and the amount.

New car deductions

You can get a tax deduction for sales and excise taxes resulting from the purchase of a new set of wheels after Feb. 16, 2009, and before the end of 2009. The deduction covers taxes on up to \$49,500 of the purchase price of new cars, light trucks, motorcycles, and motor homes. Used or leased vehicles, however, don't qualify, and income limits apply and can erase the deduction. ■

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