26 CFR 601.105. Examination of returns and claims for refund, credit or abatement; determination of correct tax liability.
(Also Part I, §§ 165; 1.165-1(c)(4), 1.165-1(d)(2)(iii), 1.165-7(a)(2), 1.165-7(b).)

Rev. Proc. 2018-09

CONTENTS

SECTION 1. PURPOSE

.01 This revenue procedure provides the Cost Indexes Safe Harbor Method that individual taxpayers may use in determining the amount of their casualty losses pursuant to § 165 of the Internal Revenue Code for their personal-use residential real property (as defined in section 3.02 of this revenue procedure) damaged or destroyed as a result of Hurricane and Tropical Storm Harvey, Hurricane Irma, and Hurricane Maria (the “2017 Hurricanes”). Specifically, this revenue procedure provides a safe harbor method that individuals may use to determine the decrease in fair market value of their personal-use residential real property on their U.S. income tax returns filed with the Internal Revenue Service (IRS).

.02 The IRS will not challenge an individual’s determination of the decrease in fair market value of personal-use residential real property attributable to one of the 2017 Hurricanes if the individual qualifies for and uses the safe harbor method described in section 4 of this revenue procedure.

.03 If an individual uses the safe harbor method described in section 4 of this revenue procedure, the individual also must take into account the value of any no-cost repairs as described in section 6 of this revenue procedure.

.04 Use of the safe harbor method described in this revenue procedure is not mandatory. An individual may, instead, use a safe harbor method described in Rev. Proc. 2018-08, 2018-02 I.R.B. XX, or the actual reduction in the fair market value of the personal-use residential real property, pursuant to § 1.165-7(a)(2) of the Income Tax Regulations, if the individual has proper substantiation.

.05 The safe harbor method provided in this revenue procedure applies only to the circumstances within the scope of this revenue procedure and may not be used in any other circumstances.

SECTION 2. BACKGROUND

.01 Section 165(a) generally provides that a taxpayer may deduct any loss sustained during the taxable year and not compensated for by insurance or otherwise. With respect to property not connected with a trade or business or a transaction entered into for profit, § 165(c)(3) limits an individual's deductions to losses arising from fire, storm, shipwreck, or other casualty, or from theft.

.02 Section 165(h) imposes two limitations on casualty and theft loss deductions for property not connected with a trade or business or transaction entered into for profit. Section 165(h)(1) provides that any loss to an individual described in § 165(c)(3) shall be allowed only to the extent that the amount of the loss arising from each casualty, or from each theft, exceeds $100. Section 165(h)(2) provides that if personal casualty and theft losses for any taxable year exceed personal casualty and theft gains for the taxable year, the losses are allowed only to the extent of the sum of the amount of the gains, plus so much of the excess as exceeds ten percent of the adjusted gross income of the individual.

.03 Section 165(h)(4)(E) provides that to the extent an individual's casualty loss is covered by insurance, such loss shall be taken into account only if the individual files a timely insurance claim with respect to such loss.

.04 Section 165(i)(1) allows an individual who suffered a loss occurring in a disaster area and attributable to a Federally declared disaster to take the loss into account for the taxable year immediately preceding the taxable year in which the disaster occurred.

.05 Section 165(i)(5)(A) defines "Federally declared disaster" as any disaster subsequently determined by the President of the United States to warrant assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act ("Stafford Act"). Section 165(i)(5)(B) defines "disaster area" as the area so determined to warrant such assistance.

.06 The Disaster Tax Relief and Airport and Airway Extension Act of 2017 ("Disaster Tax Relief Act"), Pub. L. No. 115-63, 131 Stat. 1168, 1182-1183 (Sept. 29, 2017), modifies some of the general rules under § 165 for losses in certain geographic areas. Section 504(b) of the Disaster Tax Relief Act increases the § 165(h)(1) dollar limitation from $100 to $500, waives the § 165(h)(2) ten percent of adjusted gross income limitation, increases the § 63 standard deduction, and provides that such increase in the standard deduction is allowed in computing the alternative minimum tax. Section 504(b) of the Disaster Tax Relief Act applies only to net disaster losses, which are the excess of losses attributable to Hurricanes Harvey, Irma, and Maria and that arose in the Hurricane Harvey disaster area, Hurricane Irma disaster area, or Hurricane Maria disaster area after particular dates, over personal casualty gains.

.07 Under § 501(a)(2) of the Disaster Tax Relief Act, “Hurricane Harvey disaster area,” “Hurricane Irma disaster area,” and “Hurricane Maria disaster area” are areas with respect to which a major disaster has been declared by the President under § 401 of the Stafford Act by reason of Hurricane Harvey, Hurricane Irma, and Hurricane Maria, respectively. For areas with respect to which a major disaster has been declared by the President under § 401 of the Stafford Act, see www.fema.gov/disasters.

.08 Section 1.165-1(c)(4) provides that in determining the amount of loss sustained, adjustments must be made for any insurance or other compensation received.

.09 Section 1.165-1(d)(2)(iii) provides that if a taxpayer deducted a loss and in a subsequent taxable year receives reimbursement for such loss, the taxpayer does not recompute the tax for the taxable year in which the deduction was taken but includes the amount of such reimbursement in gross income for the taxable year in which received, subject to the provisions of section 111, relating to recovery of amounts previously deducted.

.10 Section 1.165-7(b) provides that the amount of a casualty loss is the lesser of (1) the difference between the fair market value of the property immediately before the casualty and the fair market value immediately after the casualty, or (2) the adjusted basis of the property. Section 1012 and § 1.1012-1(a) provide that the basis of property generally is its cost. Section 1016(a)(1) and § 1.1016-2(a) provide that the basis of property is adjusted for any expenditure, receipt, loss, or other item, properly chargeable to capital account, including the cost of improvements and betterments made to the property.

.11 Section 1.165-7(a)(2)(i) provides that to determine the amount of the deductible loss under section 165(a), the fair market value of the property immediately before and immediately after the casualty generally shall be ascertained by competent appraisal. Section 1.165-7(a)(2)(ii) provides that the cost of repairs to the property damaged is acceptable as evidence of the decrease in value of the property if the taxpayer shows that: (1) the repairs are necessary to restore the property to its condition immediately before the casualty; (2) the amount spent for such repairs is not excessive; (3) the repairs do not care for more than the damage suffered; and (4) the value of the property after the repairs does not, as a result of the repairs, exceed the value of the property immediately before the casualty. In order to use the cost-of-repairs method to determine the decrease in fair market value, the taxpayer must actually make the repairs rather than rely on estimates of repairs that will be performed in the future or not at all. See Lamphere v. Commissioner, 70 T.C. 391, 396 (1978), acq., 1978-2 C.B. 2; Farber v. Commissioner, 57 T.C. 714, 719 (1972), acq., 1972-2 C.B. 2. But see § 4.02 of Rev. Proc. 2018-08 (providing an estimated repair cost safe harbor method).

.12 Section 1.165-7(b)(2)(ii) provides that in determining a casualty loss involving real property and improvements thereon not used in a trade or business or in any transaction entered into for profit, the improvements (such as buildings and ornamental trees and shrubbery) to the property damaged or destroyed are considered an integral part of the property, and no separate basis need be apportioned to the improvements.

.13 Taxpayers report gains and losses from casualties on Form 4684 according to the Form 4684 instructions, as updated at www.irs.gov/form4684. See special instructions at www.irs.gov/form4684 for taxpayers electing under § 165(i) to report their casualty losses calculated under this revenue procedure on an original or amended 2016 tax return.

.14 Rev. Proc. 2018-08, provides safe harbor methods that individuals may use in determining the amount of their casualty and theft losses under § 165 for personal-use residential real property and personal belongings. Due to the widespread devastation from the 2017 Hurricanes, the Treasury Department and the IRS are providing an additional safe harbor method that individuals may use under § 1.165-7(a)(2) to measure the decrease in the fair market value of their personal-use residential real property that was damaged or destroyed as a result of the 2017 Hurricanes.

SECTION 3. SCOPE

.01 In general. An individual with a U.S. income tax filing requirement who suffered a casualty loss to the individual's personal-use residential real property located in the 2017 Disaster Area as a result of the 2017 Hurricanes may use the safe harbor method provided in this revenue procedure in determining the amount of the individual's casualty loss under § 165. The term "2017 Disaster Area" means the entire states of Texas, Louisiana, Florida, Georgia, and South Carolina, the Commonwealth of Puerto Rico, and the territory of the U.S. Virgin Islands. This revenue procedure applies to bona fide residents of Puerto Rico and the U.S. Virgin Islands only where these individuals otherwise have a U.S. income tax filing requirement.

.02 Definition of personal-use residential real property and personal residence. For purposes of this revenue procedure, personal-use residential real property is real property, including improvements (such as buildings and ornamental trees and shrubbery), that is owned by the individual who suffered a casualty loss and that contains at least one personal residence. Personal-use residential real property does not include a personal residence if any part of the personal residence is used as rental property or contains a home office used in a trade or business or transaction entered into for profit. For purposes of this revenue procedure, a personal residence is a single family residence, or a single unit within a contiguous group of attached residential units (for example, a townhouse or duplex), owned by the individual who suffered a casualty loss, and consists of the total enclosed square footage of the residence or single unit, including any enclosed structures attached to the residence or single unit. For example, a personal residence includes a basement and an attached garage, but does not include a deck or screened-in porch. For purposes of this revenue procedure, a personal residence does not include a condominium or cooperative unit, or any other property for which the individual who suffered the casualty loss does not own the structural components of the building (such as the foundation, walls, and roof), or owns only a fractional interest in all of the structural components of the building, or a mobile home or trailer.

.03 Use of Cost Indexes Safe Harbor Method. An individual described in section 3.01 of this revenue procedure may use the Cost Indexes Safe Harbor Method if the individual's personal-use residential real property has suffered, in the circumstances described below, (1) a total loss of a personal residence, (2) a near total loss of a personal residence, (3) interior flooding over 1 foot of a personal residence, (4) structural damage from wind, rain, or debris to a personal residence, (5) roof covering damage from wind, rain, or debris to a personal residence, (6) damage to a detached structure, or (7) damage to decking:

(1) Total loss. A total loss of a personal residence occurs if, as a result of one of the 2017 Hurricanes, any one of the following occurred:

(a) The personal residence either collapsed or is structurally unsound (for example, the structural connections in the personal residence, such as nails and anchor bolts, have corroded as a result of prolonged exposure to water over an extended period of time to the extent that they compromise the structural integrity of the personal residence);

(b) The state or local government or any political subdivision thereof has ordered that the personal residence be demolished or relocated;

(c) The individual has sold the personal residence to an unrelated party for a price that reflects the fair market value solely of the land on which the personal residence is situated; or

(d) The personal residence sustained damage that satisfies the definition of near total loss, as described in section 3.03(2) of this revenue procedure, and the individual has demolished the personal residence.

(2) Near total loss. The near total loss of a personal residence occurs if, as a result of one or more of the 2017 Hurricanes, the personal residence sustained severe damage necessitating the removal and disposal of substantially all interior wall frame coverings (including drywall and other wall frame coverings), floorings, electrical lines, ducts, plumbing, and other fixtures. For a personal residence sustaining near total loss, only the wood frame, rafters, and outside façade of the personal residence remain structurally sound and reusable.

(3) Interior flooding over 1 foot. Interior flooding over 1 foot occurs if a personal residence was flooded with water to a height of more than 1 foot as a result of one or more of the 2017 Hurricanes, but did not sustain damage that falls within the definition of total loss or near total loss, as described in sections 3.03(1) and (2) of this revenue procedure.

(4) Structural damage from wind, rain, or debris. Structural damage from wind, rain, or debris occurs if a personal residence sustained major structural damage to the roof and/or outside wall(s) as a result of wind or windblown debris from one or more of the 2017 Hurricanes that exposed part or all of the interior of the personal residence to rain or debris, requiring substantial renovation of the damaged areas. Substantial renovation requires the removal

and replacement of drywall or other wall frame coverings, replacement of trim, and repair and painting of the damaged interior areas of the personal residence.

(5) Roof covering damage from wind, rain, or debris. Roof covering damage from wind, rain, or debris occurs if a personal residence sustains damage from wind, rain, or windblown debris to roofing felt, shingles, flashings, fascia, or soffit as a result of one or more of the 2017 Hurricanes.

(6) Damage to a detached structure. Damage to a detached structure occurs if, as a result of one or more of the 2017 Hurricanes, the detached structure requires either complete or major rebuilding. A detached structure is an enclosed structure of wood-frame construction that has some electrical capabilities, but little or no interior finishing. A detached structure is located on personal-use residential real property and includes a shed, shop, or detached garage that is not used in connection with a trade or business and that is not equipped with heating or air conditioning.

(7) Damage to decking. Damage to decking occurs if, as a result of one or more of the 2017 Hurricanes, the decking attached to a personal residence was damaged or destroyed.

.04 Taking into account no-cost repairs. An individual using the Cost Indexes Safe Harbor Method described in section 4 of this revenue procedure must take into account the value of any no-cost repairs as described in section 6 of this revenue procedure.

.05 Limited use of safe harbor method. The safe harbor method described in section 4 is available only in the circumstances described in this revenue procedure.

SECTION 4. COST INDEXES SAFE HARBOR METHOD

.01 In general. An individual within the scope of this revenue procedure may use the safe harbor method described in this section 4. If an individual owns two or more parcels of personal-use residential real property, the use of the Cost Indexes Safe Harbor Method for one parcel does not require the individual to use the Cost Indexes Safe Harbor Method, or any safe harbor method, for any other parcel.

Under the Cost Indexes Safe Harbor Method, an individual may use one or more of the cost indexes, as applicable, provided in this section 4 to determine the decrease in the fair market value of personal-use residential real property, including the personal residence, detached structures, and decking. Cost indexes are provided for three size categories of personal residences based on the square footage of the personal residence and for seven geographic areas.

In computing the decrease in fair market value under the Cost Indexes Safe Harbor Method, an individual must take into account the value of any no-cost repairs as described in section 6 of this revenue procedure.

If the Cost Indexes Safe Harbor Method described in this section 4 is used, the amount determined is the full amount of the decrease in fair market value of that personal-use residential real property and may not be increased by amounts related to items such as landscaping, debris removal, demolition, etc.

The Cost Indexes Safe Harbor Method applies only to the following three types of improvements on an individual's personal-use residential real property: a personal residence (as described in section 3.02 of this revenue procedure), a detached structure (as described in section 3.03(6) of this revenue procedure), and a deck (as described in section 3.03(7) of this revenue procedure). If there is any other type of improvement on an individual's personal-use residential real property that is not described in sections 3.02, 3.03(6), and 3.03(7) of this revenue procedure, the individual may use the Cost Indexes Safe Harbor Method to determine the decrease in fair market value of the personal-use residential real property, but may not add any amount for the other type of improvements. The decrease in fair market value of the other type of improvement may be determined by another applicable method. For example, under the Cost Indexes Safe Harbor Method, no amount may be added to the decrease in fair market value of the personal-use residential real property for a residence that contains a home office, a residence in a structure that contains five or more residential units, or a detached structure equipped with heating or air conditioning.

.02 Special Rules.

(1) A personal residence may not be subject to more than one of the following tables: Table 1 (Total Loss); Table 2 (Near Total Loss); or Table 3 (Interior Flooding Over 1 Foot).

(2) A personal residence subject to Table 3 (Interior Flooding Over 1 Foot) also may be subject to Table 4 (Structural Damage From Wind, Rain, or Debris), but the square footage flooded may not be included in the square footage used for Table 4 (Structural Damage From Wind, Rain, or Debris).

(3) A personal residence subject to Table 3 (Interior Flooding Over

1 Foot) or Table 4 (Structural Damage From Wind, Rain, or Debris) also may be subject to Table 5 (Roof Covering Damage from Wind, Rain, or Debris).

(4) Table 6 (Damage to a Detached Structure) and Table 7 (Damage to Decking) may apply to any personal-use residential real property without regard to whether Table 1 (Total Loss), Table 2 (Near Total Loss), Table 3 (Interior Flooding Over 1 Foot), Table 4 (Structural Damage From Wind, Rain, or Debris), or Table 5 (Roof Covering Damage From Wind, Rain, or Debris) apply to a personal residence located on such property.

(5) If an individual's personal-use residential real property contains more than one personal residence and the individual uses the Cost Indexes Safe Harbor Method, the individual must apply the applicable table, or combination of tables, to each personal residence.

.03 Tables. The following tables set forth the cost indexes for each corresponding category described in section 3.03 of this revenue procedure:

Table 1 – Total Loss

Total Loss – Cost Index Per Square Foot							
Personal Residence Size and Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
Small Personal Residence (Personal residence is less than 1,500 square feet)	$231	$231	$235	$231	$231	$231	$293
Medium Personal Residence (Personal residence is between 1,500 and 3,000 square feet)	$195	$195	$208	$195	$195	$195	$248

Large Personal Residence (Personal residence is greater than 3,000 square feet)	$174	$175	$193	$174	$175	$175	$222

For a personal residence that falls within the description of a total loss in section 3.03(1) of this revenue procedure, use Table 1 as follows:

(1) Determine the total square footage of the personal residence.

(2) Determine the size of the personal residence based on the total square footage described in Table 1.

(3) Determine which column applies based on the geographic location of the personal residence.

(4) Multiply the total square footage of the personal residence (from step 1) by the applicable cost index based on the appropriate column of Table 1.

Table 2 – Near Total Loss

Near Total Loss – Cost Index Per Square Foot							
Personal Residence Size and Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
Small Personal Residence (Personal residence is less than 1,500 square feet)	$185	$187	$190	$185	$187	$187	$237
Medium Personal Residence (Personal residence is between 1,500 and 3,000 square feet)	$156	$158	$166	$156	$158	$158	$201
Large Personal Residence (Personal residence is	$139	$141	$154	$139	$141	$141	$179

greater than 3,000 square feet)							

For a personal residence that falls within the description of a near total loss in section 3.03(2) of this revenue procedure, use Table 2 as follows:

(1) Determine the total square footage of the personal residence.

(2) Determine the size of the personal residence based on the total square footage described in Table 2.

(3) Determine which column applies based on the geographic location of the personal residence.

(4) Multiply the total square footage of the personal residence (from step 1) by the applicable cost index based on the appropriate column of Table 2.

Table 3 – Interior Flooding Over 1 Foot

Interior Flooding Over 1 Foot – Cost Index Per Square Foot							
Personal Residence Size and Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
Small Personal Residence (Personal residence is less than 1,500 square feet)	$139	$143	$146	$139	$143	$143	$182
Medium Personal Residence (Personal residence is between 1,500 and 3,000 square feet)	$117	$121	$125	$117	$121	$121	$154
Large Personal Residence (Personal residence is greater than 3,000 square feet)	$104	$108	$116	$104	$108	$108	$137

The cost indexes in Table 3 are applied only to the square footage of the personal residence that was flooded, rather than the total square footage.

For a personal residence that was flooded to a height of greater than 1 foot, as described in section 3.03(3) of this revenue procedure, and does not fall within the description of a total loss or near total loss in sections 3.03(1) and (2) of this revenue procedure, use Table 3 as follows:

(1) Determine the total square footage of the personal residence.

(2) Determine the size of the personal residence based on the total square footage described in Table 3.

(3) Determine the square footage of the flooded area of the personal residence.

(4) Determine which column applies based on the geographic location of the personal residence.

(5) Multiply the flooded square footage (from step 3) by the applicable cost index based on the appropriate column of Table 3.

Table 4 – Structural Damage From Wind, Rain, or Debris

Structural Damage From Wind, Rain, or Debris – Cost Index Per Square Foot							
Percent of Damage Category Percent Damaged = Square Footage of Damaged Area / Total Square Footage of Personal Residence							
Percent Damaged and Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
15% to 25%	$189	$189	$202	$189	$189	$189	$240
26% to 50%	$174	$174	$186	$174	$174	$174	$221
51% to 100%	$157	$157	$168	$157	$157	$157	$199

The cost indexes in Table 4 apply only to the square footage of the damaged area of the personal residence, rather than the total square footage.

Personal residences that sustained 100% wind, rain, or debris damage are those that sustained major structural damage throughout the entire personal residence necessitating substantial renovation (as defined in section 3.03(4) of this revenue procedure) of all of the rooms in the personal residence.

For a personal residence that sustained structural damage from wind, rain, or debris, use Table 4 as follows:

(1) Determine the total square footage of the personal residence.

(2) Determine the square footage of the damaged portion of the personal residence by adding the square footage of each room needing substantial renovation.

(3) Determine the percent of square footage of the personal residence that was damaged by dividing the square footage that was damaged (from step 2) by the total square footage (from step 1).

(4) Determine which column applies based on the geographic location of the personal residence.

(5) Multiply the square footage of the damaged area (from step 2) by the applicable cost index based on the appropriate column of Table 4 (based on the percent of damage range in column 1 of Table 4).

Table 5 – Roof Covering Damage From Wind, Rain, or Debris

Roof Covering Damage From Wind, Rain, or Debris – Cost Index Per Square Foot							
Personal Residence Size and Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
Small Personal Residence (Personal residence is less than 1,500 square feet)	$8	$8	$8	$8	$8	$8	$10

Medium Personal Residence (Personal residence is between 1,500 and 3,000 square feet)	$8	$8	$8	$8	$8	$8	$10
Large Personal Residence (Personal residence is greater than 3,000 square feet)	$7	$7	$7	$7	$7	$7	$9

If the personal residence sustained roof covering damage from wind, rain, or debris as described in section 3.03(5) of this revenue procedure, apply the applicable cost index in Table 5 to the total square footage under the roof (including the porch, patios, and overhangs).

For a personal residence that sustained roof covering damage from wind, rain, or debris, as described in section 3.03(5) of this revenue procedure, use Table 5 as follows:

(1) Determine the total square footage of the ground floor of the personal residence.

(2) Add to the total square footage of the ground floor (from step 1) the square footage of any area of the roof that extends beyond the ground floor, such as porches and attached carports, to determine the total square footage under the roof.

(3) Determine the applicable cost index in Table 5 based on the total square footage and the geographic location of the personal residence.

(4) Multiply the total square footage under the roof (from step 2) by the applicable cost index based on the appropriate column of Table 5.

Table 6 – Damage to a Detached Structure

Damage to a Detached Structure – Cost Index Per Square Foot

Detached Structure Size and Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
Up to 200 square feet	$63	$65	$71	$63	$65	$65	$81
Over 200 and up to 400 square feet	$50	$51	$56	$50	$51	$51	$64
Over 400 square feet	$44	$46	$50	$44	$46	$46	$58

For a detached structure on personal-use residential real property, as described in section 3.03(6) of this revenue procedure, apply the applicable cost index in Table 6 as follows:

(1) Determine the total square footage of the detached structure.

(2) Determine the size of the detached structure based on the total square footage described in column 1 of Table 6.

(3) Determine which column applies based on the geographic location of the personal residence.

(4) Multiply the total square footage of the detached structure (from step 1) by the applicable cost index based on the appropriate column of Table 6.

Table 7 – Damage to Decking

Damage to Decking – Cost Index Per Square Foot							
Location	Texas	Louisiana	Florida	Georgia	South Carolina	Puerto Rico	U.S. Virgin Islands
Use for all types of decking	$27	$27	$29	$27	$27	$27	$33

For decking attached to a personal residence, as described in section 3.03(7) of this revenue procedure, apply the cost index in Table 7 as follows:

(1) Determine the square footage of the damaged area of the deck.

(2) Multiply the square footage of the damaged area of the deck (from step 1) by the applicable cost index based on the appropriate column of Table 7.

SECTION 5. EXAMPLES

The following examples illustrate the application of the Cost Indexes Safe Harbor Method described in section 4 of this revenue procedure.

Example 1. Prior to Hurricane Irma, an individual purchased a personal residence in Florida for $500,000. The personal residence is 2,000 square feet and the personal-use residential real property does not contain any decking or detached structures. The personal residence was flooded for over three weeks, causing the structural connections in the personal residence to corrode to the extent they must be replaced. The personal residence is located in the 2017 Disaster Area. Insurance and other reimbursements total $100,000. The individual chooses to use the Cost Indexes Safe Harbor Method. Because the corrosion damage to the personal residence falls within the definition of total loss, as defined in section 3.03(1) of this revenue procedure, the individual uses Table 1 of the Cost Indexes Safe Harbor Method to determine the decrease in fair market value of the personal-use residential real property. The individual multiplies the square footage of the personal residence by the cost index for a Medium Personal Residence in Florida in Table 1, as follows:

2,000 sq. ft. x $208/sq. ft. = $416,000

The individual compares the decrease in fair market value, $416,000, with the basis in the personal-use residential real property, $500,000, and from the smaller of these two amounts, $416,000, subtracts the insurance and other reimbursements of $100,000. The amount of the individual's casualty loss is $316,000 ($416,000 - $100,000).

Example 2. Assume the same facts in Example 1, except that the individual purchased the personal-use residential real property twenty years ago for $120,000 and paid no additional amounts for improvements or remodeling. The individual compares the decrease in fair market value, calculated using the Cost Indexes Safe Harbor Method in Example 1, with the basis of the personal-use residential real property. Since the basis of $120,000 is less than the decrease in fair market value, $416,000, the individual's casualty loss is limited to the basis of $120,000. After subtracting insurance and other reimbursements of $100,000 from the basis of $120,000, the amount of the individual's casualty loss is $20,000 ($120,000 - $100,000 = $20,000).

Example 3. An individual's personal residence in Puerto Rico is substantially damaged by a storm surge from Hurricane Maria. The individual is not a bona fide resident of Puerto Rico. The individual's personal-use residential real property is located in the 2017 Disaster Area. The damage falls within the definition of near total loss, as defined in section 3.03(2) of this revenue procedure, since all of the drywall, floorings, electrical lines, ducts, plumbing, and other fixtures need to be replaced. Prior to Hurricane Maria, the individual purchased the personal-use residential real property for $190,000 and spent $10,000 for improvements to remodel the residence. Immediately prior to Hurricane Maria, the adjusted basis of the property was $200,000 ($190,000 cost + $10,000 improvements). The personal residence is 2,000 square feet and the personal-use residential real property does not contain any decking or detached structures. The individual paid $5,000 to have debris cleared from the personal-use residential real property. Insurance and other reimbursements total $100,000.

Because the damage to the personal residence falls within the definition of near total loss, the individual uses Table 2 of the Cost Indexes Safe Harbor Method to determine the decrease in fair market value of the personal-use residential real property. Using Table 2 of the Cost Indexes Safe Harbor Method, the decrease in fair market value of the personal-use residential real property is determined by multiplying the square footage of the personal residence by the cost index for a Medium Personal Residence in Puerto Rico as follows:

2,000 sq. ft. x $158/sq. ft. = $316,000

Because the individual chooses to use the Cost Indexes Safe Harbor Method for determining the decrease in fair market value, the $5,000 debris removal costs are not added to the safe harbor amount of $316,000. The individual compares the adjusted basis of the personal-use residential real property to the decrease in fair market value determined by using the Cost Indexes Safe Harbor Method. Since the adjusted basis of $200,000 is less than the decrease in fair market value, $316,000, the individual's casualty loss is limited to the adjusted basis of $200,000. After subtracting $100,000, the amount of insurance and other reimbursements received, from the adjusted basis of $200,000, the amount of the individual's casualty loss is $100,000 ($200,000 - $100,000 = $100,000).

Example 4. The first floor of an individual's personal residence in Texas was flooded with 3 feet of water during Hurricane Harvey. As a result of the flooding, all of the flooring and drywall on the first floor needs to be replaced. The second floor of the personal residence is not damaged. While the personal residence sustained flooding of more than 1 foot, it did not sustain damage that falls within the definition of total loss or near total loss in sections 3.03(1) and (2) of this revenue procedure. Therefore, the personal residence sustained interior flooding over 1 foot as described in section 3.03(3) of this revenue procedure. In addition, the deck attached to the personal residence was completely destroyed by Hurricane Harvey. The personal-use residential real property is located in the 2017 Disaster Area. The personal residence is 2,000 square feet and the personal-use residential real property does not contain any detached structures. The total square footage of the flooded rooms on the first floor is 1,000 square feet. Prior to Hurricane Harvey, the individual purchased the personal-use residential real property for $200,000. Insurance and other reimbursements total $90,000. The individual chooses to use the Cost Indexes Safe Harbor Method.

To calculate the decrease in fair market value of the personal-use residential real property, the individual uses the first column of Table 3 to determine the size of the personal residence based on the total square footage of the personal residence. The individual multiplies the flooded square footage of the personal residence, 1,000 square feet, by $117, the cost index for a Medium Personal Residence in Texas, in Table 3.

1,000 sq. ft. x $117/sq. ft. = $117,000

The deck is 200 square feet.

Using Table 7, the individual multiplies the square footage of the damaged area of the deck, 200 square feet, by the cost index of $27 for Texas in Table 7.

200 sq. ft. x $27/sq. ft. = $5,400

To determine the total decrease in fair market value of the personal-use residential real property the individual adds $5,400 to $117,000.

$5,400 + $117,000 = $122,400

The individual then compares the basis of the personal-use residential real property, $200,000, to the decrease in fair market value determined by using the Cost Indexes Safe Harbor Method, $122,400. Since the decrease in fair market value of $122,400 is less than the basis of $200,000, the individual's casualty loss is limited to $122,400. After subtracting $90,000, the amount of insurance and other reimbursements, from $122,400, the amount of the individual's casualty loss is $32,400 ($122,400 - $90,000 = $32,400).

Example 5. Prior to Hurricane Irma, an individual purchased personal-use residential real property for $200,000 in Georgia and spent $5,000 for improvements to the personal-use residential real property. Two trees fell onto the individual's personal residence during Hurricane Irma, destroying a portion of the roof. Rain from the hurricane soaked the walls and flooring of two bedrooms and the living room, necessitating removal and replacement of drywall and wood paneling, roof panels, trusses, and flooring. The rest of the personal residence remains undamaged. The personal residence was not flooded. Therefore, the damage constitutes structural damage from wind, rain, or debris, as described in section 3.03(4) of this revenue procedure. The individual's personal-use residential real property is located in the 2017 Disaster Area. The personal residence is 2,000 square feet and the personal-use residential real property does not contain any decking or detached structures. The damaged two bedrooms and living room total 1,000 square feet. Insurance and other reimbursements total $100,000.

The individual chooses to use the Cost Indexes Safe Harbor Method. Using Table 4, the percentage of square footage of the personal residence that was damaged by the hurricane is determined by dividing the total square footage of the personal residence by the square footage of the personal residence that was damaged as follows:

1,000 sq. ft. / 2,000 sq. ft. = 0.50 or 50% of the total square footage was damaged.

The individual uses the cost index in the column for Georgia of Table 4 for 26% to 50% damage and multiplies it by the number of square feet that were damaged.

$174/sq. ft. x 1,000 sq. ft. = $174,000

The roof covering also sustained damage that necessitated replacement of all roof shingles, felt lining, and flashings. The total square footage of the ground floor of the personal residence is 2,000 square feet. The total square footage under the roof, including porches, patios, and overhangs, is 2,200 square feet. The individual multiplies the cost index for a Medium Personal Residence in Georgia in Table 5 by 2,200 square feet, the total square footage under the roof.

2,200 sq. ft. x $8/sq. ft. = $17,600

The individual adds $17,600 to $174,000 to determine the total decrease in fair market value of the personal-use residential real property.

$17,600 + $174,000 = $191,600

The individual compares the decrease in fair market value, $191,600, with the adjusted basis, $205,000, and from the smaller of these two amounts, $191,600, subtracts insurance and other reimbursements of $100,000. The amount of the individual's casualty loss is $91,600 ($191,600 - $100,000 = $91,600).

Example 6. Winds from Hurricane Maria caused a tree to fall across a detached garage located on an individual's personal-use residential real property in the U.S. Virgin Islands. The individual is not a bona fide resident of the U.S. Virgin Islands. Prior to Hurricane Maria, the individual purchased the personal-use residential real property for $200,000. The personal residence is located in the 2017 Disaster Area. The personal residence is not damaged by Hurricane Maria. The personal-use residential real property does not contain any decking or other detached structures. The garage suffered significant damage and requires major rebuilding. The total square footage of the garage is 400 square feet. The garage was not insured.

The individual chooses to use the Cost Indexes Safe Harbor Method. Because the garage is a detached structure, as described in section 3.03(6) of this revenue procedure, the individual uses Table 6 to determine the decrease in fair market value of the personal-use residential real property. Using Table 6, the individual multiplies the total square footage of the garage, 400 square feet, by the cost index of $64 in the column for the U.S. Virgin Islands of Table 6.

400 sq. ft. x $64/sq. ft. = $25,600

The individual's basis in the personal-use residential real property is $200,000. The individual compares the decrease in fair market value, $25,600, with the basis, $200,000. Since the decrease in fair market value is less than the basis, the amount of the individual's casualty loss is $25,600.

Example 7. Winds from Tropical Storm Harvey blew down a pine tree that destroyed part of a deck attached to the back of an individual's personal residence in Louisiana. The personal-use residential real property is located in the 2017 Disaster Area. The individual's basis in the personal-use residential real property is $200,000. Neither the personal residence nor any detached structure was damaged by the fallen tree. The deck is 450 square feet. It is necessary to rebuild one-half of the deck. The remaining half of the deck is not damaged and remains structurally sound.

The individual chooses to use the Cost Indexes Safe Harbor Method for the damage described in section 3.03(7) of this revenue procedure and uses Table 7 to determine the decrease in fair market value of the personal-use residential real property.

The square footage of the damaged area of the deck is one-half of 450 square feet, which is 225 square feet. Using Table 7, the individual multiplies the square footage of the damaged area of the deck, 225 square feet, by the cost index of $27 in the column for Louisiana in Table 7.

225 sq. ft. x $27/sq. ft. = $6,075

The individual compares the decrease in fair market value, $6,075, with the basis, $200,000. Since the decrease in fair market value is less than the basis, the amount of the individual's casualty loss is $6,075.

SECTION 6. REDUCTION FOR NO-COST REPAIRS

Under § 165(a), a casualty loss must be reduced by insurance or other amounts received, such as amounts given to an individual to repair the damage to the individual's property due to the casualty. This includes the value of repairs to, or rebuilding of, the individual's personal-use residential real property provided by another party at no cost to the individual ("no-cost repairs"), such as the repair or rebuilding of an individual's personal residence by volunteers. No-cost repairs include repairs made for a de minimis or token cost, donation, or gratuity.

An individual who uses the Cost Indexes Safe Harbor Method provided in section 4 of this revenue procedure to determine the decrease in the fair market value of the individual's personal-use residential real property must reduce the loss, determined using the Cost Indexes Safe Harbor Method, by the value of any no-cost repairs. For this purpose, the value of a no-cost repair is based upon the total square footage completely repaired at no cost to the individual. The total square footage completely repaired at no cost to the individual is multiplied by the same cost index the individual used to determine the decrease in the fair market value of the individual's personal-use residential real property.

This amount is then subtracted from the loss determined under the Cost Indexes Safe Harbor Method.

SECTION 7. EFFECTIVE DATE

This revenue procedure is effective for losses that are attributable to the 2017 Hurricanes and that arose in the 2017 Disaster Area after August 22, 2017.

SECTION 8. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-0074. Please refer to the Paperwork Reduction Act statement accompanying Form 1040, U.S. Individual Income Tax Return, for further information.

SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is Joanna L. Trebat of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Ms. Trebat at (202) 317-7003 (not a toll-free call).