Accounting Treatment of Intermittent Casualty Losses for a Low-Income Tax Credit Property

By Jenniffer Sanchez, CPA, Manager

In the aftermath of a disaster like a flood, fire or other casualty there can be a lot of confusion when dealing with the insurance company on whether or not the loss is covered. One thing often overlooked, however, is how this loss should be reflected on the books of your low-income housing tax credit property. These are just some things to keep in mind in the event of such a loss.

Write-Off Depends on Type of Loss

Accounting treatment of the loss depends on the type of loss.

If Total Loss – the net carrying amount of the asset is written off on the income statement with a charge to loss on disposal.

If Partial Loss – here is where things get tricky:

- When you are **able** to determine the portion of the property that has been damaged
  - Allocation of the loss must be reasonable, as this allocation calculation is used to come up with the loss amount. For example, if one unit was destroyed, the allocation can be one unit/total units in the building.
  - The allocation calculated above can be used to write-off the carrying amount of the asset.
- When you are **unable** to determine the portion of the property that has been damaged
  - You will need to estimate the historical cost of the damaged property as follows:
    1. Use the current cost to replace the property.
    2. Obtain cost index for the property in your area and look for the historical price index at date of acquisition of the property and the current price index. Divide the historical price index by the current price index.
    3. Use the rate calculated above times the replacement cost, now you have the historical cost of the property loss.
    4. Use the historical cost of property and calculate the accumulated depreciation at the time of the loss.
  - Use the net carrying value of the property calculated above to write-off the property from the books

Costs: Capitalized or Expensed?

Do you need to capitalize the costs of getting the property fully operational?

- Cost of new construction and replacement of damaged items are capitalized.
- Cost of clean-ups and repairs are expensed.

Low-Income Housing Tax Credit Effect

If a unit is uninhabitable or condemned, you may lose tax credits.

The status of the unit at year end affects tax credits

- If unit is back on line and occupied at December 31, credits are not lost and there is no recapture.
- If unit is not restored by December 31, credits are lost for the entire year.

Financial Statement Disclosures

If the loss is material to the entity, we recommend that the amount of the loss and insurance proceeds received, along with the costs to fix the unit(s), be disclosed.

Contact Us

Our next bulletin for low-income tax credit properties will discuss accounting for insurance proceeds. If your organization needs assistance navigating through a fire and a casualty loss, contact your client engagement partner or any of the following:

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