

FOREWORD

As part of a public advocacy project to assist taxpayers and tax practitioners affected by the 2005 Gulf hurricanes, the Society of Louisiana CPAs, along with Dr. Wade Ragas, Real Estate Consultant, and Paul Waldman, Attorney, representing the Louisiana Bar Association have collaborated together with the Internal Revenue Service on several issues related to critical tax matters, including casualty loss determination, and other A provisions of KETRA and the GO Zone tax acts. One important result of this collaborative effort with the IRS has been the issuance of Revenue Procedure 2006-32, which provides for optional Safe Harbor Methods in determining casualty losses. Dr. Ragas and Anthony Stoltz, CPA, have provided this article summarizing the safe harbor methods and providing examples of their application.¹

¹ The authors gratefully acknowledge the contribution of Appendix A, List of August 28, 2006 and October 16, 2006 Due Dates by Gerard Schreiber, Jr., CPA.

SAFE HARBOR METHODS

A New Option for Calculating Casualty Losses from the 2005 Gulf Hurricanes

The ravaging and debilitating effects of the 2005 hurricane season will be remembered as the one of the most devastating in U.S. history. Total destruction, caused by Hurricanes Katrina, Rita and Wilma, in Alabama, Florida, Louisiana and Mississippi was catastrophic. In particular, Hurricanes Katrina and Rita inflicted widespread, severe damage to entire cities and communities in south Louisiana and Mississippi as well as their gulf coast regions, portions of the Alabama Gulf Coast and southeast Texas while Hurricanes Katrina and Wilma produced major destruction in south Florida.

For income tax and insurance purposes, determination of the casualty loss by the 2005 Gulf hurricanes in these affected areas is difficult. Some areas, still not officially determined (though primarily in the New Orleans area and Cameron Parish in southwestern Louisiana), will not be allowed to rebuild and/or repopulate. Additionally, many owners have decided to defer on making repairs or rebuild until a comfort level is reached that levees will not be broken or “topped” by storm surges from future hurricanes or rainstorms.

All of these lingering conditions impinge upon the ability to arrive at a fair market value of damaged property immediately after the casualty. These opinions were the genesis for conversations, meetings and damaged area tours between New Orleans area CPA tax practitioners and real estate professionals with Internal Revenue Service (IRS) representatives to discuss the challenges with determining the market value decrease from these casualties. In response, through Revenue Procedure 2006-32, the IRS has developed these optional safe harbor methods to determine the casualty loss for personal-use residential property from the 2005 Gulf hurricanes.

Revenue Procedure 2006-32 (revenue procedure or Rev. Proc. 2006-32) provides safe harbor methods for individual tax payers for personal-use residential real property and personal belongings as defined in section 3.02 of the revenue procedure. The rules do not cover rental property, condominiums, cooperatives, business property, mobile homes, trailers, boats, aircraft, vehicles or antiques. Rev. Proc. 2006-32 covers property in Louisiana, Mississippi, Alabama and Florida damaged by Hurricanes Rita, Katrina or Wilma in 2005. It is posted on the Society of Louisiana Certified Public Accountants (LCPA) website (www.lcpa.org) in its entirety, including its substantial set of examples.

This article provides an overview of the valuation issues, but the reader is encouraged to thoroughly read the clearly written Rev. Proc. 2006-32. The revenue procedure provides safe harbor methods that individuals may use under Internal Revenue Code Section 1:165-7(a) (2) (i) to measure the decrease in the fair market value of their personal-use residential real property that was damaged or destroyed. It is also used to determine the pre-hurricane, fair market value of personal belongings that were damaged, destroyed or stolen as a result of one of the 2005 Gulf hurricanes.

Notwithstanding the extensions and postponements of return filing deadlines, time and the personnel resources in the appraisal industry are limited. The safe harbor methods provide additional tools for taxpayers to calculate the casualty loss to their personal residence and assist in timely filed returns.

Safe Harbor Methods for Personal-Use Residential Real Property

Personal-use residential real property is defined in the safe harbor rules as real property, including improvements (such as buildings and ornamental trees and shrubbery) that are: 1) owned by the individual who suffered a casualty loss; 2) contains at least one personal residence; and 3) is not used in trade or business or in a transaction entered into for profit. Included in the safe harbor are second homes affected by casualty loss.

Excluded from the safe harbor are condominiums and co-ops and doubles or duplexes. Included in the square foot damaged in section 3.02 of the revenue procedure are basements, attached garages, and attached utility rooms, but not decks or porches. Excluded from the safe harbor provisions are partial-interest owned assets. Trees are not covered in the Safe Harbor rules. Detached, air conditioned garages or cabanas are not included in the Safe Harbor rules.

The three safe harbor methods to measure the decrease in fair market value from casualty damages for personal-use residential real property categories are:

- 1) Insurance Safe Harbor Method
- 2) Contractor Safe Harbor Method
- 3) Cost Indexes Safe Harbor Method

Under the Insurance Safe Harbor Method, the decrease in fair market value of the property is the estimated loss determined in reports prepared by the individual's homeowners' or flood insurance company setting forth damages due to 2005 Gulf hurricanes, less insurance claims paid.

The Contractor Safe Harbor Method uses the contract price for repairs specified in an itemized contract prepared by a contractor, licensed or registered in accordance with state or local regulations. It is the cost to restore the property to the condition existing immediately prior to the applicable 2005 Gulf hurricane, less all insurance reimbursement received.

The costs of any improvements or additions that increase the value of the personal-use residential real property above its pre-hurricane values are to be excluded. Costs to elevate the residence to meet new construction requirements, such as Federal Emergency Management Agency (FEMA) minimum height elevations, must be excluded from the contract price.

An estimate is insufficient to satisfy the revenue procedure's requirements for the Contractor safe harbor. The can not be just an estimate; it must be a binding contract signed by the individual and the contractor.

The Cost Index Safe Harbor Method is easy to use and produces damage claims relatively consistent (in the opinion of these analysts) with actual damages from the hurricane casualty.

First, the extent of damages from the 2005 Gulf hurricanes must be determined from one of four categories, as follows:

Item

- 1 Total loss as a result of a storm surge or catastrophic, prolonged flooding due to breaching or overtopping of a protective levee system which caused any one of the following:
 - a) Personal residence to collapse or is structurally unsound condition which includes nails or anchor bolts to have corroded as a result of prolonged exposure to saltwater (including brackish water).
 - b) State or local government or any political subdivision has ordered the personal residence to be demolished or relocated.
 - c) Individual has sold the residence to unrelated third party for a price that reflects only the fair market value of the land.
 - d) Personal residence sustained damage that satisfies the definition of section 3.05(2) of the revenue procedure and the individual has demolished the personal residence.

- 2 Near total loss is covered by storm surge or catastrophic flooding where the severe damage necessitated the removal and disposal of substantially all interior frame coverings, flooring, electrical lines, air conditioning ducts, plumbing and other fixtures. For a residence sustaining near total loss, only the wood frame, rafters and outside façade of the personal residence remains structurally sound and reusable. This is a house commonly referred to locally in the New Orleans' area as "having been gutted."

- 3 Interior flooding over 1 foot occurred if personal residence was flooded with saltwater (including brackish water) to a height of more than one foot, but did not sustain a total loss or near total loss as defined in 3.05(1) and (2), respectively, of the revenue procedure. Only the part of the residence interior requiring substantial renovation is covered by this category. Substantial renovation requires the removal and replacement of drywall or other wall frame coverings, replacement of trim and repair of the damaged interior areas of the personal residence.

- 4 Structural damage from wind, rain or debris that exposed part or all of the interior of the personal residence to rain or debris requiring replacement of wall coverings, replacement of trim and repair of the damaged interior.

Three other damage subcategories with separate tables of replacement costs are also presented as follows:

Item

- 5 Roof covering damage from wind, rain or debris consists of damage from wind, rain or wind blown debris to roofing felt, shingles, flashings, fascia, or soffit.
- 6 Detached structure such as a shed, shop or detached garage not used in trade or business that is not equipped with heating or air conditioning, which is built of wood frame construction with some electrical but little or no interior finishing.
- 7 Wood decking of pressure treated wood attached to a personal residence.

The taxpayer may use one or more of the cost indexes, such as one of items 1 to 3 with any or all of items 4 to 7, except item 1 - total loss (includes roof loss) and item 5 (for roof covering damage) may not be used together.

No value increase for landscaping, debris removal or demolition is allowed. No amount may be added to the decrease in fair market value of the personal-use residential real property for a 1) home office; 2) a residence in a 5-residence property; 3) a detached structure equipped with heating or air conditioning, or 4) a deck made of synthetic material or hardwood that is not pressure treated.

If an individual's personal residence structure contains more than one personal residence and the Cost Index Safe Harbor Method is used, the individual must apply the applicable combination of tables (one or more) to each personal residence not to exceed four residences in the personal-use property.

Under the Safe Harbor Cost Index Methods, damage costs for personal-use residences are calculated based on construction costs new, per square foot, as determined by the IRS.

Specific square foot cost amounts have been calculated based upon (3) residence size ranges (applicable to items 1-3 and item 5), as follows:

Residence Size Range

- | | |
|------------------------------|---|
| 1) Small personal residence | - less than 1,500 square feet (sq. ft.) |
| 2) Medium personal residence | - 1,501-3,000 sq. ft. |
| 3) Large personal residence | - greater than 3,000 sq. ft. |

Also, specific damage cost indexes have been determined based upon percent of damage (item 4 - structural damage), and size of structure for detached buildings and wooden decks (items 6 and 7. These cost indexes are presented in Tables One through Seven.

Typical landscaping has been considered within these per square foot estimates. Trees, pools and fencing are not within the costs estimates.

Determining Casualty and Theft Loss Using Cost Index Tables

Following are examples for each of the damage categories using the applicable Cost Index Methods.

The first example calculates the damage for a total loss.

TABLE ONE - TOTAL LOSS

Residence Gross Area of Structure (excluding porch, balconies)	Cost Index Per Square Foot
Small personal residence under 1,500 square feet	\$175
Medium personal residence of 1,500 to 3,000 square feet	\$148
Large personal residence of more than 3,000 square feet	\$132

The process is a simple multiplication of gross residence area (including garage) times the cost index per sq. foot. for the appropriate size category.

For a 2,000 sq. feet residence, under this safe harbor method category, the calculation would be: 2,000 x \$148 per sq. foot or \$296,000 as the decrease in fair market value.

A near total loss, personal residence would start with Table Two.

TABLE TWO - NEAR TOTAL LOSS

Residence Gross Area of Structure (excluding porch, balconies)	Cost Index Per Square Foot
Small personal residence of under 1,500 square feet	\$142
Medium personal residence of 1,500 to 3,000 square feet	\$120
Large personal residence of more than 3,000 square feet	\$107

Each fair market value category has been reduced in the cost index allowance by 19% to adjust for the difference between a total and a near total loss.

The average existing house, including land, of 2,159 sq. feet in Orleans Parish in an undamaged area sold for \$150 per sq. foot in the first half of 2006². Allowing for land as 25% of property value, the market value of the improvements was about \$113 per sq. foot.

The damage allowance for a medium size range residence from the personal property near total loss cost index (Table One) was \$120 per sq. foot, and for a total loss, \$148 per sq. foot (Table One). The IRS cost indexes are a good, central measure of a housing fair market value allowing for the extraordinary costs of repairs in the post Katrina, inflated construction costs market.

Using Table Two, the fair market value decrease computed for a 2,000 sq. foot house is \$120 per sq. foot or \$240,000.

The third cost index category is for homes having interior flooding with over one foot of water.

TABLE THREE - INTERIOR FLOODING OVER ONE FOOT

Residence Gross Area of Structure (excluding porch, balconies)	Cost Index Per Square Foot
Small personal residence under 1,500 square feet	\$108
Medium personal residence of 1,500 to 3,000 square feet	\$ 92
Large personal residence more than 3,000 square feet	\$ 82

Interior repair of the first four feet of the wall height is a likely extent of repair in this category. The repair may include replacement of the electrical system, air conditioning compressor, plumbing fixtures and probably includes replacement of all cabinetry.

Based on cost estimates of local contractors and engineers submitted to the IRS valuation engineers during site visits to the New Orleans area, these are reasonable cost allowances. These costs are on average 23.3% lower than the index amounts in Table Two - Near Total Loss.

In Table Three, the damage allowance for interior flooding over one foot for a 2,000 sq. feet house is estimated to be \$184,000.

The fourth category of structural damage requires an estimate of the percent of the gross floor area damaged to be calculated as damaged square feet floor area divided by gross square footage.

² The tabulation published in the Times Picayune on July 16, 2006, based upon records of the New Orleans Metropolitan Association of Realtors.

TABLE FOUR - STRUCTURAL DAMAGE FROM WIND, RAIN OR DEBRIS

Percent Damage Range	Cost Index Per Square Foot
15% to 25%	\$143
26% to 50%	\$132
51% to 100%	\$119

A 2,000 sq. foot house with 900 sq. feet of damaged floor area would have 45% damage, which would be \$132 per sq. foot. The estimated fair market value decline would be 900 sq. ft. damaged times \$132 per sq. foot damaged, or \$118,800. Again, in the opinion of Dr. Ragas, the damage cost allowance is reasonable for average to good quality construction repairs.

The taxpayer can not double count damaged square feet from Tables One, Two or Three with Table Four. However, a portion of a house, for example, the first floor, could have fair market value loss estimated using Table Two or Three while having the second floor damaged by a tree or tornado. The second floor portion of the damage would be computed using Table Four costs.

Use of the costs indexes for Safe Harbor special rules of a combinational nature are described in the revenue procedure and are presented by example in this article. For instance, the loss for the other three categories of damage (items 5-7) may be applied in combination to the damages calculated with items 1 to 4 cost indexes, as described here.

Next, using Table Five is an example computing the casualty damage for a roof covering.

TABLE FIVE - ROOF COVERING

Personal Residence Size	Cost Index Per Square Foot
Small personal residence under 1,500 square feet	\$6.00
Medium personal residence of 1,501 to 3,000 square feet	\$5.75
Large personal residence over 3,000 square feet	\$5.50

The cost index is applied to the total square footage under roof including porch, covered patios and overhang. The rule does not address pitch and elevation issues.

The total roof square footage covered area is multiplied by the cost index for the appropriate house size category. Our 2,000 sq. foot house example could have 2,650 sq. feet of roof area. The fair market value decline would be estimated as 2,650 x \$5.75 (1,501 to 3,000 sq. foot category) or \$15,237.

The \$15,237 damage to roof can be added to the item 2 or 3 or 4 fair market value loss. However, it can not be added to a total loss, (item 1), since its loss allowance includes the damages to the roof area.

The sixth damage category applies to non-climate controlled detached buildings with interior, unfinished structures. First, the square footage of the detached structure would be calculated. Next, an allowance for the size category of the structure would be applied.

For climate controlled and interior finished, second or third buildings detached from the primary residence, such as a detached, finished garage or a pool house cabana, with good quality finishes the appropriate Table One to Four categories could be selected by the taxpayer and applied to the square footage of those properties. However, this use of the tables is outside of the Safe Harbor rules.

TABLE SIX - DETACHED STRUCTURES

Detached Structure Size	Cost Index Per Square Foot
Up to 200 square feet	\$48
201 to 400 square feet	\$38
Over 400 square feet	\$33

In our continuing example, a single, detached garage of 280 sq. feet would have a fair market value decline of 280 x \$38 per sq. foot or \$10,640. No category for the extent of damage is presented, but it should have damages consistent with categories One to Four.

The seventh damage category is wood decking. The square footage of the wood decking is calculated for a house fitting into categories One to Four. Under the revenue procedure, only decking constructed of pressure-treated wood is covered by Table Seven.

TABLE SEVEN - WOOD DECKING

Area of Deck	Cost Index Per Square Foot.
Entire square footage of wooden deck	\$15

In our example house of 2,000 sq. feet of living area with a wooden deck of 150 sq. feet, the fair market damage allowance would be 150 sq. ft. x \$15 or \$2,250.

No-Cost Repairs

Within this revenue procedure, no-cost repairs done by a non-profit organization or government-paid groups which completely repair all or part of the property can not be claimed as a casualty loss.

If a taxpayer does receive no-cost assistance and has used the Cost Indexes Method to calculate the decrease in the fair market value, the taxpayer must reduce the loss by the value of the no-cost repairs. Rev. Proc. 2006-32 provides that the computation would be based upon the square footage completely repaired at no cost to the individual and using the same cost index used by the individual to compute the decrease in fair market value. The resulting amount would be subtracted from the loss determined under the Cost Index Method.

Examples of Fair Market Value Loss from Cost Indexes and Basis Limitations

No casualty loss deductions in excess of a personal residence's basis can be claimed. In our example, the personal-use real property basis will be assumed to be \$300,000. Each of the four damage categories will be considered along with detached structure, roof and deck allowances.

Good examples of the Safe Harbor Insurance and Contractor Methods are presented in the revenue procedure. The reader is urged to review those examples. Instead, the various examples presented herein are combined into four scenarios for the same size property of 2,000 sq. feet of floor area, a 280 sq. foot unfinished detached garage, a 150 sq. foot, qualifying wood deck and 2,650 sq. foot roof area.

The house is assumed to have been recently acquired before the storm for \$150 per sq. foot of living area or \$300,000. Differing insurance reimbursements are assumed for each of the four categories within a range indicative of settlements reviewed by Dr. Ragas.

Table Eight assumes that a total loss house already has the roof in the loss allowance. It also assumes a house with only one-plus foot of water did not have wind roof damage (which could have occurred). The structurally damaged house with 900 square feet of damaged area from wind and trees is assumed to also have damage to the entire roof and a detached garage.

Also, it is assumed that the taxpayer has not benefited from amounts given to repair casualty or from the value of repairs to rebuild the individual's personal-use residential real property. All four example properties are assumed to have an unfinished, detached garage and wooden deck damage.

The cumulative, fair market value safe harbor loss is shown in Row B. Insurance reimbursements vary per square foot with the extent and nature of the damage, ranging from \$75,000 to \$200,000.

The uninsured loss (Row C) is the safe harbor, fair market value loss less insurance reimbursements for property damage (not contents or living expenses). The result is the maximum, fair market value loss (Row D) which cannot exceed the basis in the residence as of the hurricane date less insurance or other reimbursements received.

The basis is the sum of the purchase price plus the cost of all improvements made to the property less any reductions for deferred gains on sale of previous residence transacted prior to May 7, 1997 (the effective date of the revised gain exclusion on residence rules), and prior casualty loss or home office/rental depreciation deductions.

TABLE EIGHT - EXAMPLES OF CASUALTY LOSS FROM COST INDEXES

	Cost Index Category			
	Total Loss	Near Total Loss	One Foot or More of Water	Structural Damage (*)
Residence Basis (A)	\$300,000	\$300,000	\$300,000	\$300,000
Cost Index Fair Market Value Decline	\$296,000	\$240,000	\$184,000	\$118,800
Roof Cover	0	\$15,237	0	\$15,237
Detached Garage	\$10,640	\$10,640	\$10,640	\$10,640
Wooden Deck	\$2,250	\$2,250	\$2,250	\$2,250
Fair Market Value Loss (B)	\$308,890	\$268,127	\$196,890	\$146,927
Insurance Reimbursement	\$200,000	\$180,000	\$90,000	\$75,000
Per Foot Insurance Reimbursement on Living Area	\$100	\$90	\$45	\$38
Uninsured Fair Market Value Loss (C)	\$108,890	\$88,127	\$106,890	\$71,927
Casualty Loss Deduction (D)	\$100,000	\$88,127	\$106,890	\$71,927
Remaining Basis After Casualty Loss Deduction	\$200,000	\$211,873	\$193,110	\$228,073

(*) From wind, rain or debris

In these examples, the basis in the residence exceeds the uninsured, fair market value loss.

The casualty loss deduction ranges from \$71,927 for structural damage from wind, rain or debris to 900 square feet with 51% of the market value loss paid by insurance to \$106,890 for one foot or more or water with 46% of the property value loss (including land) paid as flood insurance.

There will be instances of capital gains by the taxpayer where the insurance reimbursement exceeds the fair market value loss computed from the cost index tables.

For those taxpayers, the gain will have to be reported considering the gain exclusion for principal residence and/or replacement property rules under IRC sections 1033 and 121, respectively. However, we do not expect this to be a large portion of taxpayers under this revenue procedure.

Another area of consideration for casualty loss/gain computations is the handling of recovery funds that have been/will be received through block grant programs, such as the Louisiana and Mississippi recovery programs. Normally, these grants would reduce casualty losses and be taken into account in the year the grant amount is known or has been received. At this point, it is not possible to predict any future legislative action that would confirm or alter this treatment.

Tips for Determining Cost Basis of Destroyed and/Lost Assets

Besides the determining the decrease in fair market value, another very challenging task in casualty loss matters is computing the cost basis for the damaged/lost asset.

Determining cost basis of personal belongings and residence and their improvements present different tests. The items comprising the total possessions of a taxpayer are more numerous than for buildings and improvements. However, the cost of a residence and improvements are much more significant dollar amounts. In the final analysis, the taxpayer must sign that the tax return information, to the best of his/her knowledge and belief, is true, correct and complete. Here are some suggestions for determining basis.

1) Personal belongings

For personal belongings, as a starter, the taxpayer can use the list submitted to the insurance company, if one was required. If a list was not required for insurance purposes, the taxpayer will have to reconstruct asset records if detailed records (including pictures/film) were not maintained, or whatever files, pictures or other documentation previously available were lost due to wind and/or flood damage. This will involve taking pictures of damaged assets, preparing a list of his/her personal belongings (home and outside yard/garage contents, along with estimated dates acquired and purchase price or other cost basis.

Some suggestions to arrive at a complete list are to first sketch each room and annotate the items on the sketch. In Publication 2194, Disaster Kit for Individuals, the IRS has a helpful list that itemizes common assets by room type. Distribute the drafts of asset lists among family members; discuss its reasonableness before submitting with your tax return.

2) Personal-use residence

A tedious exercise is also in store for the taxpayer who has lost all or nearly all of his/her home purchase records and must determine the residence's cost basis and the cost of improvements. For purchase cost, written data may be available through: a). parish/county conveyance records or assessor files; b) attorney of record's files who handled the purchase; c) bank safe deposit box; d) the mortgage holder's files; e) prior year tax returns (replacement copies of which are obtainable for free from the IRS through Form 4506), or f) tax return preparer's files. Pictures of the damaged home, (inside and outside) are also helpful. Regarding improvements, the asset list in Publication 2194 includes common home improvement items.

Further tips on reconstructing records are provided by Publication FS-2006-7. Copies of IRS forms and publications and tax return transcripts may be obtained by calling the IRS Disaster Hotline at 1-866-562-5227.

Safe Harbor Method for Personal Belongings

Determining the casualty loss for personal belongings is another challenging area of casualty loss determination that has been addressed in Rev. Proc. 2006-32 and an optional safe harbor method provided.

Once the list of personal belongings is prepared, the revenue procedure provides a depreciation schedule to be applied to the replacement cost new for loss of personal belongings. The costs new depreciation is computed using the age of the personal belonging item, as follows:

Age Asset When Destroyed Or Lost	Remaining Percentage of Cost New of Replacement
1	90%
2	80%
3	70%
4	60%
5	50%
6	40%
7	30%
8	20%
9+	10%

Furniture, clothing and equipment may be depreciated under this safe harbor allowance. No boats, aircraft, mobile homes, trailers, vehicles or antiques may use the Personal Belongings Safe Harbor Method.

The cost new to replace, by item, is multiplied by the percentage costs new of the replacement. To the extent the depreciated cost new exceeds insurance reimbursement received, it is an allowable casualty loss deduction.

A computer and printer were 3 years old. They cost \$1,800, when purchased. Similar equipment in terms of functionality was found to cost \$1,200 today. The remaining depreciated basis would be 70% of \$1,200 or \$840. The insurance reimbursement was \$1,100 for the computer and printer. Using this Safe Harbor Method, there was no casualty loss.

A second, non-technology item such as a dining table and chairs was destroyed by water. The all-wood set cost \$6,000 and was bought 5 years ago. An equivalent replacement cost is \$8,500 today. The depreciated cost for a casualty loss is \$4,250 ($\$8,500 \times 50\%$). The insurance reimbursement was \$3,000. The casualty loss is the insurance subtracted from the lower of the cost of purchase or the depreciated cost new from the personal belongings table. In this instance, it is \$4,250 less \$3,000 or a \$1,250 casualty loss.

While this safe harbor has utility, it is not allowable for use with antiques or items that increase in value.

Safe Harbor Method Reporting with Forms 1040 and 4684

The revenue procedure advises taxpayers to disclose use of Rev. Proc. 2006-32 by the following methods if one of the safe harbor methods in Section 4 of the revenue procedure is used.

1) A statement should be attached to Form 4684, Casualties and Thefts, stating that Rev. Proc. 2006-32 was used to determine the individual's casualty loss deduction and list the specific safe harbor method used, including the table numbers, where applicable. Recommended wording is as follows:

I/We used Rev. Proc. 2006-32 in determining my/our Hurricane Katrina (Rita or Wilma) casualty loss deductions using the Cost Indexes Safe Harbor Method, specifically Tables x, x and x.

2) In completing Form 4684, if an individual uses any of the personal-use residential real property safe harbor methods in section 4 of the revenue procedure, for each of those properties do not enter an amount in line 5 or 6 and enter the decrease in fair market value determined under the safe harbor method on line 7 and mark "Revenue Procedure 2006-32" in red ink on the top of Form 4684.

Extended and Postponed Filing Deadlines

In February 2006, under the authority of IRC section 7508A, the IRS published Notice 2006-17. That notice provided for postponement until October 16, 2006, the deadline to elect under IRC section 165(i) to deduct in 2004 the losses attributable to Hurricanes Katrina, Rita or Wilma that were sustained in Presidentially declared disaster areas in Alabama, Florida, Louisiana, Mississippi and Texas eligible for Public Assistance or Public Assistance and Individual Assistance through the Robert T. Stafford Disaster Relief and Emergency Act (Stafford Act).

Determining that taxpayers covered under the Stafford Act in certain areas in Louisiana, Mississippi and Alabama needed additional disaster relief, in February 2006, the IRS issued Notice 2006-20 that granted further extensions and postponements until August 28, 2006, to perform certain return filings (e.g. 2004 and 2005 personal tax returns and other documents that were approved in Notice 2005-73).

In June 2006, through IRS Notice 2006-56, for a segment of the taxpayers and acts included in Notice 2006-20, the deadlines for filing 2004 and 2005 personal tax returns and other acts were further postponed until October 16, 2006. **However, for the 2005 returns, on or before October 16, 2006, the taxpayer(s) may apply on Form 4868 for an automatic, additional six-month extension of the filing deadline until April 16, 2007.** This extension may be needed to gather all needed return information, including valuation of casualty losses, particularly for those assets not covered by the safe harbor methods.

For non-individual returns, IRS Notice 2006-56 leaves unchanged the filing and payment deadlines set by Notice 2006-20. These deadlines are now very near at hand. Listed in Appendix A is a partial list of the August 28 and October 16, 2006 deadlines. If additional time to file is needed, timely filing for extensions on these returns is necessary.

Business returns do not have Revenue Procedure 2006-32 available to them and may particularly benefit from the extension to allow time for a before and after appraisal to be performed.

Conclusion

Well-written and clearly stated, Revenue Procedure 2006-32 provides a set of safe harbor rules for personal-use residential real property damaged by Hurricanes Katrina, Rita or Wilma in Louisiana, Mississippi, Alabama and Florida. Practitioners are urged to read the entire 36-page procedure document which includes extensive examples.

Rev. Proc. 2006-32 offers a rapid and (in the opinion of the authors) fair alternative to securing a pre and post event opinion of fair market value for the measurement of casualty loss for single-family dwellings (up to 4 structures on the property). The rules cover both primary dwellings and second homes (excluding condominiums and cooperatives, duplexes and all rental property). In determining the best option to report

the casualty, taxpayers may choose between pre and post appraisals of the damaged property or any of the four safe harbor methods in Rev. Proc. 2006-32.

Taxpayers in the heavily devastated areas have been given other relief through extensions and postponements of filing deadlines. Combined with the safe harbor methods, taxpayers are in much better position to report personal casualty damages on their personal tax returns. However, the safe harbor methods only apply to personal-use residential real property; thus, much work could still remain to calculate the casualty damages for non-covered assets and for non-individual returns. Also, taxpayers still need to determine basis for damaged/destroyed/lost asset(s). This process will be challenging since many taxpayers records have been lost; hopefully, the tips provided will be helpful.

As a practicing, commercial appraiser and tax practitioner, the authors urge the immediate authorization of valuation opinions to preserve the casualty loss claims for taxpayers' property not covered by the safe harbor methods in Rev. Proc. 2006-32.

Also, where additional time is needed to accurately report casualty transactions for assets not covered by Rev. Proc. 2006-32, particularly for individual, corporation, partnership and fiduciary returns, steps should be taken at August 28, 2006, to ensure that necessary extension request forms are filed.

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