

United States Senate

WASHINGTON, DC 20510

July 28, 2017

The Honorable John Koskinen
Commissioner
Internal Revenue Service
1111 Constitution Ave NW
Washington, DC 20224

Dear Commissioner Koskinen,

As many as 30,000 houses in Connecticut sit on concrete foundations that contain pyrrhotite, a natural iron oxide element that may be embedded in the rock used to mix concrete aggregate, which makes some foundations crumble and disintegrate. Most insurance companies have concluded that their homeowner's insurance policy does not cover this damage, and repair costs can be crippling. We request that the Internal Revenue Service allow Connecticut residents whose homes were rendered fundamentally defective by the use of pyrrhotite to deduct the cost of replacement as a casualty loss.

The casualty loss provision of the Internal Revenue Code allows homeowners to deduct the costs of repairing damage caused by a sudden, unexpected, or unusual event. In general, the provision is reserved for use by those who have suffered from a discrete, external shock like a natural disaster or a fire, rather than ongoing deterioration.

However, the IRS has granted exceptions to this classification in the past—notably issuing guidance in 2010 to allow homeowners who suffered property losses due to corrosive imported drywall to treat the damage as a casualty loss. The drywall situation parallels the pyrrhotite problem perfectly, and exemplifies the reasoning behind the limitation on casualty losses. In both circumstances, there was no way for the homeowner to be aware of the hazardous nature of the product used in the construction of their home; there was little likelihood of recovery of costs from the product manufacturer (regarding pyrrhotite, the state Attorney General's office indicated that lack of standard for pyrrhotite in concrete, inter alia, prevents any civil action under the Connecticut Unfair Trade Practices Act); and property and casualty insurance would not pay for the damage. I changed the all verbs in the list to the past tense

The purpose of the statutory provision is not to narrowly define a set of factual circumstances, but rather to reserve the tax benefit for those who have experienced a truly unexpected event that they could not have prevented and who face a potentially overwhelming financial burden from something that was not in any way their fault.

The homeowners in our state who are seeing their homes and financial futures crumble beneath them in real time certainly qualify under this rationale. They are experiencing a slow-motion catastrophe—but a catastrophe nonetheless—and one that they could have done nothing to prevent. We urge you to extend the common sense and compassion this situation demands and allow homeowners affected by casualty losses to deduct replacement costs as a casualty loss.

prevent. We urge you to extend the common sense and compassion this situation demands and allow homeowners affected by casualty losses to deduct replacement costs as a casualty loss.

We look forward to working with you to address this problem. Please contact Rich Kehoe in Senator Blumenthal's office at rich_kehoe@blumenthal.senate.gov and Michael Bednarczyk in Senator Murphy's office at michael_bednarczyk@murphy.senate.gov with any questions.

Sincerely,



RICHARD BLUMENTHAL
United States Senate



CHRISTOPHER S. MURPHY
United States Senate