Buchalter
CLIENT ALERT

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Tax Relief and Recovery: Key Considerations for Los Angeles Residents Affected by Recent Wildfires

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We at the Buchalter law firm understand that many have suffered greatly as a result of the recent wildfires. The loss of life, and the loss of homes with memories is, of course irreplaceable. We are hopeful that the information contained below, frames certain issues in a manner that is helpful. As the smoke clears from one of Los Angeles' most devastating fires—the Pacific Palisades and Eton fires—there are a number of federal and state tax considerations that business and individuals resident in Los Angeles County should be aware of. In particular, many taxpayers will benefit from new filing and payment deadline extensions announced by the Internal Revenue Service ("IRS") and California state authorities, expanded casualty loss rules that may allow for more favorable tax treatment of fire-related damages, and special deferral opportunities under Section 1033 of the Internal Revenue Code. The following Client Alert provides an overview of these critical tax provisions to help individuals and businesses navigate post-disaster recovery.

Federal and State Filing Deadlines

Internal Revenue Service

On January 10, 2025, the IRS announced that individuals and households that reside or have a business in Los Angeles County automatically qualify for extensions until October 15, 2025, to file various federal individual and business tax returns and make tax payments that were due after January 7, 2025. Federal extensions do not extend filing deadlines for any tax forms (including informational returns) or payments that were already past due before January 7, 2025. They also do not stop interest from accruing on taxes owed before or after that date – meaning that while a taxpayer that waits to file until October 15, 2025, may not incur failure to file or failure to pay penalties, they would have interest due on any underpayment due.

The IRS will automatically identify those in the affected disaster areas. Taxpayers who live outside of LA County but whose business records are maintained in the county (for example, by an accountant or tax preparer located within LA County) often also qualify for relief. In such cases, the taxpayer may need to call the IRS Disaster Hotline or reference the instructions in the official IRS notice to verify eligibility (as opposed to the automatic identification mentioned above). The IRS disaster hotline at 866-562-5227 to request this tax relief.

For federal tax purposes, the IRS has specifically identified the following payments as ones that can be deferred until October 15, 2025:

- Individual income tax returns and payments normally due on April 15, 2025.
- 2024 contributions to IRAs and health savings accounts for eligible taxpayers.

- 2024 quarterly estimated income tax payments normally due on Jan. 15, 2025, and estimated tax payments normally due on April 15, June 16 and Sept. 15, 2025.
- Quarterly payroll and excise tax returns normally due on Jan. 31, April 30 and July 31, 2025.
- Calendar-year partnership and S corporation returns normally due on March 17, 2025.
- Calendar-year corporation and fiduciary returns and payments normally due on April 15, 2025.
- Calendar-year tax-exempt organization returns normally due on May 15, 2025.

In addition, penalties for failing to make payroll and excise tax deposits due on or after January 7, 2025, and before January 22, 2025, will be abated as long as the deposits are made by January 22, 2025.

IRS press releases can be found **HERE**. As the week progresses, other areas may be deemed by the Federal Emergency Management Agency (FEMA) as disaster areas, thus qualifying those taxpayers for automatic extensions.

The IRS has not come forward with any policy on current or pending tax audits or assessments. Nor is there a blanket stay suspending certain collection actions, enforcement actions, liens and levies, or installment payment plans. Taxpayers would have to individually request relief.

Franchise Tax Board

Similarly, California Governor Gavin Newsom has granted a postponement to October 15, 2025, to file California tax returns on 2024 income and make any tax payments that would have been due January 7, 2025, through October 15, 2025, now due October 15, 2025. This generally aligns with the federal extension in most respects. The postponement includes the following:

- Individuals whose tax returns and payments are normally due on April 15, 2025.
- Quarterly estimated tax payments normally due on January 15, April 15, June 15, and September 15, 2025.
- Business entities whose corporate or pass-through entity tax returns are normally due on March 15 and April 15, 2025.
- Pass-through entity (PTE) elective tax payments normally due on March 15 and June 15, 2025.
- Tax-exempt organization returns normally due on May 15, 2025.

The California press release can be found **HERE**.

In all cases federal or state tax related, taxpayers should remember that they are responsible for maintaining records to substantiate deductions on their federal and state returns. Unfortunately, even in disasters, the burden to substantiate what is included on a tax return rests with the taxpayer. There is no general principle that shifts the burden away from the taxpayer with regard to the obligation to substantiate deductions. Taxpayers should plan early to re-create substantiation not just for the current year, but for past years that may be subject to audit. Many transactions will have a counterparty outside of Los Angeles. One way of obtaining such substantiation is to contact that counterparty to obtain a copy of any destroyed record.

California Department of Tax and Fee Administration

The California Department of Tax and Fee Administration (CDTFA) has automatically extended the tax filing deadline for three months for taxpayers within Los Angeles County. The CDTFA administers California's sales and use, fuel, tobacco, alcohol, cannabis taxes, and other taxes and fees that fund specific state programs. Upon request, CDTFA will offer relief beyond Los Angeles County, in addition to granting further filing extensions, interest and penalty waivers, and flexible payment plans for businesses. CDTFA returns and payments due on or before January 31, 2025, are automatically extended for Los Angeles County taxpayers whose last return was for less than $1 million in tax. This includes sales and use tax, as well as most other programs administered by CDTFA. A list of all tax programs included in this extension can be found on the CDTFA's website.

More on what the CDTFA is doing can be found **HERE**.

Los Angeles County Property Tax

Taxpayers may also qualify for property tax relief on their real property damaged or destroyed by the wildfires. It is important to note that a taxpayer must file an Application for Reassessment: Property Damaged or Destroyed by Misfortune or Calamity (M&C) Form ADS-820 with the Assessor's Office within 12 months from the date the property was damaged or destroyed. The loss must exceed $10,000 of current market value. The County has yet to put in place (and may not put in place) an automatic stay for payment of property tax. Effected taxpayers would have to file an M&C and specifically request relief.

For questions or to submit an M&C claim, email relief@assessor.lacounty.gov or call (213) 974-8658

Casualty Losses

A casualty loss can result from the damage, destruction, or loss of property from any sudden, unexpected, or unusual event such as a fire. The rules regarding what property is eligible and how much of a deduction may be taken are complicated and the taxpayer should seek advice from their respective tax preparer or professional. However, the Internal Revenue Code provides for favorable tax treatment, especially when such casualty or loss is sustained as a result of a natural disaster.

Under IRS rules, casualty losses are generally deductible in the year the damage occurs. There is an exception for losses due to a federally declared disaster. The White House has issued that declaration for the California wildfires. In that case, the tax law allows a taxpayer to make an election to claim that loss on the preceding year's return. Thus, a taxpayer is able to treat the loss as if it occurred in 2024, thereby offsetting their 2024 income. In other words, if the property is damaged or destroyed by a sudden, unexpected event such as a fire or natural disaster as the Pacific Palisades and Eton fires, a taxpayer could elect to claim that loss on their tax return for 2024, subject to specific limitations and documentation requirements.

While personal casualty losses are typically reported as itemized deductions on a taxpayer's tax return, business-related casualty losses are generally deducted on the relevant business form and do not require itemizing. Additionally, certain provisions—such as those related to federally declared disasters—allow a taxpayer to claim casualty losses without following standard itemized deduction rules.

Involuntary Conversions Under Section 1033 of the Code

Insurance proceeds ordinarily retain the character of the property they replace and are generally subject to tax upon receipt. However, proceeds arising from involuntary conversions—particularly where a federally declared disaster is involved—fall under special provisions that may be beneficial to a taxpayer, but can be complicated and carry strict deadlines. Taxpayers who receive such proceeds should consult with their tax counsel as soon as possible to ensure compliance with these rules and deadlines in order to mitigate tax exposure, especially given that the rebuilding process may be lengthy. Missing these deadlines could mean the difference between paying tax on insurance payments or not.

Conclusion

For those dealing with the aftermath of these horrific fire events, the path forward is trying but with early guidance may be navigable. Separating competent tax advice from wayward lay opinions means verifying such advice with your licensed CPA or Tax Attorney. The federal and state justice department have already issued warnings about tax scams. The IRS will not reach out over the phone asking for money. If your residence is no longer able to receive mail, it is recommended that you file a change of address promptly with the IRS, FTB, CDTFA, and county tax assessor. This will ensure that you receive your correspondence promptly form these agencies. Your address may also be updated on your next tax filing, but given the extensions, it may be prudent to file a change of address sooner rather than later.

In addition to our Tax Department, our firm has a Wildfire Legal Response Team made up of, insurance coverage, litigation and construction specialists.

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