# PREPARE, RECOVER, EMERGE STRONGER

## A ROADMAP FOR FINANCIAL PERSEVERANCE IN TIMES OF CRISIS

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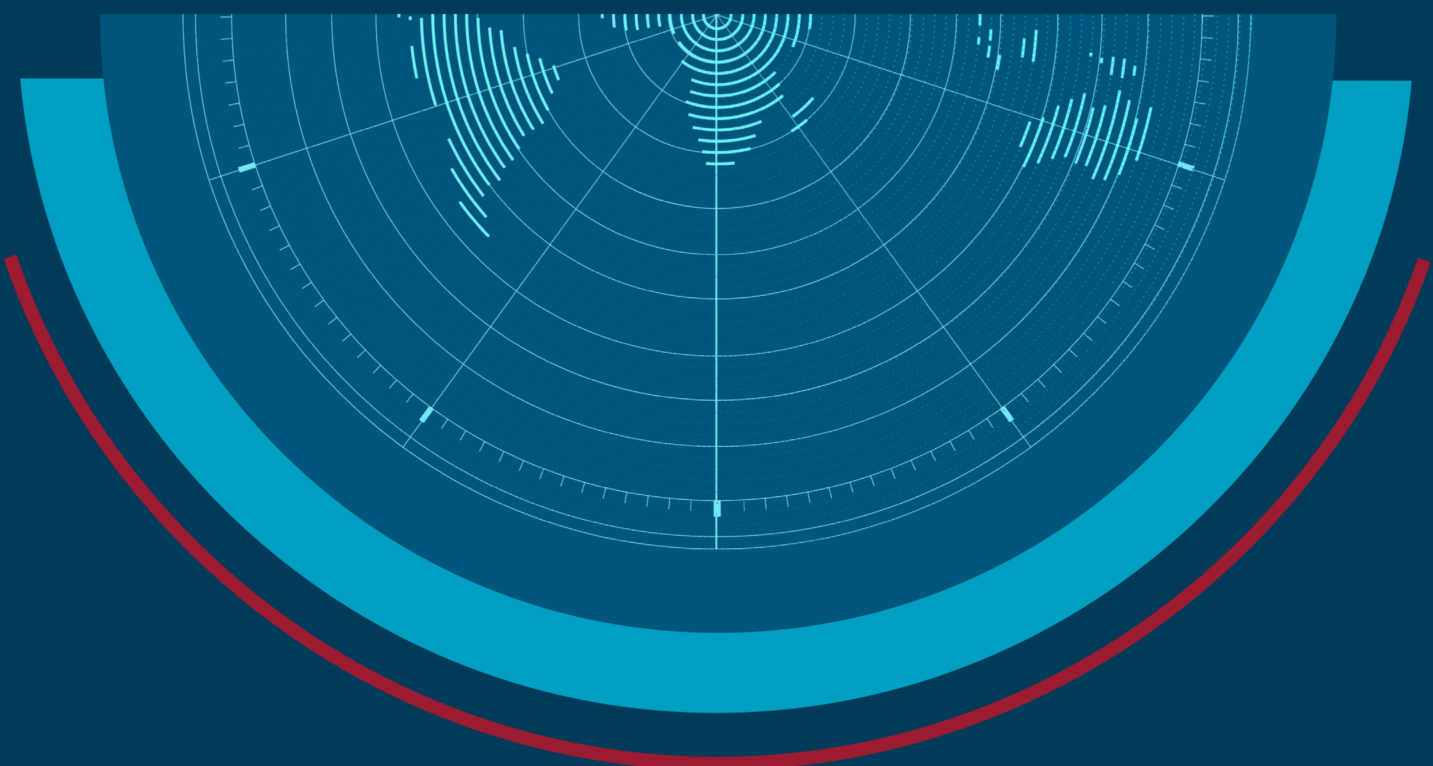
Disasters happen. From hurricanes and earthquakes to floods and wildfires, every business must be prepared for a potential disaster or crisis. Since disaster is sometimes unavoidable, a business owner's best bet is preparation.

Hardware and software failures, internet and cloud service outages, mistakes by senior leadership and employees, cybersecurity incidents, intellectual property theft, and even global pandemics pose as much risk today as the traditional fires, floods, and killer bees. But whatever the cause of the interruption to normal business, a lack of planning creates additional vulnerability by leaving you at the mercy of the situation.

The good news is that the risks are manageable, avoidable, and sometimes even insurable if you plan ahead. So let's get started.



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# PART I: PREPARING FOR CRISIS

## Risk Management: Avoiding Crisis and Staying Afloat

When a crisis hits, the companies that recover most successfully are those that have policies for risk management and risk mitigation. The following steps will help you assess, manage, and mitigate risk, so that if the worst-case scenario does occur, you have a plan to stay afloat.

### 1. Assess the business's risks.

A business owner must completely understand all of the risks that the business faces before properly planning for and mitigating them, and an effective risk assessment begins with defining the business's strategic objectives risk appetite. After all, without knowing what you are trying to achieve and how much risk you are willing to accept to get there, there are no boundaries with which to manage risk. It's a commonly accepted fact that entrepreneurs are comfortable taking risks. But many business owners focus more on the ultimate risk of failure than the more everyday risks of property damage, public relations issues, natural disasters, and other risks that come with the territory when owning a business.

### 2. Determine which risks can be covered by insurance and estimate appropriate insurance limits based on potential financial risk.

Any risk that *can* be covered by insurance typically should be, but keep in mind that a business owner's ability to be protected from risk through insurance is only helpful when the individual has an idea of the maximum financial risk. This step requires understanding liability exposure, business property value, and the potential for workers' compensation damages *(see pp. 18-23)*. Insurance must be updated annually to reflect increased or decreased risk and changes in the value of property or financial exposure.

### 3. Create specific risk mitigation policies.

Understanding risks and insuring against them is a basic step that all business owners can take, but it's even better to help manage risks by developing policies that mitigate them. By using each of the risks found in the first exercise, the owner can then think about the many ways that the owner and the staff conduct business and how these methods can negatively impact the risks. Then, policies and controls can be developed for each individual risk that provide reasonable assurance that the company will achieve its strategic objectives and will lessen the overall exposure to a level that aligns with the company's risk appetite.

### 4. Monitor compliance and measure results.

A business owner must continually observe controls and monitor employee compliance with written risk management policies to measure their effectiveness. This step typically involves ongoing internal or external evaluations to assess whether controls are effective and appropriately designed to address the identified risks. Of course, if the effectiveness is limited, then it's time to revisit the drawing board.

While it can be overwhelming for business owners to assess all of the risks their company faces, a risk management policy that protects your business and bottom line is well worth the investment. Now that you have an idea of the worst-case scenarios that could occur, let's talk about key planning steps that will help you weather whatever disasters come your way.

# 5 Steps to Create a Business Disaster Plan

If disaster strikes, is your business prepared? Most businesses have a **business** plan, but you may be surprised how many don't have a **disaster** plan — a set of guidelines to minimize the impact of a disaster, natural or otherwise.

It's important to have a plan in place to help your business survive and recover should the unthinkable happen. Use these tips to protect against a hurricane or any other natural disaster (or even personal disasters such as fire in your home or office).

## 1. Back up your records — including bank statements and tax records.

Every business relies on documentation as a part of its day-to-day operation. Make sure important documents and vital records are not only kept safe, but also backed up in the event of loss. Consider subscribing to a cloud-based storage service, or — at a minimum — store your backup data in multiple locations. Back up electronic records regularly to ensure data remains current and easily recoverable.

Fortunately, the digital age makes this process easier. Many businesses receive their bank statements and documents electronically. These can be backed up with a few simple clicks. Store these and all of your backed-up business records on CDs, flash drives, or external hard drives and keep them in a safe place.

Where's a "safe" place to store your duplicate files? Logic dictates that it's not in or around your place of business. After all, having originals and duplicates in the same place doesn't help if that place is damaged or destroyed.

### Don't forget tax and accounting records!

To help keep a natural disaster from becoming a tax disaster, be sure to protect your tax and accounting records. Scan your W-2s, tax returns, and other tax-related documents and convert them to an electronic format. (If you need them, the IRS will provide previously filed tax returns and all attachments, including W-2 forms.) Accounting records can include anything from accounting software to spreadsheets that are used for budgeting.

## 2. Document valuables and equipment.

Document everything (especially items of higher value) and keep an accurate inventory of the physical assets of your operation. This step will make things a lot easier should you ever have to make casualty loss claims with your insurance company or report casualty losses on your tax return.

- Make a detailed, room-by-room list of your business equipment and other valuables. Be sure to include model and serial numbers, if applicable.
- It's also a good idea to have a video or photographic record.
- IRS.gov has a disaster loss workbook that can help taxpayers compile a room-by-room list of belongings.
- Again, store these records in an off-site location — away from the geographic area at risk.

## 3. Check on fiduciary bonds.

Ask your insurance provider if a fiduciary bond is in place; this option can protect you in the event of default by your payroll service provider.

## 4. Keep your emergency plan up to date.

Emergency planning is not a one-and-done situation. Since personal and business situations change over time, as do preparedness needs, emergency plans should be reviewed and updated annually. When hiring new employees or changing operational functions, plans should be updated accordingly. Hold employee meetings on a regular basis to review the emergency plan, and make sure to test and practice the plan regularly.

Things to consider for your emergency plan:

- Know what kind of natural disasters are most likely in your area (such as floods, earthquakes, tornadoes, hurricanes) and develop your plan accordingly.
- Determine where to seek shelter in the event of an emergency.
- Develop a plan for communicating with employees, customers, and others, should phone and internet services be disrupted.
- Identify the safest evacuation route for employees and periodically conduct evacuation drills.
- Assemble a disaster supply kit that includes first aid supplies, a battery-powered radio, a NOAA weather radio with an alert function, and a portable generator.

## 5. Create a continuity plan.

Assess how your company functions and determine which operations, staff, procedures, and equipment you require to keep your business operating *(see p. 6)*.

# Drafting a Business Continuity Plan

The goal of a business continuity plan (BCP) is to let you maintain operations after a disaster or crisis so the company can survive the turmoil and emerge positioned to thrive once again. Start with a realistic evaluation of your current level of preparation for an event that disrupts normal operations. What would happen if revenue stopped tomorrow? How well could you meet cash flow needs and handle inventory management issues?

## Your BCP Should Include Detailed Strategies For:

- **Protecting employees.** How will you avoid exposing staff to undue risk during the crisis? Establish ways to protect them using appropriate tools (e.g., masks and plexiglass shields), modifications to where and when they work, transportation options, and other solutions to minimize potential danger.

- **Safeguarding records, documents, and inventory.** Determining which items are critical is a first priority. What physical objects must you safeguard in order for the business to get through this period, and how will you protect them?

- **Communicating with clients and customers.** It's easy to lose sight of the customer experience in tumultuous times, but being there for them during an emergency fosters goodwill and strengthens the relationship. Plan for clear communications that let customers know what's happening, what you can and cannot do, and how you can help. They'll appreciate transparency.

- **Incorporating flexibility.** Be prepared to revise processes and protocols as needed, letting you operate "outside the box" in an actual emergency. Think creatively to solve problems so you can provide at least some of your standard products or services and stay in touch with vendors, working together for mutual success in challenging conditions.

## BCP Best Practices

While it's tempting to skip the time and expense involved in preparing a solid BCP, planning ahead is a wise investment. After a disaster, most business owners wish they had invested more effort in planning, and many regret not responding more quickly. If you have a contingency plan in place and know what to do, you are better prepared to take immediate action.

Visualize what a worst-case disaster scenario would look like *before* it happens. Few would have anticipated the dramatic effects of a novel coronavirus, it's true, but the potential impacts of tornadoes, earthquakes, and hurricanes are relatively predictable. Identify the disasters that are most likely to happen and determine how to address the issues they would create.

Don't minimize the importance of cash flow, either. Disasters tend to bring added expense when revenue may have vanished or dropped drastically; adequate cash reserves or an established line of credit can help bridge the gap between disaster and normalcy. Stash some money each month in a dedicated account to fund emergency needs.

Business insurance is another investment that can pay off in a disaster. Be aware, though, that it may take many months to receive compensation for a claim. In some cases, that may be too late to save the business. If you decide to purchase it, be sure to have a qualified insurance attorney scrutinize the policy before you sign.

## Business Continuity Planning vs. Disaster Planning

Business leaders sometimes believe they've covered their bases with the company's disaster plan, but there's an important distinction. If your disaster plan involves moving computers and people out of the way of an incoming hurricane, for example, then your BCP describes the steps you take to retain staff, relocate offices, and continue to serve customers once the building has flooded.

In other words, disaster planning is about putting on armor to shield you from the slings and arrows of outrageous fortune; a BCP outlines how you'll keep selling widgets while those arrows are raining down.

# FINANCIAL CONTROLS

During potential office disruptions and staffing shortages, you will need to maintain internal controls and safeguards to protect the financial health of your entity and prevent losses in a time when resources are scarce.

Here are just a few of the precautions you can take to maintain controls and protect resources when disaster hits:

1. Continue to perform and review monthly reconciliations — such as bank reconciliations, accounts payable reconciliations and reviews, and accounts receivable reconciliations.

2. Be vigilant in fraud protection. Make sure there's a cross-check for approved or previously used vendors to ensure consistency based on history, and watch for duplicate invoices as well as fraudulent invoices using an existing vendor name.

3. Organize invoices and purchase orders for proper approval to help make the approval process more efficient. If invoice volume increases, consider an approval log as an extra control check.

4. Reach out to vendors and make sure supply lines remain intact for essential needs.

5. Evaluate inventory to confirm that adequate supplies are on hand for all departments.

*(For more, see "Maintaining Financial Controls in a Disrupted Remote Work Environment" on pp. 13-14.)*

# PART II: RESPONDING TO CRISIS

## Stabilizing Your Business: Improvise, Adapt, Overcome

In a crisis, your business may be presented with cash flow challenges and opportunities you may have never faced before. To respond to these changes, look no further than these three words: **Improvise, Adapt, Overcome**. The slogan outlines steps you can take to combat the challenges you are facing as you make decisions that will be key to the survival of your business.

### Improvise (Internal Factors to Consider)

#### Cash Flow

The process of turning profit into cash flow will be longer during a major business disruption. Develop your plan of attack by first determining expected profit or losses, and then be extra mindful of customers taking longer to pay you and vendors needing you to pay them faster.

Anticipate fluctuations in cash flow and take into account nonessential expenditures that can be delayed as well as cost savings from closed facilities — for example, lower usage of utilities and janitorial services. Consider seeking professional help in creating accurate financial projections.

#### Revenue

What can your business do to generate revenue in a new way? Figure out what the market needs and see if you can meet a missing need. Identify underperforming products or services that can be suspended until market demand returns to support them.

Can you accurately forecast revenues in both the short and long term? Consider the duration of the revenue decline and how your customers are affected by the crisis. You should consider re-forecasting weekly during the foreseeable future.

#### Employees

Who do you need to protect? In a perfect world, you would like to keep all your employees. However, when faced with a crisis, you must make difficult choices. You have likely spent considerable resources in recent years to build your team, and you will need them even more as you recover from disaster. Options include:

- Retaining only employees essential to the business.
- Lowering hours, perhaps by combining roles.
- Reducing wages paid.
- Claiming payroll tax credits for employer-paid leave.
- Using family members to fill positions.

Remember to monitor legislation for additional support that could allow you to keep employees longer.

#### Expenses

What cash outlays can be delayed or eliminated? Carefully distinguish between needs and wants, and then consider:

- Deferring tax payments in accordance with emergency relief afforded by the government.
- Contacting your landlord and asking for delayed terms or abatement on your rent.
- Cutting discretionary costs, such as advertising, travel, incentive compensation, and contributions to employee benefit plans.
- Carefully analyzing all capital investments, even potentially postponing routine repairs and maintenance.

- Purging expenses related to segments of your business no longer generating revenue.
- Reviewing all contracts for points that can be renegotiated to defer or reduce payments.
- Canceling shipments from suppliers that have yet to ship and are no longer needed.

### Adapt (External Factors to Consider)

#### Customers

Do you need to negotiate payment plans with your existing customers? Now more than ever, you need to understand how quickly your profits will turn into cash. Remember, your customers may be negatively affected by the crisis as well. Any periodic payment will be better than none.

#### Vendors and Suppliers

Can you use the goodwill created with your vendors and suppliers to extend payment terms? Now is the time to use the solid rapport you worked so hard to establish.

If vendors are requesting payments to be accelerated, push back or evaluate new sources (or both).

#### Funding Sources

Do you need to consider alternative sources of funding? Do you need to consider easing payment burdens for customers who have been negatively affected by the disaster or crisis?

Consider some ways to adapt to these revenue deferrals:

- Can you ask for payment deferral for fixed-term loans?
- Are your lines of credit available and sufficient?
- Did your business have business interruption insurance for which it has a claim? *(See Part III below, p. 18.)*
- Can you access investments, such as CDs and Treasury bills, borrow against life insurance policies, or redeem credit card rewards?
- Are there other local businesses with which you could share resources — including equipment and personnel?

### Overcome (Make a Plan)

Do you have a plan to overcome the crisis in front of you? Do you feel comfortable assimilating the information you have gathered into a workable plan? It is imperative to quantify your cash flow needs and implement a plan that will help stabilize your business. Continually update that plan as circumstances change in order to overcome any crisis and prepare for the future.

**Remember:** No matter what you're facing, you are never alone when it comes to your business. Engaging with an accounting firm can help your business by:

- Creating a working cash flow model for your business so you can run multiple planning scenarios that can be easily updated as conditions change.
- Sharing examples of best practices of how other clients are meeting these challenges.
- Helping you evaluate all funding sources to meet your cash needs and ascertain the level of funding needed to survive the crisis.
- Evaluating your business's ability to generate future profits to repay the funding required to get through the disruption.

## Need Relief After a Disaster? No Quick Fixes, but You Have Options

Natural disasters are costly to just about every taxpayer, but individuals are often hit the hardest. Many are faced with the costs of repairing or replacing personal assets, and some even lose their jobs. When infrastructure fails, businesses close and temporarily (or permanently) lay off their workers, and individuals struggle to make ends meet. While there are no quick and easy solutions for financially surviving a natural disaster, there are some short-term financial assistance options worth considering.

### Insurance Payouts

Most homeowner's and renter's insurance policies do not cover natural disasters. "Acts of God," as the industry calls them, are covered only if you purchase supplemental insurance. Your insurance provider may have taken the liberty of adding these riders in your policy so you are protected from the disasters most common in your area, but not all will. Check to be sure. Most major insurance companies have supplemental insurance for floods, earthquakes, storms, and volcanoes.

Insurance payouts after natural disasters can help you in a financial crunch, but most likely, they will not be paid timely. Although everyday insurance claims are paid out within just a few weeks, natural disasters can extend this timeline by weeks or even months. After major disasters, insurance providers are inundated with claims. For your claims process to go as smoothly as possible, we suggest you do the following:

- Take photographs of the damage.
- File your claim quickly — but not too quickly! Be sure you identify all of the damage before you file your claim. Not all damage is evident the first day or two after a disaster.
- Wait for an inspection before you begin making repairs.
- Keep all receipts.
- Use only preapproved contractors, mechanics, and technicians.

## FEMA Support

The Federal Emergency Management Agency (FEMA) is an agency of the U.S. Department of Homeland Security that supports individuals who are struggling financially after a natural disaster. FEMA only assists taxpayers when (1) their financial outlays were not covered by private insurance, (2) the disaster was presidentially declared, and (3) the damage was to their primary home (secondary homes and businesses aren't covered).

To receive FEMA support, you must:

1. Ensure that a disaster has been declared by Washington.
2. Apply for assistance.
3. Wait for a home inspection.
4. Wait for your check to arrive.

Although the process is simple, FEMA is notorious for long wait times on disaster payouts. To help speed up the process, fill out your application fully, and have all relevant data — insurance policies, receipts, photographs — ready and waiting. Then, follow up with your contact person regularly. As they say, the squeaky wheel gets the grease.

## Retirement Plans

The IRS almost always assesses a hefty penalty on taxpayers who withdraw from their retirement plans before they reach the federal retirement age of 59½. Those who do will typically owe taxes on the withdrawal, plus a 10% penalty for withdrawing early. Although we do not recommend pulling from your retirement plan as a first line of defense, a 10% penalty may not be your worst option. Payday loans, which are commonly marketed to people in similar financial crunches, can charge 400% annual interest, and credit cards can charge 25%.

But rather than withdrawing cash from your 401(k), 403(b), or 457(b) after a disaster, consider borrowing from it. The IRS allows you to borrow 50% of your vested balance or $50,000 (whichever is less), tax-free, if you enter a legally binding agreement to pay the money back to your plan. You must repay on an amortization schedule, make payments quarterly (at minimum), and make your account whole again within five years. Your loan will be subject to interest, but by borrowing rather than withdrawing from your plan, you can avoid the 10% penalty.

## New Legislation Speeds Up Tax Relief in Disasters

When disaster strikes, the immediate focus is recovery — repairing property, safeguarding livelihoods, and supporting families. But for many taxpayers, navigating tax deadlines during these times adds another layer of stress. Until recently, IRS relief couldn't begin until a federal disaster declaration was issued, often creating delays and uncertainty.

That's about to change. The **Filing Relief for Natural Disasters Act (H.R. 517)** empowers the IRS to act more quickly — as soon as a state declares a disaster or emergency. For individuals and business owners in affected areas, this law offers timely support, providing clarity and flexibility when it's needed most.

### What the Law Changes

Previously, the IRS had to wait for a federal disaster declaration before it could extend tax deadlines. Under this new law, the agency can now respond to qualified state-level disaster declarations, giving affected taxpayers additional time to manage critical tax obligations sooner.

Key provisions of the legislation include:

- **Faster Access to Relief:** State governors, along with leaders in the District of Columbia, Puerto Rico, and U.S. territories, can now formally request IRS deadline extensions following a declared disaster or emergency — without waiting for a federal declaration.
- **Extended Deadlines:** The IRS may postpone filing and payment deadlines, as well as timelines for responding to IRS notices, making retirement

contributions, electing certain tax treatment, or addressing tax assessments and collections.

- **More Time for Certain Taxpayers:** The automatic extension for relief workers, taxpayers killed or injured in federally declared disasters, and individuals and businesses with primary residences, primary business locations, or records in disaster areas increases to 120 days (up from 60).
- **Qualifying Events:** Eligible disasters include natural catastrophes, fires, floods, and explosions causing significant damage that prompt a state-level request for federal tax deadline relief.

### What This Means for Taxpayers

For individuals and businesses in disaster-affected areas, this law provides earlier clarity and flexibility around tax obligations, giving you more time to focus on recovery without the added pressure of looming tax deadlines.

If your home, primary business location, or tax records are in a declared disaster area, the IRS can now act more quickly to extend filing and payment deadlines. This added flexibility can ease immediate pressures, but relief is not automatic — states must first request IRS action, and specific guidance will follow.

In many cases, you may still need to take proactive steps to qualify for available relief, such as carefully tracking casualty losses, documenting damages, and reassessing estimated tax payments to reflect your changed circumstances.

### Steps to Take if You're Affected

If you're in an area impacted by a declared disaster or emergency:

1. **Watch for IRS Announcements:** Monitor official IRS notices confirming deadline extensions for your area.
2. **Maintain Detailed Records:** Keep documentation of property damage, repair costs, and business disruption to support any future tax relief claims.
3. **Coordinate with Your Advisor:** Some tax elections or deductions may be time-sensitive following a disaster, and understanding updated deadlines can help you avoid penalties or missed opportunities.
4. **Plan Ahead:** If you frequently operate in disaster-prone areas, review your recordkeeping and contingency plans now to help simplify future relief requests.

### A Step Toward Faster Relief

The passage of this act aims to make the tax process a little less burdensome during already difficult times. Faster access to deadline extensions helps reduce stress and provides flexibility when you need it most.

If your area has been affected by a recent disaster or state-declared emergency, contact your advisor to review your eligibility for relief and build a proactive tax response plan tailored to your situation.

# CHECKLIST OF TAX-RELATED DISASTER RELIEF

No matter how much effort you put into preparing your home or business for a disaster, nothing can really prepare you for the trauma of actually going through one. If you find yourself picking up the pieces after a major catastrophe, here's a short checklist of tax-related relief that often follows a disaster declaration and a few other pointers to help you start rebuilding.

Remember that the first step toward federal recovery efforts is for the president to declare a federal disaster. Such declarations usually have a geographic focus, listing certain counties that qualify for relief. Once you know you're in a zone that qualifies, one or more of the following federal programs may apply.

## IRS Extensions

One of the most common forms of relief is the extension of any upcoming tax filing and payment deadlines. You can learn more via the IRS Twitter feed (@IRSnews) or on the IRS's disaster assistance webpage. If you have access to a phone, you can also call the IRS's disaster line at 866-532-5227.

## Casualty Loss Tax Deductions

Affected taxpayers may be able to claim a casualty loss deduction on their taxes for property lost or damaged as a result of a federally declared disaster. Starting in 2026, taxpayers affected by disasters recognized by their state governments can take this federal deduction. Tax law allows these claims to be filed on a current-year return or possibly even as an amendment to a prior-year return in order to speed up any refund that may be generated.

## Disaster Loans and Grants

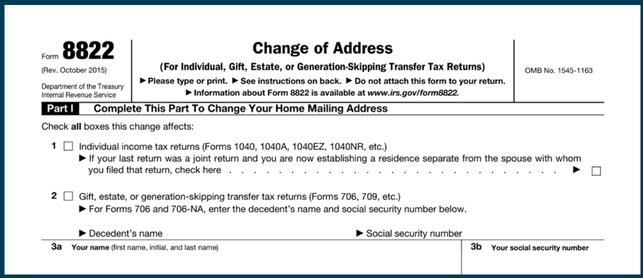
The Small Business Administration (SBA) offers financial assistance to business owners, homeowners, and renters in disaster areas.

## Request a Tax Transcript

It's not uncommon for those trying to rebuild after a disaster to have lost prior-year tax returns. You can request copies from the IRS. If you note that the request is related to a disaster and specify the state and type of event that occurred, the IRS attempts to speed up the process.

## Submit a Change of Address

If you need to relocate, notify the IRS of your new address by submitting Form 8822, Change of Address (PDF).



Form **8822**
(Rev. October 2015)
Department of the Treasury
Internal Revenue Service

**Change of Address**
**(For Individual, Gift, Estate, or Generation-Skipping Transfer Tax Returns)**
▶ Please type or print. ▶ See instructions on back. ▶ Do not attach this form to your return.
▶ Information about Form 8822 is available at *www.irs.gov/form8822*.

OMB No. 1545-1163

**Part I** **Complete This Part To Change Your Home Mailing Address**

Check **all** boxes this change affects:

1 ☐ Individual income tax returns (Forms 1040, 1040A, 1040EZ, 1040NR, etc.)
▶ If your last return was a joint return and you are now establishing a residence separate from the spouse with whom you filed that return, check here . . . . . . . . . . . . . . . . . . . . . . . . . . ▶ ☐

2 ☐ Gift, estate, or generation-skipping transfer tax returns (Forms 706, 709, etc.)
▶ For Forms 706 and 706-NA, enter the decedent's name and social security number below.

▶ Decedent's name ▶ Social security number

3a **Your name** (first name, initial, and last name) 3b **Your social security number**

## A FEW OTHER THOUGHTS

FEMA points out that local radio and television broadcasts will be the best source for information about emergency housing, food, first aid, clothing, and financial assistance in the first days of recovery.

Depending on the severity of the damage, authorities may require people to show identification in order to return home. If you have a business location that you want to check on, try to include some documentation of the address in your "go bag" to demonstrate that you have a reason to be in the disaster zone when you return. Your driver's license may get you clearance to return home, but additional documents might be needed to get to your business.

Remember that "handyman scams" often follow quickly on the heels of a natural disaster that causes significant property damage. Unscrupulous "repairmen" can exert a lot of pressure with statements like, "If you don't pay me now to get started, I'm going to the next block over and you'll have to wait for repairs." Insurers recommend that you don't sign any contracts or authorize any repairs before you talk to your insurance provider.

## Maintaining Financial Controls in a Disrupted Remote Work Environment

Even during periods of extensive disruption, it is necessary for the finance function to continuously operate so that critical functions such as payroll remain intact.

### Short-Term

The following are some key steps to perform right away:

- Determine which processes are the most critical and put alternative processes in place. Receipt and disbursement processing, as well as purchasing and payroll, are typically the first processes to address. Communicate to all parties involved in these alternative processes to provide adequate guidance and ensure consistency.
- Ensure that employees can securely gain access to the electronic data they need to perform their functions. It will be crucial to involve IT personnel in these considerations to evaluate the impact of system firewalls and security systems.
- Ensure that employees understand which remote-work practices are secure and allowed and which are not. This may include ensuring the team knows under what circumstances they can use unsecured networks. For individuals with access to sensitive data, they must be reminded of any additional security procedures they must follow now that they are working in a different environment.

- It is crucial that all changes made to approval levels, access rights, procedures, or responsibilities are tracked and documented in detail. Sudden changes to a process are likely to be a point of weakness; therefore, tracking the changes enables for more precise ongoing and after-the-fact monitoring.

### Medium-Term

After the initial disruption has been addressed, it may be necessary for workforces to operate for an extended period in a remote-work environment — as during the COVID-19 pandemic. During this time, we recommend the following:

- Many processes will transition from being paper-based to electronic. Remember that approval sign-offs can be done electronically, provided they are unique and identifiable to a specific individual with the appropriate approval authority. It is important that no one can falsely apply someone else's electronic signature, which is preventable by implementing unique password-protected user accounts.
- During this period, businesses will be more reliant on detective (after-the-fact) controls as the disruption increases the risk of failures in the preventative (up-front) controls. Financial leaders should make certain that monthly reconciliations continue to be performed and reviewed (such as bank reconciliations, accounts payable reconciliations and reviews, and accounts receivable reconciliations) and may want to increase the level of review over these reconciliations.
- During this period, new vendors may be selected due to the unavailability of current vendors or the addition of services that were previously not needed. New vendors bring additional risk; therefore, leaders should ensure they have robust controls in place for vetting new vendors promptly and subsequently monitoring activity.

### Long-Term

Once employees and management become familiar with the new processes (or possibly as they start to be able to return to the former processes), consider these follow-up steps:

- Using the process-change tracking documentation referred to in the Short-Term section above, management should analyze whether any of the changes can now be reversed and ensure those reversals take place as necessary.
- Management, with the help of the internal audit department, should perform spot-checks of the new processes to ensure compliance and verify that the proper approvals and adequate documentation are maintained.
- Management should evaluate their business continuity plan to determine how well it worked and what has been learned, and to make any identified improvements to the BCP.

Disruption, sudden process changes, and working in a remote environment increase the risk of a breakdown in financial controls. Therefore, during this period, it is crucial for management to make any necessary system modifications that will enable activities to continue and to closely monitor transactions and processes to ensure they are being executed correctly.

## Bracing for Disaster? Prepare to Deduct Casualty Losses

Few businesses are completely safe from an impending disaster. Fortunately, the IRS has plans in place to aid businesses that suffer unexpected losses to their business property.

### What Types of Losses Are Deductible?

The IRS allows businesses to deduct losses from natural disasters, theft, or other casualties. A casualty loss is damage or destruction of property that is the result of an unexpected or sudden event. The IRS has an **extensive list** of the types of events that could produce a deductible casualty loss, but here are a few of the more common ones:

- Car accidents
- Wildfires
- Vandalism
- Storms, including hurricanes and floods
- Earthquakes
- Tornadoes
- Government-ordered demolition

Not all losses are deductible. Accidental damage, damage caused by negligence, and progressive deterioration of property are examples of nondeductible losses. Additionally, any losses that are eligible to be reimbursed by insurance are not deductible.

After a disaster or casualty occurs, business leaders should act promptly. Generally, a loss should be deducted in the year it occurred, although losses that occurred in federally declared disaster areas (or state-level declarations of disaster for 2026 and later) can be deducted on the prior-year return.

### How Much Is Deductible?

There are two different formulas to help businesses calculate their deductible casualty losses: one for a partial loss, and another when the casualty is a total loss. Before getting started, taxpayers must be familiar with two tax terms: adjusted basis and change in fair market value.

The adjusted basis on any property is typically the amount you paid for the item, less depreciation, plus amounts paid to improve the property.

The fair market value (FMV) is the price you can reasonably expect to receive when selling the property. There are multiple acceptable ways to determine your property's FMV. You can, for example, commission an appraisal, request repair estimates from independent licensed contractors, or estimate the change in FMV based on the actual costs it took to repair the item.

The casualty loss is the difference between the value before the disaster and after the disaster.

#### Partial Loss

The calculation for deducting a partial casualty loss is:

Lesser of [Adjusted Basis] or [Change in FMV]
(—) Insurance Proceeds

= Deductible Loss

#### Total Loss

When an item cannot be repaired or sold for reuse, a total loss has occurred. The calculation for deducting a total casualty loss is:

Adjusted Basis
(—) Insurance Proceeds

= Deductible Loss

Once taxpayers understand these terms, they can begin their calculations.

The IRS provides a workbook that taxpayers can use to help them calculate their casualty losses. Using a schedule like the one at the end of the IRS's workbook will be especially helpful for businesses with multiple items that have been damaged. Whereas individuals can group all personal-use residential property as one item, businesses must account for each item separately. We recommend starting this exercise as soon as possible after the dust has settled. Accounting for every chair, lamp, and stapler — not to mention computers, routers, and other information system assets — can take a lot of time and effort. Putting this task off until tax time could lead to a rushed process and potential oversights and errors.

### How to Claim Casualty Losses

Both individuals and businesses looking to claim a casualty loss generally must file Form 4684 in the year the loss occurred. For disaster casualty losses, the loss may not be claimable until the year after the loss, when there is a reasonable certainty of the reimbursement amount that you may receive from your insurance company or another party. If you did not claim the deduction in the year you were eligible, you might be able to amend a prior-year return to do so. Losses on business and income-producing property will be reported in Section B on page 2 of Form 4684. If you are a shareholder in a pass-through entity like a partnership or an S corporation, you must report your portion of the business's casualty loss as an itemized deduction on Schedule A of your individual return. If your casualty loss is more than your net income for the year, you may have a net operating loss (NOL).

Keep in mind that if your insurance proceeds are more than your property's adjusted basis, you may need to report a taxable gain. However, you may be able to defer the gain recognition if you purchase similar replacement property with those proceeds within two years after the gain is realized.

To successfully defend your deduction, you must be able to prove that there was a casualty, disaster, or theft. Keep records that show (1) that you were the owner of the property; (2) when the casualty/theft occurred; (3) that the loss was a direct result of the casualty/theft; and (4) whether or not insurance will cover the damage.

# Natural Disasters Can Affect Your Financial Statement, Too

Natural disasters can have financial implications for business owners over months, years, and even decades. Companies are expected to follow regulatory guidelines in all circumstances, including — and especially — in the aftermath of a natural disaster. Although the expectations are plainly written into the guidance, many companies are unfamiliar with the key points. Four of these key elements are discussed below.

## Recording Losses

U.S. generally accepted accounting principles (GAAP) require you to record your losses from a natural disaster separately from any insurance proceeds you receive to pay for those losses. Any costs you incur as a result of the disaster, like cleanup costs, property damage, and inventory replacement costs, should be recorded in the fiscal year the disaster occurred.

GAAP may require you to record your losses separately from your everyday operations on both the face of the financials and in the disclosures. If an event is both (1) unusual in nature and (2) infrequent in occurrence, you must segregate disaster losses from your ordinary operations and then disclose earnings-per-share data for that extraordinary event on its own.

## Determining Asset Impairments

A severe weather event may damage your property or equipment. Long-lived assets like warehouse equipment, vehicles, and buildings may need to be evaluated for recoverability — in other words, they may need to be revalued. If your assets have decreased in market value, or if they can no longer be used at the same capacity as before, you will need to calculate their value impairments and write down your asset values accordingly.

Fixed assets are not the only assets that should be tested for recoverability. Receivables may also be at risk. Even if your business escaped damage, your clients may not have been as lucky. They may no longer be in a position to pay you. In that case, you will need to reassess your receivables balance and write down your balance if collectability is unlikely.

Your goodwill and other intangibles (like copyrights or patents) may also need a second look. Calculating impairments for intangibles can be a tricky process, so consult your accountant for help if you need it.

## Calculating Future Liabilities

Natural disasters can cause gas leaks, oil spills, and other environmental catastrophes that will require remediation. If your business is on the hook for these costs, you should recognize the liabilities on your books if (1) litigation has commenced, (2) it is probable that you will be held financially responsible for those environmental damages, and (3) the liability amount can be reasonably estimated.

In addition to environmental liabilities, you may need to record lease liabilities if a leased asset is no longer in working order. Talk to your accountant if you lease or sublease assets that may be damaged during a natural disaster.

## Reporting Insurance Proceeds

Insurance proceeds from natural disasters are also known as "cost recoveries," and they will be recorded on the financials separately from the associated losses. Once you file a claim, you should record your claim as a receivable, which will then be reversed from the balance sheet once you receive the cash. If there is a dispute with your claim or you are currently in negotiations with your insurance provider, do not record the receivable; only record the receivable when you are *likely* to collect the proceeds.

Although you may receive one lump sum of cash from your insurance company, you must assign those receipts appropriately on the cash flow statement. For example, if a third of your payout is earmarked for inventory and the remainder for fixed assets, a third of your proceeds should be recorded as "operating" activities on the cash flow statement, and the remainder as "investing" activities.

When a natural disaster strikes, your accountant can help you prepare for more than the financial statement implications, as we'll explore in the next section.

# Advantages of Working With an Accountant When Disaster Hits

There are many ways an accountant can help you and your business get back up and running quickly, safely, and efficiently after a disaster. While you know your business best, your accountant should already have a clear picture of your business, giving them a unique position to offer objective perspectives and thoughtful recommendations. Here are a few of the current and future advantages of working with an accountant during or immediately after a crisis:

### Determining the Right Program

Small businesses have a myriad of disaster relief options to consider when it comes to federal, state, and even community-based resources and programs. It's times like these that an accountant can not only help you understand your options and select the plan best for your business, but also assist you in the application process and ensure that you use funds appropriately and effectively along the way.

Selecting the right relief program requires comprehensive knowledge of your business's financial standing, operational practices, and associated risks. Not every financial assistance option, tax credit relief program, or loan is right for every business, and an accountant can help you select the solution that best addresses your unique situation and financial circumstances.

### Keeping Up With Evolving Rules and Regulations

Understandably, many businesses find it difficult, if not completely impossible, to tend to their business and simultaneously keep up with rapidly changing compliance rules.

Your accountant's familiarity with the ins and outs of your operation, coupled with access to up-to-date information about rules and regulations, will keep you compliant with current regulations and ensure you are prepared for changes in the future.

### Finding Opportunities in Unchartered Territory

While keeping your business running and employees paid is (and should be) your top priority, an accountant can play a vital role in uncovering unlikely opportunities during difficult times.

### You're Not Alone

With all of the hardship and difficulty caused by a disaster, it's important to remember that you are not alone. Your accountant is there to guide and support you so you can focus on keeping your business and your employees strong and healthy.

# PART III: UNDERSTANDING YOUR INSURANCE COVERAGE

## Protect Your Assets With the Right Insurance

When a disaster of any kind damages a home or a business, the owners' first reaction may be to reach for something that makes them feel protected. We have compiled a number of insurance policy options that individuals, businesses, or both can purchase to protect themselves from property damages, business interruptions, or other losses due to a disaster. The protection options below vary in the degree and extent of their of coverage, cost, and claim requirements.

### Options to Give You Peace of Mind

Before disaster strikes, it pays to know what policies you have, what they cover, and the limits of those policies. Types of insurance that can be purchased prior to indications of a disaster include:

- **Homeowner's Insurance** — Generally covers loss to physical structures and personal property damaged by perils outlined in the policy. It may also cover additional living expenses caused by the loss, such as food, utilities, travel, and renting a home while your home is being repaired. Damages caused by wind, hurricane, and hail are generally covered (but not always). While often considered a heavy blanket of protection, a homeowner's policy very rarely covers damages caused by a flood.

- **Flood Insurance** — Typically covers loss to covered structures and limited personal property directly damaged by a flood. Knowing if the damage to your property was caused by wind-driven rain or floodwater may determine what policy covers your claim. This might be the right level of protection for you if you live in a valley or below sea level.

- **Windstorm Insurance** — Normally, windstorm insurance covers loss to structures and personal property directly damaged by windstorm or hail. Where you live in proximity to the coast may determine if you must have a separate windstorm policy or if it is included as part of your main homeowner's policy.

- **Business Interruption Insurance** — Covers the loss of income that a business suffers after a disaster. Businesses that have to close due to a disaster can lose a tremendous amount of income during the period of restoration and renovation, so while this "specialty blanket" may seem expensive, it can cover huge losses and possibly save businesses from failing. To claim business interruption coverage, businesses must provide proof of their losses during the loss period. Documenting those losses and disaster-related expenses can be complex. Businesses should strongly consider consulting with trusted accountants and advisors to ensure they take full advantage of this coverage. *(For more on business interruption insurance, see pp.19-23.)*

### Post-Disaster Loan Assistance

The U.S. Small Business Administration provides **low-interest, long-term loans** to businesses of all sizes, private nonprofit organizations, homeowners, and renters. SBA disaster loans are issued in a presidentially declared disaster area. They can be used to repair or replace real estate, personal property, machinery and equipment, or inventory and business assets, or for other physical and economic damage caused by a declared disaster. There is an application and qualification process required to obtain these loans. Since SBA disaster loans are issued after a disaster, they can be especially helpful to business owners and individuals who failed to pre-purchase insurance coverage or other means of protection.

# UNDERSTANDING THE BASICS OF BUSINESS INTERRUPTION INSURANCE

If you're traveling somewhere by airplane, perhaps one of the worst things that can happen to you at the airport is missing your scheduled flight. Your two big questions are probably:

1. When can I get on the next flight and resume my journey?
2. How much money do I lose by missing that flight and getting on a new one?

Business owners who have had to slow or cease operations due to an unexpected disaster have similar questions:

1. If I have business interruption insurance as part of my insurance coverage plan, then how do I know if I qualify for that financial relief so I can get my business moving again?
2. Assuming I do qualify for a business interruption claim, how do I start that filing process?

### What Is a Business Interruption Claim?

When available, a business interruption claim can be a lifesaver to the business owner, the business, and even its employees. Business interruption coverage is designed to reimburse policyholders for losses incurred when a business is left unable to operate as a result of significant property damage. This coverage also includes loss as a result of a covered peril, such as a hurricane, flood, or fire. Businesses that suffer these damages, and incur substantial lost income, may be eligible to file a business interruption claim.

### What Does Your Business Interruption Policy Cover?

Begin by reviewing your commercial insurance policy; almost all will contain a business interruption clause. Determining the coverage and limitations under these policies is not easy, and assistance from an insurance attorney and accountant may be necessary to understand the coverage, properly estimate the damages, and prepare the claim. Typically, these policies will cover lost revenue and continuing expenses (e.g., rent expenses, employee wages) but not all aspects of damage. They also often require direct physical damage to the premises, which means they may not cover losses due to power outages or floods — unless the policy has a separate flood insurance endorsement.

## CRInsight

Some businesses maintain separate business interruption policies to mitigate limitations that are often imposed on more general, blanket insurance policies.

Business interruption insurance generally will compensate for the income lost during the period of physical restoration of the property. If the policy has an extended business interruption clause, then it will further compensate for income lost after the business returns to operations — but prior to it returning to normal levels.

### Best Practices for Business Interruption Claims

Below are steps you can take to ease the business interruption claim process:

1. Review your policy and immediately talk with your insurance company to understand your type of coverage and responsibilities.
2. Document proof that damage was incurred and caused serious loss of income while you tried to restore operations.
3. Keep detailed records of current business activity and be able to show the income generated before, during, and after the loss.
4. Get at least two bids on the cost to repair or replace damaged property.
5. Keep track of repair estimates, expenses while the business is closed, additional expenses required due to the business being closed (e.g., temporary office space, equipment rentals, generators), and other needed claim-related information.

## Defining Common Terms in Business Interruption Policies

Business owners who have had to close shop due to an unexpected disaster should review their commercial insurance policies to determine if they have a business interruption rider.

While reviewing an insurance policy may sound easy, interpreting the policy's language and understanding the process can be difficult and daunting for business owners. Below are a few key terms found in common business interruption insurance policies and their plain-English "translations."

### Actual Loss

One key point in nearly every business interruption policy is that only actual losses are covered.

Translation: The policy will only cover the losses that occurred specifically due to the disaster and the cost to restore the property to its previous state. Likewise, if a business has a partial loss, the insurance policy will only cover that portion of related expenses.

Example: If a three-star hotel is damaged, its business interruption claim would cover the actual losses, which would include the cost to restore the hotel to its previous three-star level. If the hotel decided to upgrade its restoration efforts to make it a four-star facility, the insurer is not going to cover those additional associated costs.

### Period of Restoration

Policies often state that the insurer will determine the reasonable period of restoration to calculate what it owes to a policyholder experiencing a business interruption.

Translation: The period of restoration is simply the reasonable time it takes, or should take, for a business to resume operations after rebuilding, repairing, or replacing damages following the disaster. In determining the period of restoration, an insurer considers several factors, such as the extent of damages, the estimated rebuilding and repair time, the size and value of the property, and the location and accessibility of the property.

### Business Income

Typically an insurance carrier assumes liability for the insured's lost net income.

Translation: Lost net income is total lost revenues combined with total disaster-related expenses (due to a physical loss at the insured's premises) incurred during the period of restoration.

### Extra Expense

During the period of restoration, a business may experience non-ordinary costs often referred to as extra expense due to the covered peril.

Translation: An extra expense is one that a policyholder incurs in addition to the normal operating expenses to mitigate the damages during the period of restoration. The caveat to claiming these types of expense is that most insurers will only cover expenses that limit the lost income claim. In other words, the insurer will almost never pay any part of an extra expense that is more than the business interruption claim itself.

Example: A business may need temporary office space, equipment rentals, generators, and overtime employee wages.

### Leader Property

Leader property coverage covers a business that is impacted not physically but financially by a nearby disaster. If a business that was not damaged relies heavily on a nearby property that was impacted by a disaster, then that business should review its business interruption policy to determine if it has a leader property rider.

Example: A restaurant that relies on a sports arena to attract patrons to an otherwise undesirable location could use the leader property endorsement to cover losses if a storm damages the arena but not the restaurant itself.

With a better understanding of some key terms used in typical business interruption policies, business owners can get a head start on recouping their lost income. Understanding your insurance policy may seem like common sense, but interpreting the policy's language can often become daunting. When it comes to calculating potential losses, contact experienced insurance accountants to help make the process easier.

## Calculating Your BI Loss

To understand business interruption loss calculations, you will need to calculate lost revenue, lost profit, and business insurance losses.

### Lost Revenue

**Lost revenue** is determined by subtracting actual revenue from but-for revenue.

**But-for revenue** is an estimate of revenue the business would have earned if the loss event had not occurred. There are a few recognized methods and various other factors to consider, such as seasonality, growth and trends, and other outside factors.

**Actual revenue** represents revenues between the loss date and the date a business resumes "normal operations." The period between the loss date and when operations can initially resume will typically have little to no revenue. In addition, actual revenue may include income during the recovery or "ramp-up" period, which is the period between the date the business resumes normal operations and the date business income recovers to the level it would have before the event.

### Lost Profit

To calculate **lost profit**, businesses need to determine their avoided costs, which are subtracted from lost revenue.

**Avoided costs** are the ones that the business would have incurred in connection with the generation of its projected lost revenues. Such costs vary directly or indirectly with revenue and generally include the following:

- **Direct costs** are expenses that a business incurs to generate revenue. For example, the incremental cost to produce each "widget." These expenses are often referred to as "cost of goods sold."
- **Variable** (or "saved") expenses are expenses the insured would incur but does not have to incur and therefore "saves" as a result of the loss event. These could include temporary labor, certain types of supplies, variable portions of franchise fees or rent, postage, or utilities.

### Extra Expenses

The last step is to identify any **extra expenses**, which are those expenses incurred during the period of restoration. These incurred expenses help to avoid or minimize the suspension of the business. They may also allow the business to continue operations at their original location or a replacement or temporary location.

## CALCULATING BUSINESS INTERRUPTION LOSS

**But-For Revenue**
**(—) Actual Revenue**

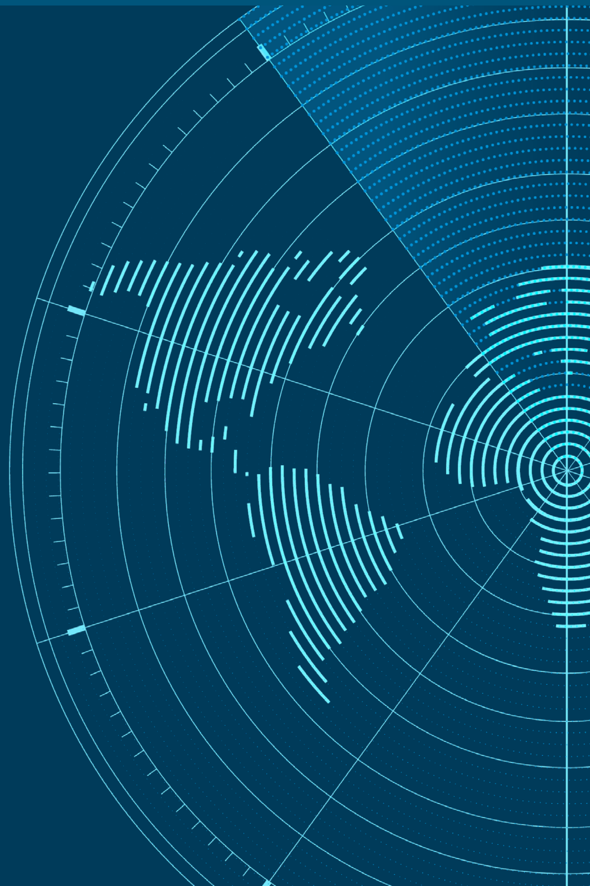
**= Lost Revenue**
**(—) Avoided Costs**

**= Lost Profit**
**(+) Extra Expenses**

**= BI Loss**

While the information above provides a high-level overview of the BI loss calculation, the calculation for specific BI loss claims will always vary by policy. They are, by nature, estimates and thus are subject to the judgment of the professional calculating the loss.

# NURTURE YOUR ROOT SYSTEM



How we react during these times of adversity can set us apart from our competitors. Remember that, like when a tree has burned to the ground, your root system — the people and systems that support your business — will be the key to your recovery.

As you look for opportunities for growth now and in the years to come, your **CRI advisors** are ready and willing to help you.