



Dealing with financial disasters

By Mike Slotopolsky

MOST OF US HAVE TO DEAL WITH A financial disaster or two in our lifetime. Here's some advice how to handle the unexpected in a cool, collected manner.

Let's start with Mother Nature. When Hurricane Irene struck the east coast earlier this fall, it left many basements flooded and destroyed family possessions. I know. It happened to me as well. Even though the hurricane struck in 2011, you might not have to wait until you file your 2011 tax return to recoup tax benefits; you can file an amended 2010 tax return. The tax law allows you to claim a casualty loss in a federal declared disaster area on the tax return for the year before the disaster actually occurred. This way you get a tax refund faster. You must, of course, follow IRS rules that pertain to casualty losses. If you're better off taking the deduction on a 2011 tax return, you have 90 days to change your mind.

What about vital tax records destroyed by an act of nature? One way to prevent the loss of tax records is to safeguard them in a fire-resistant box or off-site location. You can receive bank statements and other documents by e-mail which can be stored electronically. All documents can be scanned, saved electronically, stored offsite. You should also maintain an inventory of any valuables. The IRS offers a workbook to create an inventory; they suggest photographing or videotaping valuables.

Another IRS publication — *Disaster Losses Kit for Individuals and Businesses*

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Financial disasters happen to everyone which is why it's important to plan ahead to protect yourself from a possible worst case scenario. Proper planning, good insurance, and savings are good first steps.

— has a wealth of information to help with financial and tax matters. The federal government also offers various help through SBA loans and FEMA grants.

Employers should update emergency plans on an annual basis, while individual taxpayers should keep track of important documents, like W-2s. Should you lose copies of a tax return in a disaster, contact the IRS immediately. Copies of returns and transcripts can be easily obtained.

A divorce can have major financial implications in addition to creating a mountain of stress. But a few smart tax moves before the decree is finalized can offer up big savings down the road. If you legally divorce in 2011, you're considered unmarried for the entire year so you can't use tax rates available to joint filers. Usually this is a big negative, since one spouse earns more income than the other. Alternatively, joint filers may be hurt by the marriage penalty if the income of both spouses is relatively even. It's best to calculate the dollars and cents both ways.

Generally payments that are designated as alimony in the divorce

decree are deductible by the payer and taxable to the recipient. Child support payments are non-deductible and tax-free. The general rule is the parent with custody for most of the year is entitled to the dependency exemption. However, if the custodial parent signs a formal waiver, the noncustodial parent may claim the exemptions. Keep this rule in mind as a bargaining chip in divorce proceedings. Be aware of a special rule for life insurance policies. If you continue to pay premiums on an ex-spouse's policy, you can deduct the cost only if your ex owns the policy and is the irrevocable beneficiary. (Children may be named as contingent beneficiaries.)

With a lackluster economy and unemployment high, most of us are living through financial disasters already including house foreclosures, unpaid credit credits, and mounting debt. The IRS offers relief in the form of Debt Cancellation rules. If a debt is cancelled or forgiven — other than as a gift or bequest — the debtor must include the cancelled amount in gross income for tax purposes. If the amount forgiven is \$600 or more, the debtor should receive a 1099-C form from the lender. The debtor may not have to report the entire amount of cancelled debt as income.

No doubt many of us are living through the worst financial circumstances of our lives. But when financial disaster strikes, the best way to deal with it is to take a deep breath, collect your thoughts, and contact a professional who may be able to help lighten the load with some guidance on the best way to weather the financial storm. □