Part of the Tax De-Mystification Series

Recovering After Disaster-Related Losses

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Recovering after disasters such as weather events, fires, flood, or other unexpected calamities can be particularly challenging for businesses, as those affected by the recent tornado in Dallas know all too well.

You want to get back to business as soon as possible, but doing so after a catastrophic loss of data or property can seem nearly impossible. To claim losses – both for insurance and tax purposes – you will often have to prove those losses via data and physical documents.

Proving losses presents a unique problem when data is missing or destroyed. How will your business bounce back after data or property loss caused by a disaster?

Here are some key tips for both preventing data loss and for getting things back to normal after disaster-related data loss.

Data Loss and Taxes -- What You Need to Know

Going through a disaster-related data loss can be overwhelming but there is relief offered in the form of tax deductions designed to offset those losses. The IRS has specific deductions for property loss, so it is important to understand the guidelines for claiming deductions that lower your tax burden.

According to the IRS, business owners can deduct both losses directly tied to the businesses, as well as property not connected with a trade or business. For property that is not considered business property, the lost must have occurred from a disaster such as severe storm, fire, or another casualty such as theft. Additionally, any property lost in an area that has been declared a disaster by the Federal Government qualifies as a disaster-related loss for tax purposes. These classifications include any property lost between 2018 and 2025.

Proving Losses When Records and Data Were Destroyed or Lost

When it comes to proving losses, doing so can be tough when you have no access to records or property after a disaster. This is especially problematic when it comes to claiming losses on your taxes, as an IRS audit can turn into a nightmare without a record of property ownership and proof of any losses. All deductions must be supported by business records and according to the IRS, taxpayers are still liable for proving that they were indeed entitled to any claimed deductions. So, what is a business owner to do when records have been lost, stolen, or damaged?

According to the IRS and FEMA (the Federal Emergency Management Association), reconstruction of business records is recommended. Often, FEMA is able to gather relevant data about property value via automated and public records, making hardcopies unnecessary.

Additionally, both agencies outline steps one can take to prove both personal and business property losses, including:

Contacting Issuing Agencies: For documents such as insurance claim forms, property deeds, and business licensing documents, FEMA recommends contacting the agency that issued the documentation proving initial ownership. Explain your situation and provide as much identifying information as possible and your documents should be able to be reproduced.

Documenting Losses with Photos or Video: The IRS suggests taking photos and videos of damaged or destroyed property as soon after the disaster as possible.

Assess the Value of Real Property: For business and personal losses that involve real property such as homes or buildings, review property insurance policies, as they typically include valuations and insurance replacement values. Fair market value for homes can also be estimated by accessing sales records of property in the area. Several websites also provide professional property valuations and many mortgage companies keep records of appraisals used to originate loans. If the loss is inherited property, contact your local probate court for documentation that lists the property's value. If the property was inherited through a trust, contact the assigned trust attorney for relevant documents.

Tax Documents and Financial Statements: For a taxpayer who no longer has access to documentation to prove a loss, the IRS advises requesting tax transcripts for prior years on the IRS website or calling 1-800-908-9946. In addition to ordering tax transcripts, taxpayers can also submit bank and credit card statements as proof over ownership. Both bank and credit card statements should be easily accessible online or by contacting the financial institution directly for hard copies of past statements.

Bouncing Back After Disaster-Related Document and Data Loss

Prevention is the best cure for avoiding the problem of proving property and data losses. To protect sensitive business documents from disaster, setting up a comprehensive business record-keeping system is essential. The best business record-keeping systems combine both hard copies and digital data that is not only regularly backed up but is also housed in more than one place.

For example, hard copies of important documents should not only be safely stored, but these documents should also be scanned and saved to a hard drive stored off-site, as well as uploaded to cloud-based storage software. You can also request multiple copies of official documents and store them off-site should you ever need to produce original documents after disaster-related property or data loss.

The Takeaway

The best solution to disaster-related property loss is prevention. It is wise to take the necessary steps to secure your data and develop a sound plan for protecting important documents. Familiarize yourself with IRS and other agency requirements for proving ownership and loss. By doing what you can to prevent the destruction of important documents, rebuilding after data or property loss will be that much less stressful.

Help with tax issues is one of the many services that Garza Gump Group expertly provides to businesses and individuals alike. Call us at (214) 352-6198 or email contact@ggcpaadvisors.com.

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