Legislative Assistance To Provide Disaster Relief
For Small Business Owners

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Abstract

When a severe natural disaster destroys a small business through wind, fire and/or flood, often the records of the business are destroyed, as well as the small business owners’ personal residence and personal belongings, too. In natural disaster areas, not even bank safety deposit boxes are safe. Normally, insurance records can be tentatively relied upon to assess the value of disaster losses, but not everyone is insured and flood victims are notoriously underinsured. The IRS recognized this for business owners who were hurricane victims of Katrina, Rita and Wilma and passed a special safe-harbor provision establishing standard rates for the amount of a total loss of structure in the form of Revenue Procedure 2006-32. Subsequently, U.S. taxpayers have weathered several other major national disasters, including large-scale flooding in the Midwest and Hurricane Ike, which are not covered by this Revenue Procedure. Since many of the victims of these and future devastations are in a similar situation to Katrina victims, the authors of this paper argue that this Revenue Procedure should form the basis for a standard, geographically-adjustable structure allowance for all subsequent major catastrophes where record loss is likely and victims have inadequate third-party insurance records on which to rely. A structure which is similar to maximum Federal per diem rates detailed in IRS Publication 1542, detailing the established deductible amount for meals in different cities throughout the Continental United States. Another similar example would be the standard mileage rate for the business use of your vehicle. While the business purpose must be substantiated for these aforementioned expenses, no receipts are required in order for the taxpayer to eligible for the income tax deduction on their tax return. This paper will be developed from the prospective disaster relief available for small business owners, as the authors have also developed a separate policy working paper for individuals who are victims personally, who are not business owners.