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KPMG reports: Hurricanes and disaster relief, recovery for affected taxpayers

Following the recent hurricanes in the United States, KPMG LLP has prepared a set of reports that examine certain tax relief and recovery measures for taxpayers affected by the disasters.

Specifically, these KPMG reports examine the tax treatment relating to employer-provided disaster relief, casualty loss deductions, like-kind exchange relief, and the deferral of gains resulting from casualties.

Employers helping employees—disaster relief

When a disaster hits, employers often want to help their affected employees. It is possible for employers to make certain payments, implement reimbursements, and provide other forms of assistance, so that some or all of the employer provided assistance is non-taxable, but nonetheless deductible. Read a **KPMG report** [PDF 85 KB] that discusses those possibilities as well as other approaches that employers consider for assisting employees in these times of need.

Hurricanes Florence and Michael—casualty loss deductions

The recent devastation resulting from Hurricanes Florence and Michael underscores the importance of understanding how and when companies experiencing casualty losses can claim federal income tax deductions for those losses. Read a **KPMG report** [PDF 117 KB] that presents a brief overview of the basic principles of the Internal Revenue Code's casualty loss provisions.

The casualty loss provisions apply somewhat differently to property used in a trade or business or held for investment as compared with property used for personal purposes. The KPMG report focuses on business or investment property that has been damaged in a casualty such as Hurricane Florence or Michael.

Like-kind exchange relief for taxpayers affected by hurricanes; relief beyond taxpayers in the Carolinas, Florida and Georgia

For taxpayers affected by Hurricanes Florence or Michael, the aftermath of the storm may cause significant disruption in their ability to monitor and complete transactions that were in process at the time of the disaster. For taxpayers that were in the midst of a like-kind exchange transaction under section 1031, the failure to complete the exchange within the specific time requirements of section 1031 would typically result in the recognition of gain that the taxpayer originally intended to defer. The IRS has granted "affected taxpayers" with respect to Hurricanes Florence and Michael an extension of time to perform certain actions. The **KPMG report** [PDF 91 KB] explains how taxpayers—including those located outside the specific covered disaster area—affected by the disaster may qualify for this rare extension of time.

Deferral of gains resulting from casualties and other involuntary conversions

The devastation caused by hurricanes in 2017 and 2018 as well as the California wildfires in 2017 highlights the importance of understanding the U.S. federal income tax consequences for taxpayers who have suffered the loss of, or damage to, property in a casualty.

For many taxpayers, the destruction caused by hurricanes in both 2017 and 2018 may result in casualty losses that may be deductible for U.S. federal income tax purposes under section 165. However, there will also be many taxpayers who realize a gain for U.S. federal income tax purposes on the casualty because the insurance or other compensation received for the damaged or destroyed property exceeds the property's adjusted tax basis. For those taxpayers who realize a gain on an involuntary conversion (like a casualty), an election is available under section 1033 that allows those taxpayers to take some of the sting out of the gain by deferring its recognition. Read the **KPMG report** [PDF 139 KB]

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