

**DESCRIPTION OF H.R. 5366,  
THE “FEDERAL DISASTER TAX RELIEF ACT OF 2025”**

Scheduled for Markup  
by the  
HOUSE COMMITTEE ON WAYS AND MEANS  
on March 25, 2026

Prepared by the Staff  
of the  
JOINT COMMITTEE ON TAXATION



March 23, 2026  
JCX-5-26

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## INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup for March 25, 2026, of H.R. 5366, the “Federal Disaster Tax Relief Act of 2025.” This document,<sup>1</sup> prepared by the staff of the Joint Committee on Taxation, provides a description of this bill.

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 5366, the “Federal Disaster Tax Relief Act of 2025”* (JCX-5-26), March 23, 2026. This document can also be found on the Joint Committee on Taxation website at [www.jct.gov](http://www.jct.gov). All section references in the document are to the Internal Revenue Code of 1986, as amended (the “Code”), unless otherwise stated.

## A. Codification and Extension of Rule for Casualty Losses Arising from Major Disasters

### Present Law

#### Personal casualty losses

##### In general

An individual taxpayer may claim an itemized deduction for a personal casualty loss in some circumstances.<sup>2</sup> If the loss is attributable to a disaster declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the “Stafford Act”) or a State declared disaster,<sup>3</sup> then the loss is deductible only to the extent of the sum of the individual’s personal casualty gains plus the amount by which aggregate net disaster-related losses exceed 10 percent of the individual taxpayer’s adjusted gross income.<sup>4</sup> All other personal casualty losses are deductible only to the extent that the losses do not exceed the individual’s personal casualty gains.

For individual taxpayers, personal casualty losses are losses of property not connected with a trade or business or a transaction entered into for profit, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft.<sup>5</sup> Personal casualty gains are recognized gains from any involuntary conversion of property not connected with a trade or business or a transaction entered into for profit, if such gains arise from fire, storm, shipwreck, or other casualty, or from theft.<sup>6</sup> Personal casualty losses generally are deductible to the extent they exceed \$100 per casualty.<sup>7</sup>

The term “State declared disaster” means any natural catastrophe that the governor of the State (or the mayor, in the case of the District of Columbia) and the Secretary of the Treasury (“Secretary”) determine causes damage of sufficient severity and magnitude to warrant application of the personal casualty loss rules.<sup>8</sup> The term “State” includes the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.<sup>9</sup>

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<sup>2</sup> Sec. 165(h).

<sup>3</sup> Sec. 165(h)(5).

<sup>4</sup> Sec. 165(h)(2). Personal casualty gains are reduced for this purpose by any gain used to offset any personal casualty loss which is not attributable to a disaster. Sec. 165(h)(5)(B)(ii).

<sup>5</sup> Sec. 165(c)(3)(B).

<sup>6</sup> Sec. 165(c)(3)(A).

<sup>7</sup> Sec. 165(h)(1).

<sup>8</sup> Sec. 165(h)(5)(C)(i).

<sup>9</sup> Sec. 165(h)(5)(C)(ii).

### Additional relief for certain disasters

Congress has at times enacted more generous casualty loss provisions in response to specific natural disasters.<sup>10</sup>

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (“TCDTRA”),<sup>11</sup> as modified by the Federal Disaster Tax Relief Act of 2023 (“FDTRA”)<sup>12</sup> and Public Law 119-21,<sup>13</sup> provides special rules for “qualified disaster-related personal casualty losses.” These losses include personal casualty losses arising in a qualified disaster area on or after the first day of the incident period of the applicable qualified disaster which are attributable to that qualified disaster.<sup>14</sup> These losses are deductible without regard to whether aggregate net personal casualty losses exceed 10 percent of a taxpayer’s adjusted gross income but only to the extent they exceed \$500 per casualty.<sup>15</sup> These losses are an itemized deduction or are added to the standard deduction and are allowed against alternative minimum taxable income.

As modified by Public Law 119-21, the definition of a “qualified disaster area” is an area with respect to which a major disaster has been declared by the President under section 401 of the Stafford Act during the period beginning on January 1, 2020, and ending on the date which is 60 days after the date of enactment of Public Law 119-21,<sup>16</sup> if the incident period of the disaster with respect to which the declaration is made begins on or after December 28, 2019, and on or before the date of enactment of Public Law 119-21.<sup>17</sup> A qualified disaster area does not include any area with respect to which a major disaster was declared only by reason of COVID-19.

A “qualified disaster” is, with respect to the applicable qualified disaster area, the disaster by reason of which a major disaster was declared with respect to that area.<sup>18</sup>

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<sup>10</sup> See, e.g., Taxpayer Certainty and Disaster Tax Relief Act of 2019, Pub. L. No. 116-94, sec. 204(b), December 20, 2019 (Hurricanes Florence and Michael); Bipartisan Budget Act of 2018, Pub. L. No. 115-123, sec. 20104(b), February 9, 2018 (certain California wildfires); Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, sec. 504(b), September 29, 2017 (Hurricanes Harvey, Irma, and Maria); and former sec. 1400S(b) (Hurricanes Katrina, Rita, and Wilma).

<sup>11</sup> Div. EE. of Pub. L. No. 116-260, sec. 304(b), December 27, 2020.

<sup>12</sup> Pub. L. No. 118-148, sec. 2, December 12, 2024.

<sup>13</sup> Pub. L. No. 119-21, sec. 70438, July 4, 2025.

<sup>14</sup> Div. EE. of Pub. L. No. 116-260, sec. 304(b)(3), December 27, 2020.

<sup>15</sup> Div. EE. of Pub. L. No. 116-260, sec. 304(b)(1), December 27, 2020.

<sup>16</sup> Public Law 119-21 became law on July 4, 2025.

<sup>17</sup> Div. EE. of Pub. L. No. 116-260, sec. 301(1), December 27, 2020; Pub. L. No. 119-21, sec. 70438, July 4, 2025.

<sup>18</sup> Div. EE. of Pub. L. No. 116-260, sec. 301(3), December 27, 2020; Pub. L. No. 119-21, sec. 70438, July 4, 2025.

The “incident period” is, with respect to the applicable qualified disaster, the period specified by the Federal Emergency Management Agency as the period during which the disaster occurred, except that the period is not treated as ending after the date which is 30 days after the date of enactment of Public Law 119-21.<sup>19</sup>

### **Description of Proposal**

The proposal codifies a modified version of the TCDTRA’s special rules for casualty losses arising from major disasters.

Under the proposal, “qualified net disaster losses” are deductible to the extent they exceed \$500 per casualty and without regard to whether aggregate net personal casualty losses exceed 10 percent of a taxpayer’s adjusted gross income. Qualified net disaster losses are an itemized deduction or are added to the standard deduction and are allowed against alternative minimum taxable income.

The term “qualified net disaster loss” means the excess of qualified disaster-related personal casualty losses over personal casualty gains. The term “qualified disaster-related personal casualty losses” means personal casualty losses (determined after the application of the \$500-per-casualty limitation) which arise in a qualified disaster area on or after the first day of the incident period of the qualified disaster to which the qualified disaster area relates, and which are attributable to the qualified disaster.

A “qualified disaster area” refers to an area with respect to which a major disaster has been declared by the President under section 401 of the Stafford Act, if the incident period of the disaster with respect to which the declaration is made begins after July 4, 2025, and before January 1, 2027.

A “qualified disaster” is, with respect to the applicable qualified disaster area, the disaster by reason of which a major disaster was declared with respect to that area.

The “incident period” is, with respect to the applicable qualified disaster, the period specified by the Federal Emergency Management Agency as the period during which the disaster occurred.

### **Effective Date**

The proposal is effective for losses incurred in taxable years beginning after December 31, 2024.

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<sup>19</sup> Div. EE. of Pub. L. No. 116-260, sec. 301(4), December 27, 2020; Pub. L. No. 119-21, sec. 70438, July 4, 2025.

## **B. Codification and Extension of Exclusion from Gross Income of Compensation for Losses or Damages Resulting from Certain Wildfires**

### **Present Law**

#### **Exclusion from income for qualified disaster relief payments**

Present law provides an exclusion from income for qualified disaster relief payments.<sup>20</sup> Qualified disaster relief payments include amounts paid to or for the benefit of an individual: (1) to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster; (2) to reimburse or pay reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence or replacement of its contents to the extent that the need for such repair, rehabilitation, or replacement is attributable to a qualified disaster; (3) by a person engaged in the furnishing or sale of transportation as a common carrier by reason of death or personal injuries as a result of a qualified disaster; or (4) by a Federal, State, or local government, or agency or instrumentality thereof, in connection with a qualified disaster in order to promote the general welfare.<sup>21</sup> These amounts do not include payments for any expenses compensated for by insurance or otherwise.<sup>22</sup>

Qualified disaster relief payments also are excludable for purposes of self-employment taxes and employment taxes.<sup>23</sup>

A qualified disaster is a disaster which results from a terroristic or military action (as defined in section 692(c)(2)); a Federally declared disaster (as defined in section 165(i)(5)(A)); a disaster which results from an accident involving a common carrier or from any other event which would be determined by the Secretary to be of a catastrophic nature; or, for purposes of payments made by a Federal, State or local government, or an agency or instrumentality thereof, a disaster designated by an applicable Federal, State, or local authority (as determined by the Secretary) to warrant assistance.<sup>24</sup>

The exclusion from income does not apply to any individual identified by the U.S. Attorney General to have been a participant or conspirator in any terrorist attack, or to a representative of such individual.<sup>25</sup> No deduction or credit is allowed for, or by reason of, any

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<sup>20</sup> Sec. 139.

<sup>21</sup> Sec. 139(b).

<sup>22</sup> *Ibid.*

<sup>23</sup> Sec. 139(d).

<sup>24</sup> Sec. 139(c).

<sup>25</sup> Sec. 139(e).

expenditure to the extent of the amount excluded from income with respect to such expenditure.<sup>26</sup>

### **Exclusion of certain wildfire relief payments**

FDTRA provides an exclusion from gross income for amounts received as qualified wildfire relief payments.<sup>27</sup> Qualified wildfire relief payments are amounts received by or on behalf of an individual as compensation for losses, expenses, or damages (including compensation for additional living expenses, lost wages (other than compensation for lost wages paid by the employer which would have otherwise paid such wages), personal injury, death, or emotional distress) incurred as a result of a qualified wildfire disaster. Qualified wildfire relief payments do not include payments for any expenses or losses compensated for by insurance or otherwise.

A qualified wildfire disaster is any disaster determined by the President to warrant assistance by the Federal government under the Stafford Act after December 31, 2014, as a result of any forest or range fire.

The exclusion only applies to qualified wildfire relief payments received by an individual during taxable years beginning after December 31, 2019, and before January 1, 2026.

No deduction or credit is allowed for, or by reason of, any expenditure to the extent of the amount excluded under this provision of FDTRA with respect to the expenditure. The basis of any property may not be increased by amounts excluded from gross income under the provision.

### **Description of Proposal**

The proposal codifies a modified version of FDTRA's exclusion from gross income for amounts received by an individual as qualified wildfire relief payments.

Under the proposal, qualified wildfire relief payments are amounts received by or on behalf of an individual as compensation for losses, expenses, or damages (including compensation for additional living expenses, lost wages (other than compensation for lost wages paid by the employer which would have otherwise paid such wages), personal injury, death, or emotional distress) incurred as a result of a qualified wildfire disaster. Qualified wildfire relief payments do not include payments for any expenses or losses compensated for by insurance or otherwise.

A qualified wildfire disaster is any disaster determined by the President to warrant assistance by the Federal government under the Stafford Act after December 31, 2014, as a result of any forest or range fire.

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<sup>26</sup> Sec. 139(h).

<sup>27</sup> Pub. L. No. 118-148, section 3, December 12, 2024.

The exclusion only applies to qualified wildfire relief payments received by an individual during taxable years beginning after December 31, 2025, and before January 1, 2031.

No deduction or credit is allowed for, or by reason of, any expenditure to the extent of the amount excluded under the proposal with respect to the expenditure. The basis of any property may not be increased by amounts excluded from gross income under the proposal.

**Effective Date**

The proposal is effective for payments received in taxable years beginning after December 31, 2025.

### C. Estimated Revenue Effects of the Proposal

The proposal is estimated to have the following effect on Federal fiscal year budget receipts:

|                | Fiscal Years<br>[Millions of Dollars] |             |             |             |             |             |             |             |             |             |             |                |                |  |
|----------------|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|----------------|--|
| <u>Item</u>    | <u>2026</u>                           | <u>2027</u> | <u>2028</u> | <u>2029</u> | <u>2030</u> | <u>2031</u> | <u>2032</u> | <u>2033</u> | <u>2034</u> | <u>2035</u> | <u>2036</u> | <u>2026-30</u> | <u>2026-36</u> |  |
| H.R. 5366      |                                       |             |             |             |             |             |             |             |             |             |             |                |                |  |
| Section 2..... | -40                                   | -37         | ---         | ---         | ---         | ---         | ---         | ---         | ---         | ---         | ---         | -77            | -77            |  |
| H.R. 5366      |                                       |             |             |             |             |             |             |             |             |             |             |                |                |  |
| Section 3..... | -21                                   | -69         | -113        | -146        | -116        | -35         | ---         | ---         | ---         | ---         | ---         | -466           | -501           |  |

**NOTE:** Details may not add to totals due to rounding. The date of enactment is assumed to be April 30, 2026.