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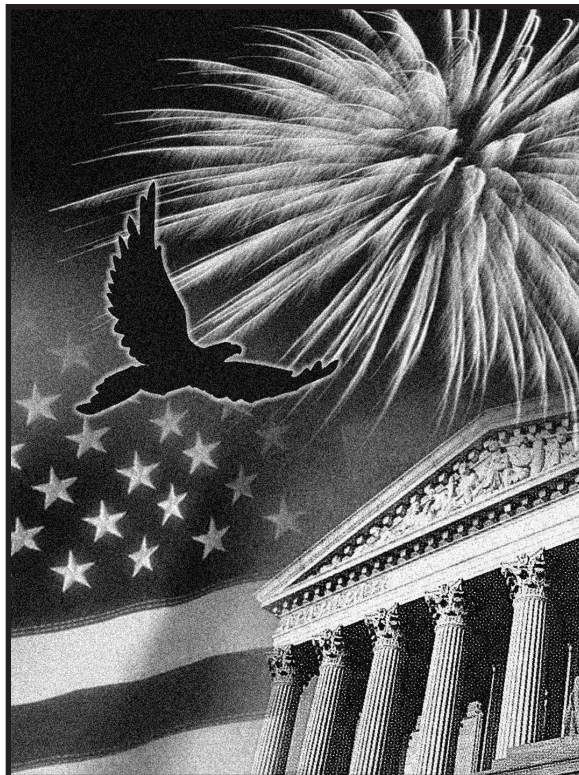
## Publication 547

Cat. No. 15090K

# Casualties, Disasters, and Thefts

For use in preparing

# 2017 Returns



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## What's New

**Disaster relief.** Personal casualty losses resulting from federally declared disasters that occurred in 2016, as well as Hurricane and Tropical Storm Harvey, Hurricanes Irma and Maria, and the California wildfires, may be claimed as a qualified disaster loss on your Form 4684. See [Disaster Area Losses](#), later, for more information on the special relief provided as part of the Disaster Tax Relief and Airport and Airway Extension Act of 2017, the Tax Reform Act of 2017, and the Bipartisan Budget Act of 2018. Also see Pub. 976, Disaster Relief, and [IRS.gov/DisasterTaxRelief](https://www.irs.gov/DisasterTaxRelief) for more information about these and other disaster tax relief provisions.

**Determining and reporting casualty losses using safe harbor methods.** You may be able to use certain safe harbor methods to determine the amount of your personal casualty and theft losses. For more information, see [Safe Harbor Methods for Determining Casualty and Theft Losses](#), later.

**Damage caused by certain deteriorating concrete foundations may be treated as casualty loss.** Effective for federal income tax returns (including amended returns) filed after November 21, 2017, damage to personal residences resulting from deteriorating concrete foundations caused by the presence of mineral pyrrhotite may be treated as a casualty loss. For more information, see [Special Provision for Damage From Deteriorating Concrete Foundation](#), later.

**2018 disaster losses.** A new Section D has been added to Form 4684 to make an election (or revoke a prior election) to deduct a loss

sustained in a disaster and attributable to a federally declared disaster in the tax year immediately preceding the [disaster year](#), defined later. For disaster years beginning in 2018, the election may be made by completing Section D and attaching it to your return or amended return that claims the disaster loss deduction. For more information about Section D, see the Instructions for Form 4684.



*For tax years beginning after December 31, 2017, and ending before January 1, 2026, personal casualty losses will be allowed as a deduction only to the extent they are attributable to a federally declared disaster as defined under [Disaster Area Losses](#), later.*

## Reminders

**Disaster losses.** Effective October 13, 2016, the due date for making an election to deduct a loss attributable to a federally declared disaster in the tax year immediately before the tax year in which the disaster loss was sustained has been extended by six months. The period for revoking the election has also been extended to 90 days after the due date for making the election. See [When to deduct the loss](#) under *Disaster Area Losses*, later, for more information.

**Future developments.** For the latest information about developments related to Pub. 547, such as legislation enacted after it was published, go to [IRS.gov/Pub547](#).

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

## Introduction

This publication explains the tax treatment of casualties, thefts, and losses on deposits. A casualty occurs when your property is damaged as a result of a disaster such as a storm, fire, car accident, or similar event. A theft occurs when someone steals your property. A loss on deposits occurs when your financial institution becomes insolvent or bankrupt.

This publication discusses the following topics.

- Definitions of a casualty, theft, and loss on deposits.
- How to figure the amount of your gain or loss.
- How to treat insurance and other reimbursements you receive.
- The deduction limits.
- When and how to report a casualty or theft.
- The special rules for disaster area losses.

**Forms to file.** Generally, when you have a casualty or theft, you have to file Form 4684. You may also have to file one or more of the following forms.

- Schedule A (Form 1040).

- Form 1040NR, Schedule A (for nonresident aliens).
- Schedule D.
- Form 4797.

For details on which form to use, see [How To Report Gains and Losses](#), later.

**Condemnations.** For information on condemnations of property, see *Involuntary Conversions* in chapter 1 of Pub. 544, Sales and Other Dispositions of Assets.

**Workbooks for casualties and thefts.** Pub. 584, Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property), is available to help you make a list of your stolen or damaged personal-use property and figure your loss. It includes schedules to help you figure the loss on your home and its contents, and your motor vehicles.

Pub. 584-B, Business Casualty, Disaster, and Theft Loss Workbook, is available to help you make a list of your stolen or damaged business or income-producing property and figure your loss.

**Comments and suggestions.** We welcome your comments about this publication and your suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](#). Or you can write to:

Internal Revenue Service  
Tax Forms and Publications  
1111 Constitution Ave. NW, IR-6526  
Washington, DC 20224

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications.

**Ordering forms and publications.** Visit [IRS.gov/FormsPubs](#) to download forms and publications. Otherwise, you can go to [IRS.gov/OrderForms](#) to order current and prior-year forms and instructions. Your order should arrive within 10 business days.

**Tax questions.** If you have a tax question not answered by this publication, check [IRS.gov](#) and [How To Get Tax Help](#) at the end of this publication.

## Useful Items

You may want to see:

### Publication

- 523** Selling Your Home
- 525** Taxable and Nontaxable Income
- 550** Investment Income and Expenses
- 551** Basis of Assets
- 584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 584-B** Business Casualty, Disaster, and Theft Loss Workbook
- 976** Disaster Relief

## Form (and Instructions)

- Schedule A (Form 1040)** Itemized Deductions
- Form 1040NR, Schedule A** Itemized Deductions (for nonresident aliens)
- Schedule D (Form 1040)** Capital Gains and Losses
- 4684** Casualties and Thefts
- 4797** Sales of Business Property

See [How To Get Tax Help](#) near the end of this publication for information about getting publications and forms.

## Casualty

A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual.

- A sudden event is one that is swift, not gradual or progressive.
- An unexpected event is one that is ordinarily unanticipated and unintended.
- An unusual event is one that isn't a day-to-day occurrence and that isn't typical of the activity in which you were engaged.

Generally, casualty losses are deductible during the taxable year that the loss occurred. See [Table 3](#), later.

**Deductible losses.** Deductible casualty losses can result from a number of different causes, including the following.

- Car accidents (but see [Nondeductible losses](#), next, for exceptions).
- Earthquakes.
- Fires (but see [Nondeductible losses](#), next, for exceptions).
- Floods.
- Government-ordered demolition or relocation of a home that is unsafe to use because of a disaster as discussed under [Disaster Area Losses](#), later.
- Mine cave-ins.
- Shipwrecks.
- Sonic booms.
- Storms, including hurricanes and tornadoes.
- Terrorist attacks.
- Vandalism.
- Volcanic eruptions.

**Nondeductible losses.** A casualty loss isn't deductible if the damage or destruction is caused by the following.

- Accidentally breaking articles such as glassware or china under normal conditions.
- A family pet (explained below).
- A fire if you willfully set it, or pay someone else to set it.
- A car accident if your willful negligence or willful act caused it. The same is true if the willful act or willful negligence of someone acting for you caused the accident.
- Progressive deterioration (explained below). However, see [Special Procedure for Damage From Corrosive Drywall](#) and [Special Provision for Damage From Deteriorating Concrete Foundation](#), later.

**Family pet.** Loss of property due to damage by a family pet isn't deductible as a casualty loss unless the requirements discussed earlier under [Casualty](#) are met.

**Example.** Your antique oriental rug was damaged by your new puppy before it was housebroken. Because the damage wasn't unexpected and unusual, the loss isn't deductible as a casualty loss.

**Progressive deterioration.** Loss of property due to progressive deterioration isn't deductible as a casualty loss. This is because the damage results from a steadily operating cause or a normal process, rather than from a sudden event. The following are examples of damage due to progressive deterioration.

- The steady weakening of a building due to normal wind and weather conditions.
- The deterioration and damage to a water heater that bursts. However, the rust and water damage to rugs and drapes caused by the bursting of a water heater does qualify as a casualty.
- Most losses of property caused by droughts. To be deductible, a drought-related loss generally must be incurred in a trade or business or in a transaction entered into for profit.
- Termite or moth damage.
- The damage or destruction of trees, shrubs, or other plants by a fungus, disease, insects, worms, or similar pests. However, a sudden destruction due to an unexpected or unusual infestation of beetles or other insects may result in a casualty loss.

## Special Procedure for Damage From Corrosive Drywall

If you suffered property losses due to the effects of certain imported drywall installed in homes between 2001 and 2009, under a special procedure, you can deduct the amounts you paid to repair damage to your home and household appliances due to corrosive drywall. Under this procedure, you treat the amounts paid for repairs as a casualty loss in the year of payment. For example, amounts you paid for repairs in 2017 are deductible on your 2017 tax return and amounts you paid for repairs in 2016 are deductible on your 2016 tax return.

**Note.** If you paid for any repairs before 2017 and you choose to follow this special procedure, you can amend your return for the earlier year by filing Form 1040X, Amended U.S. Individual Income Tax Return, and attaching a completed Form 4684 for the appropriate year. Form 4684 for the appropriate year can be found at IRS.gov. Generally, Form 1040X must be filed within 3 years after the date the original return was filed or within 2 years after the date the tax was paid, whichever is later.

**Corrosive drywall.** For purposes of this special procedure, "corrosive drywall" means drywall that is identified as problem drywall under the two-step identification method published by the Consumer Product Safety Commission

(CPSC) and the Department of Housing and Urban Development (HUD) in their interim guidance dated January 28, 2010, as revised by the CPSC and HUD. The revised identification guidance and remediation guidelines are available at [www.cpsc.gov/en/Safety-Education/Safety-Education-Centers/Drywall-Information-Center/](http://www.cpsc.gov/en/Safety-Education/Safety-Education-Centers/Drywall-Information-Center/).

**Special instructions for completing Form 4684.** If you choose to follow this special procedure, complete Form 4684, Section A, according to the instructions below. The IRS won't challenge your treatment of damage resulting from corrosive drywall as a casualty loss if you determine and report the loss as explained below.

**Top margin of Form 4684.** Enter "Revenue Procedure 2010-36."

**Line 1.** Enter the information required by the line 1 instructions.

**Line 2.** Skip this line.

**Line 3.** Enter the amount of insurance or other reimbursements you received (including through litigation). If none, enter -0-.

**Lines 4–7.** Skip these lines.

**Line 8.** Enter the amount you paid to repair the damage to your home and household appliances due to corrosive drywall. Enter only the amounts you paid to restore your home to the condition existing immediately before the damage. Don't enter any amounts you paid for improvements or additions that increased the value of your home above its pre-loss value. If you replaced a household appliance instead of repairing it, enter the lesser of:

- The current cost to replace the original appliance, or
- The basis of the original appliance (generally its cost).

**Line 9.** If line 8 is more than line 3, do one of the following.

1. If you have a pending claim for reimbursement (or you intend to pursue reimbursement), enter 75% of the difference between lines 3 and 8.
2. If item (1) doesn't apply to you, enter the full amount of the difference between lines 3 and 8.

If line 8 is less than or equal to line 3, you can't claim a casualty loss deduction using this special procedure.



*If you have a pending claim for reimbursement (or you intend to pursue reimbursement), you may have income or an additional deduction in a later tax year depending on the actual amount of reimbursement received. See [Reimbursement Received After Deducting Loss](#), later.*

**Lines 10–18.** Complete these lines according to the Instructions for Form 4684.

**Choosing not to follow this special procedure.** If you choose *not* to follow this special procedure, you are subject to all of the provisions that apply to the deductibility of casualty

losses, and you must complete lines 1–9 according to the Instructions for Form 4684. This means, for example, that you must establish that the damage, destruction, or loss of property resulted from an identifiable event as defined earlier under [Casualty](#). Furthermore, you must have proof that shows the following.

- The loss is properly deductible in the tax year you claimed it and not in some other year. See [When To Report Gains and Losses](#), later.
- The amount of the claimed loss. See [Proof of Loss](#), later.
- No claim for reimbursement of any portion of the loss exists for which there is a reasonable prospect of recovery. See [When To Report Gains and Losses](#), later.

## Special Provision for Damage From Deteriorating Concrete Foundation

Under a special safe harbor provision, you can deduct the amounts you paid to repair damage to your home caused by a deteriorating concrete foundation containing the mineral pyrrhotite. Under this provision, you treat the amounts paid as a casualty loss in the year of payment. For example, amounts you paid for repairs in 2017 are deductible on your 2017 tax return and amounts you paid for repairs in 2016 are deductible on your 2016 tax return.

**Note.** If you paid for any repairs before 2017 and you choose to follow this special procedure, you can amend your return for the earlier year by filing Form 1040X and attaching a completed Form 4684 for the appropriate year. If you paid for any repairs after filing your original 2017 tax return and before the last day for filing a timely Form 1040X for the 2017 tax year, you may treat the amount paid as a casualty loss on a timely filed Form 1040X for the 2017 tax year. Form 4684 for the appropriate year can be found at IRS.gov. Generally, Form 1040X must be filed within 3 years after the date the original return was filed or within 2 years after the date the tax was paid, whichever is later.

**Deteriorating concrete foundation.** For purposes of this provision, "deteriorating concrete foundation" means a concrete foundation that is damaged because of the presence of the mineral pyrrhotite in the concrete mixture used before January 1, 2018, in pouring the foundation. See Revenue Procedure 2017-60, 2017-50 I.R.B. 559, available at [IRS.gov/irb/2017-50 IRB#RP-2017-60](http://IRS.gov/irb/2017-50 IRB#RP-2017-60), as modified by Revenue Procedure 2018-14, 2018-9 I.R.B. 378, available at [IRS.gov/irb/2018-09 IRB#RP-2018-14](http://IRS.gov/irb/2018-09 IRB#RP-2018-14), for more information.

**Applying the safe harbor provision.** You may apply this safe harbor provision if:

- You obtained a written evaluation from a licensed engineer indicating that the foundation was made with defective concrete, and have requested and received a reassessment report that shows the reduced reassessed value of the residential property based on the written evaluation from



the engineer and an inspection pursuant to Connecticut Public Act No. 16-45; or

- If your home is either in Connecticut or outside of Connecticut, you have obtained a written evaluation from a licensed engineer indicating that the foundation was made with defective concrete containing the mineral pyrrhotite.

Only amounts paid to restore your home to the condition existing immediately prior to the damage qualify for loss treatment. Amounts paid for improvements or additions that increase the value of your home above its pre-loss value aren't allowed as a casualty loss.

You must report the amount of the loss on Form 4684 and must mark "Revenue Procedure 2017-60" at the top of that form. The IRS won't challenge your treatment of damage resulting from a deteriorating concrete foundation as a casualty loss if the loss is determined and reported as provided in Revenue Procedure 2017-60. However, these losses will be subject to the [\\$100 Rule](#) and the [10% Rule](#), discussed later.

**Claims for reimbursement.** If you have a pending claim for reimbursement, or you intend to pursue reimbursement, you may claim a loss for 75% of the unreimbursed amounts paid during the taxable year to repair damage to your personal residence caused by the deteriorating concrete foundation. If you have been fully reimbursed before filing a return for the year the loss was sustained you may not claim a loss.

If you don't have a pending claim for reimbursement, and you don't intend to pursue reimbursement, you may claim as a loss all unreimbursed amounts (subject to the adjusted basis limitation) paid during the taxable year to repair damage to your home caused by the deteriorating concrete foundation.



*If you have a pending claim for reimbursement (or you intend to pursue reimbursement), you may have income or an additional deduction in a later tax year depending on the actual amount of reimbursement received. See [Reimbursement Received After Deducting Loss, later](#).*

## Theft

A theft is the taking and removing of money or property with the intent to deprive the owner of it. The taking of property must be illegal under the law of the state where it occurred and it must have been done with criminal intent. You don't need to show a conviction for theft.

Theft includes the taking of money or property by the following means.

- Blackmail.
- Burglary.
- Embezzlement.
- Extortion.
- Kidnapping for ransom.
- Larceny.
- Robbery.

The taking of money or property through fraud or misrepresentation is theft if it is illegal under state or local law.

**Decline in market value of stock.** You can't deduct as a theft loss the decline in market value of stock acquired on the open market for investment if the decline is caused by disclosure of accounting fraud or other illegal misconduct by the officers or directors of the corporation that issued the stock. However, you may be able to deduct it as a capital loss on Schedule D (Form 1040) if the stock is sold or exchanged or becomes completely worthless. For more information about stock sales, worthless stock, and capital losses, see chapter 4 of Pub. 550.

**Mislaid or lost property.** The simple disappearance of money or property isn't a theft. However, an accidental loss or disappearance of property can qualify as a casualty if it results from an identifiable event that is sudden, unexpected, or unusual. Sudden, unexpected, and unusual events were defined earlier under [Casualty](#).

**Example.** A car door is accidentally slammed on your hand, breaking the setting of your diamond ring. The diamond falls from the ring and is never found. The loss of the diamond is a casualty.

**Losses from Ponzi-type investment schemes.** The IRS has issued the following guidance to assist taxpayers who are victims of losses from Ponzi-type investment schemes.

- Revenue Ruling 2009-9, 2009-14 I.R.B. 735 (available at [IRS.gov/irb/2009-14\\_IRB#RR-2009-9](#)).
- Revenue Procedure 2009-20, 2009-14 I.R.B. 749 (available at [IRS.gov/irb/2009-14\\_IRB#RP-2009-20](#)).
- Revenue Procedure 2011-58, 2011-50 I.R.B. 847 (available at [IRS.gov/irb/2011-50\\_IRB#RP-2011-58](#)).

If you qualify to use Rev. Proc. 2009-20, as modified by Rev. Proc. 2011-58, and you choose to follow the procedures in the guidance, first fill out Section C of Form 4684 to determine the amount to enter on Section B, line 28. Skip lines 19 to 27, but you must fill out Section B, lines 29 to 39, as appropriate. Section C of Form 4684 replaces Appendix A in Rev. Proc. 2009-20. You don't need to complete Appendix A. For more information, see the above revenue ruling and revenue procedures, and the Instructions for Form 4684.

If you choose not to use the procedures in Rev. Proc. 2009-20, as modified by Rev. Proc. 2011-58, you may claim your theft loss by filling out Section B, lines 19 to 39, as appropriate.

## Loss on Deposits

A loss on deposits can occur when a bank, credit union, or other financial institution becomes insolvent or bankrupt. If you incurred this type of loss, you can choose one of the following ways to deduct the loss.

- As a casualty loss.
- As an ordinary loss.
- As a nonbusiness bad debt.

**Casualty loss or ordinary loss.** You can choose to deduct a loss on deposits as a casualty loss or as an ordinary loss for any year in

which you can reasonably estimate how much of your deposits you have lost in an insolvent or bankrupt financial institution. The choice generally is made on the return you file for that year and applies to all your losses on deposits for the year in that particular financial institution. If you treat the loss as a casualty or ordinary loss, you can't treat the same amount of the loss as a nonbusiness bad debt when it actually becomes worthless. However, you can take a nonbusiness bad debt deduction for any amount of loss that is more than the estimated amount you deducted as a casualty or ordinary loss. Once you make the choice, you can't change it without permission from the Internal Revenue Service.

If you claim an ordinary loss, report it as a miscellaneous itemized deduction on Schedule A (Form 1040), line 23. The maximum amount you can claim is \$20,000 (\$10,000 if you are married filing separately) reduced by any expected state insurance proceeds. Your loss is subject to the 2%-of-adjusted-gross-income limit. You can't choose to claim an ordinary loss if any part of the deposit is federally insured.

**Nonbusiness bad debt.** If you don't choose to deduct the loss as a casualty loss or as an ordinary loss, you must wait until the year the actual loss is determined and deduct the loss as a nonbusiness bad debt in that year.

**How to report.** The kind of deduction you choose for your loss on deposits determines how you report your loss. See [Table 1](#).

**More information.** For more information, see *Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions* in the Instructions for Form 4684.

**Deducted loss recovered.** If you recover an amount you deducted as a loss in an earlier year, you may have to include the amount recovered in your income for the year of recovery. If any part of the original deduction didn't reduce your tax in the earlier year, you don't have to include that part of the recovery in your income. For more information, see *Recoveries* in Pub. 525.

## Proof of Loss

To deduct a casualty or theft loss, you must be able to show that there was a casualty or theft. You also must be able to support the amount you take as a deduction.

**Casualty loss proof.** For a casualty loss, you should be able to show all of the following.

- That you were the owner of the property, or if you leased the property from someone else, that you were contractually liable to the owner for the damage.
- The type of casualty (car accident, fire, storm, etc.) and when it occurred.
- That the loss was a direct result of the casualty.
- Whether a claim for reimbursement exists for which there is a reasonable expectation of recovery.

**Table 1. Reporting Loss on Deposits**

IF you choose to report the loss as a(n)...	THEN report it on...
casualty loss	Form 4684 and Schedule A (Form 1040).
ordinary loss	Schedule A (Form 1040).
nonbusiness bad debt	Form 8949 and Schedule D (Form 1040).

**Theft loss proof.** For a theft loss, you should be able to show all of the following.

- That you were the owner of the property.
- That your property was stolen.
- When you discovered your property was missing.
- Whether a claim for reimbursement exists for which there is a reasonable expectation of recovery.



It is important that you have records that will prove your deduction. If you don't have the actual records to support your deduction, you can use other satisfactory evidence to support it.

## Figuring a Loss

To determine your deduction for a casualty or theft loss, you must first figure your loss.

**Amount of loss.** Figure the amount of your loss using the following steps.

1. Determine your adjusted basis in the property before the casualty or theft.
2. Determine the decrease in fair market value (FMV) of the property as a result of the casualty or theft.
3. From the smaller of the amounts you determined in (1) and (2), subtract any insurance or other reimbursement you received or expect to receive.

For personal-use property and property used in performing services as an employee, apply the [deduction limits](#), discussed later, to determine the amount of your deductible loss.

**Gain from reimbursement.** If your reimbursement is more than your adjusted basis in the property, you have a gain. This is true even if the decrease in the FMV of the property is smaller than your adjusted basis. If you have a gain, you may have to pay tax on it, or you may be able to postpone reporting the gain. See [Figuring a Gain](#), later.

**Business or income-producing property.** If you have business or income-producing property, such as rental property, and it is stolen or completely destroyed, the decrease in FMV isn't considered. Your loss is figured as follows:

Your adjusted basis in the property  
 MINUS  
 Any salvage value  
 MINUS  
 Any insurance or other reimbursement  
 you  
 receive or expect to receive

**Loss of inventory.** There are two ways you can deduct a casualty or theft loss of inventory, including items you hold for sale to customers.

One way is to deduct the loss through the increase in the cost of goods sold by properly reporting your opening and closing inventories. Don't claim this loss again as a casualty or theft loss. If you take the loss through the increase in the cost of goods sold, include any insurance or other reimbursement you receive for the loss in gross income.

The other way is to deduct the loss separately. If you deduct it separately, eliminate the affected inventory items from the cost of goods sold by making a downward adjustment to opening inventory or purchases. Reduce the loss by the reimbursement you received. Don't include the reimbursement in gross income. If you don't receive the reimbursement by the end of the year, you may not claim a loss to the extent you have a reasonable prospect of recovery.

**Leased property.** If you are liable for casualty damage to property you lease, your loss is the amount you must pay to repair the property minus any insurance or other reimbursement you receive or expect to receive.

**Separate computations.** Generally, if a single casualty or theft involves more than one item of property, you must figure the loss on each item separately. Then combine the losses to determine the total loss from that casualty or theft.

**Exception for personal-use real property.** In figuring a casualty loss on personal-use real property, the entire property (including any improvements, such as buildings, trees, and shrubs) is treated as one item. Figure the loss using the smaller of the following.

- The decrease in FMV of the entire property.
- The adjusted basis of the entire property.

See [Real property](#) under [Figuring the Deduction](#), later.

## Decrease in Fair Market Value

Fair market value (FMV) is the price for which you could sell your property to a willing buyer when neither of you has to sell or buy and both of you know all the relevant facts.

The decrease in FMV used to figure the amount of a casualty or theft loss is the difference between the property's fair market value immediately before and immediately after the casualty or theft.

**FMV of stolen property.** The FMV of property immediately after a theft is considered to be zero because you no longer have the property.

**Example.** Several years ago, you purchased silver dollars at face value for \$150. This is your adjusted basis in the property. Your silver dollars were stolen this year. The FMV of the coins was \$1,000 just before they were stolen, and insurance didn't cover them. Your theft loss is \$150.

**Recovered stolen property.** Recovered stolen property is your property that was stolen and later returned to you. If you recovered property after you had already taken a theft loss deduction, you must refigure your loss using the smaller of the property's [adjusted basis](#) (explained later) or the decrease in FMV from the time just before it was stolen until the time it was recovered. Use this amount to refigure your total loss for the year in which the loss was deducted.

If your refigured loss is less than the loss you deducted, you generally have to report the difference as income in the recovery year. But report the difference only up to the amount of the loss that reduced your tax. For more information on the amount to report, see [Recoveries](#) in Pub. 525.

## Figuring Decrease in FMV—Items To Consider

To figure the decrease in FMV because of a casualty or theft, you generally need a competent appraisal. However, other measures also can be used to establish certain decreases. See [Appraisal](#), [Cost of cleaning up or making repairs](#), and [Safe Harbor Methods for Determining Casualty and Theft Losses](#) below.

**Appraisal.** An appraisal to determine the difference between the FMV of the property immediately before a casualty or theft and immediately afterward should be made by a competent appraiser. The appraiser must recognize the effects of any general market decline that may occur along with the casualty. This information is needed to limit any deduction to the actual loss resulting from damage to the property.

Several factors are important in evaluating the accuracy of an appraisal, including the following.

- The appraiser's familiarity with your property before and after the casualty or theft.
- The appraiser's knowledge of sales of comparable property in the area.
- The appraiser's knowledge of conditions in the area of the casualty.
- The appraiser's method of appraisal.

**TIP** You may be able to use an appraisal that you used to get a federal loan (or a federal loan guarantee) as the result of a federally declared disaster to establish the amount of your disaster loss. For more information on disasters, see [Disaster Area Losses](#), later.

**Cost of cleaning up or making repairs.** The cost of repairing damaged property isn't part of a casualty loss. Neither is the cost of cleaning up after a casualty. But you can use the cost of cleaning up or of making repairs after a casualty as a measure of the decrease in FMV if you meet all the following conditions.

- The repairs are actually made.

- The repairs are necessary to bring the property back to its condition before the casualty.
- The amount spent for repairs isn't excessive.
- The repairs take care of the damage only.
- The value of the property after the repairs isn't, due to the repairs, more than the value of the property before the casualty.

**Landscaping.** The cost of restoring landscaping to its original condition after a casualty may indicate the decrease in FMV. You may be able to measure your loss by what you spend on the following.

- Removing destroyed or damaged trees and shrubs, minus any salvage you receive.
- Pruning and other measures taken to preserve damaged trees and shrubs.
- Replanting necessary to restore the property to its approximate value before the casualty.

**Car value.** Books issued by various automobile organizations that list the manufacturer and the model of your car may be useful in figuring the value of your car. You can use the retail value for your car listed in the book and modify it by such factors as mileage and the condition of your car to determine its value. The prices aren't official, but they may be useful in determining value and suggesting relative prices for comparison with current sales and offerings in your area. If your car isn't listed in the books, determine its value from other sources. A dealer's offer for your car as a trade-in on a new car isn't usually a measure of its true value.

## Safe Harbor Methods for Determining Casualty and Theft Losses

To figure the amount of your casualty and theft losses, you generally must determine the actual reduction in the FMV of lost or damaged property using a competent appraisal or the cost of repairs you actually make. But the special safe harbor methods in Revenue Procedure 2018-08, 2018-2 I.R.B. 286 and Revenue Procedure 2018-09, 2018-2 I.R.B. 290, allow you to determine the decrease in FMV in other ways.

**Special procedure for determining casualty and theft losses generally.** Revenue Procedure 2018-08, 2018-2 I.R.B. 286, available at [IRS.gov/irb/2018-02\\_IRB#RP-2018-08](https://www.irs.gov/irb/2018-02_IRB#RP-2018-08) provides safe harbor methods that you may use to figure the amount of your casualty and theft losses of your personal-use residential real property and personal belongings. If you qualify for and use a safe harbor method described in Revenue Procedure 2018-08, the IRS won't challenge your determination. The use of a safe harbor method described in Revenue Procedure 2018-08 isn't mandatory.

**Personal-use residential real property safe harbor methods.** Personal-use residential real property generally is real property, including improvements, that is owned by the individual who suffered a casualty loss and that contains at least one personal residence. It doesn't include a personal residence if any part of the personal

residence is used as rental property or contains a home office used in a trade or business or transaction entered into for profit. For more details, see Revenue Procedure 2018-08.

The safe harbor methods for personal-use residential real property available through Revenue Procedure 2018-08 are the following.

- Estimated repair cost method.
- De minimis method.
- Insurance method.
- Federally declared disaster method—contractor safe harbor.
- Federally declared disaster method—disaster loan appraisal.

**Estimated repair cost method.** The estimated repair cost safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property using the lesser of two repair estimates prepared by separate and independent licensed contractors. The estimates must detail the itemized costs to restore your property to its condition immediately before the casualty. The estimated repair cost safe harbor method is limited to casualty losses of \$20,000 or less.

**De minimis method.** The de minimis safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property based on a written good-faith estimate of the cost of repairs required to restore your property to its condition immediately before the casualty. You must keep documentation showing how you estimated the amount of your loss. The de minimis safe harbor method is available for casualty losses of \$5,000 or less.

**Insurance method.** The insurance safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property based upon the estimated loss in reports prepared by your homeowners' or flood insurance company. These reports must set forth the estimated loss you sustained from the damage to or the destruction of your property.

**Federally declared disaster method—contractor safe harbor.** If the loss occurred in a disaster area and was due to a federally declared disaster, then you may use the contractor safe harbor method or the disaster loan appraisal method. Under the contractor safe harbor method, you may use the contract price for the repairs specified in a contract prepared by an independent and licensed contractor to determine the decrease in the FMV of your personal-use residential real property. This safe harbor method doesn't apply unless you are subject to a binding contract signed by you and the contractor setting forth the itemized costs to restore your personal-use residential real property to its condition immediately before the casualty.

**Federally declared disaster method—disaster loan appraisal.** Under the disaster loan appraisal safe harbor method, you may use an appraisal prepared to obtain a loan of federal funds or a loan guarantee from the federal government that identifies your estimated loss from a federally declared disaster to determine the decrease in the FMV of your personal-use residential real property.

**Personal belongings safe harbor methods.** Personal belongings generally include items of tangible personal property owned by an individual who suffered a casualty or theft loss if they aren't used in a trade or business. Personal belongings don't include an item that maintains or increases its value over time or certain other types of property. For more details, see Revenue Procedure 2018-08. The safe harbor methods for personal belongings are the de minimis method and the replacement cost safe harbor method for federally declared disasters.

**De minimis method.** Under the de minimis method, you can make a good-faith estimate of the decrease in the FMV of your personal belongings. You must maintain records describing your affected personal belongings as well as your methodology for estimating your loss. This method is limited to losses of \$5,000 or less.

**Replacement cost safe harbor method for federally declared disasters.** The replacement cost safe harbor method for federally declared disasters allows you to determine the FMV of your personal belongings located in a disaster area immediately before a federally declared disaster to figure the amount of your casualty or theft loss. To use the replacement cost safe harbor method, you must first determine the current cost to replace your personal belonging with a new one and then reduce that amount by 10% for each year you have owned the personal belonging. See the Personal Belongings Valuation Table in Revenue Procedure 2018-08. If you choose to use the replacement cost safe harbor method, then you must use that method for all your personal belongings, with certain exceptions identified in Revenue Procedure 2018-08.

Each of these safe harbor methods is subject to additional rules and exceptions. For additional information, see Revenue Procedure 2018-08.

**Decreases to safe harbor loss amount.** The loss determined through the safe harbor methods must be reduced by the value of any repairs provided by a third party at no cost (for example, work done by volunteers or via donations) to you. Additionally, reduce your loss by the amount of any insurance, reimbursements, or other compensation received.

**Reporting requirements on Form 4684.** Attach a statement to Form 4684 stating that you used Revenue Procedure 2018-08 to determine the amount of your casualty loss. Include the specific safe harbor method used. When completing Form 4684, don't enter an amount on line 5 or line 6 for each property. Instead, enter the decrease in the FMV determined under the relevant safe harbor method on line 7.

**Special procedure for determining casualty losses due to Hurricane and Tropical Storm Harvey, Hurricane Irma, and Hurricane Maria.** Revenue Procedure 2018-09, 2018-2 I.R.B. 290, available at [IRS.gov/irb/2018-02\\_IRB#RP-2018-09](https://www.irs.gov/irb/2018-02_IRB#RP-2018-09), provides a safe harbor method you may use to calculate the amount of your casualty losses for your personal-use residential real property damaged or destroyed in Texas, Louisiana, Florida, Georgia, South Carolina, the Commonwealth of



Puerto Rico, or the territory of the U.S. Virgin Islands as a result of Hurricane and Tropical Storm Harvey, Hurricane Irma, or Hurricane Maria. If you qualify for and use the cost indexes safe harbor method described in Revenue Procedure 2018-09, the IRS won't challenge your determination. The use of the cost indexes safe harbor method isn't mandatory. See Pub. 976 and [Cost indexes safe harbor method to calculate hurricane-related losses](#), later, for more information.

## Figuring Decrease in FMV—Items Not To Consider

You generally shouldn't consider the following items when attempting to establish the decrease in FMV of your property.

**Cost of protection.** The cost of protecting your property against a casualty or theft isn't part of a casualty or theft loss. The amount you spend on insurance or to board up your house against a storm isn't part of your loss. If the property is business property, these expenses are deductible as business expenses.

If you make permanent improvements to your property to protect it against a casualty or theft, add the cost of these improvements to your basis in the property. An example would be the cost of a dike to prevent flooding.

**Exception.** You can't increase your basis in the property by, or deduct as a business expense, any expenditures you made with respect to qualified disaster mitigation payments (discussed later under [Disaster Area Losses](#)).

**Related expenses.** The incidental expenses due to a casualty or theft, such as expenses for the treatment of personal injuries, for temporary housing, or for a rental car, aren't part of your casualty or theft loss. However, they may be deductible as business expenses if the damaged or stolen property is business property.

**Replacement cost.** The cost of replacing stolen or destroyed property isn't part of a casualty or theft loss.

**Example.** You bought a new chair 4 years ago for \$300. In April, a fire destroyed the chair. You estimate that it would cost \$500 to replace it. If you had sold the chair before the fire, you estimate that you could have received only \$100 for it because it was 4 years old. The chair wasn't insured. Your loss is \$100, the FMV of the chair before the fire. It isn't \$500, the replacement cost.

**Sentimental value.** Don't consider sentimental value when determining your loss. If a family portrait, heirloom, or keepsake is damaged, destroyed, or stolen, you must base your loss on its FMV, as limited by your adjusted basis in the property.

**Decline in market value of property in or near casualty area.** A decrease in the value of your property because it is in or near an area that suffered a casualty, or that might again suffer a casualty, isn't to be taken into consideration. You have a loss only for actual casualty damage to your property. However, if your

home is in a federally declared disaster area, see [Disaster Area Losses](#), later.

**Costs of photographs and appraisals.** Photographs taken after a casualty will be helpful in establishing the condition and value of the property after it was damaged. Photographs showing the condition of the property after it was repaired, restored, or replaced may also be helpful.

Appraisals are used to figure the decrease in FMV because of a casualty or theft. See [Appraisal](#), earlier, under *Figuring Decrease in FMV—Items To Consider*, for information about appraisals.

The costs of photographs and appraisals used as evidence of the value and condition of property damaged as a result of a casualty aren't a part of the loss. They are expenses in determining your tax liability. You can claim these costs as a miscellaneous itemized deduction subject to the 2%-of-adjusted-gross-income limit on Schedule A (Form 1040).

## Adjusted Basis

The measure of your investment in the property you own is its basis. For property you buy, your basis is usually its cost to you. For property you acquire in some other way, such as inheriting it, receiving it as a gift, or getting it in a nontaxable exchange, you must figure your basis in another way, as explained in Pub. 551. If you inherited the property from someone who died in 2010 and the executor of the decedent's estate made the election to file Form 8939, refer to the information provided by the executor or see Pub. 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010.

**Adjustments to basis.** While you own the property, various events may take place that change your basis. Some events, such as additions or permanent improvements to the property, increase basis. Others, such as earlier casualty losses and depreciation deductions, decrease basis. When you add the increases to the basis and subtract the decreases from the basis, the result is your adjusted basis. See Pub. 551 for more information on figuring the basis of your property.

## Insurance and Other Reimbursements

If you receive an insurance or other type of reimbursement, you must subtract the reimbursement when you figure your loss. You don't have a casualty or theft loss to the extent you are reimbursed.

If you expect to be reimbursed for part or all of your loss, you must subtract the expected reimbursement when you figure your loss. You must reduce your loss even if you don't receive payment until a later tax year. See [Reimbursement Received After Deducting Loss](#), later.

**Failure to file a claim for reimbursement.** If your property is covered by insurance, you should file a timely insurance claim for reimbursement of your loss. If you don't file an insurance claim, you can't deduct the full unrecovered

amount as a casualty or theft loss and only the part of the loss that isn't covered by your insurance policy is deductible.

The portion of the loss usually not covered by insurance (for example, a deductible) isn't subject to this rule.

**Example.** Your car insurance policy includes collision coverage with a \$1,000 deductible. Because your insurance doesn't cover the first \$1,000 of an auto collision, the \$1,000 is deductible (subject to the [\\$100](#) and [10%](#) rules, discussed later). This is true, even if you don't file an insurance claim, because your insurance policy won't reimburse you for the deductible.

## Types of Reimbursements

The most common type of reimbursement is an insurance payment for your stolen or damaged property. Other types of reimbursements are discussed next. Also see the Instructions for Form 4684.

**Employer's emergency disaster fund.** If you receive money from your employer's emergency disaster fund and you must use that money to rehabilitate or replace property on which you are claiming a casualty loss deduction, you must take that money into consideration in computing the casualty loss deduction. Take into consideration only the amount you used to replace your destroyed or damaged property.

**Example.** Your home was extensively damaged by a tornado. Your loss after reimbursement from your insurance company was \$10,000. Your employer set up a disaster relief fund for its employees. Employees receiving money from the fund had to use it to rehabilitate or replace their damaged or destroyed property. You received \$4,000 from the fund and spent the entire amount on repairs to your home. In figuring your casualty loss, you must reduce your unreimbursed loss (\$10,000) by the \$4,000 you received from your employer's fund. Your casualty loss before applying the [deduction limits](#) (discussed later) is \$6,000.

**Cash gifts.** If you receive excludable cash gifts as a disaster victim and there are no limits on how you can use the money, you don't reduce your casualty loss by these excludable cash gifts. This applies even if you use the money to pay for repairs to property damaged in the disaster.

**Example.** Your home was damaged by a hurricane. Relatives and neighbors made cash gifts to you that were excludable from your income. You used part of the cash gifts to pay for repairs to your home. There were no limits or restrictions on how you could use the cash gifts. It was an excludable gift, so the money you received and used to pay for repairs to your home doesn't reduce your casualty loss on the damaged home.

**Table 2. Deduction Limit Rules for Personal-Use and Employee Property**

		\$100 Rule	10% Rule	2% Rule
<b>General Application</b>		You must reduce each casualty or theft loss by \$100 when figuring your deduction. Apply this rule to personal-use property after you have figured the amount of your loss.*	You must reduce your total casualty or theft loss by 10% of your adjusted gross income. Apply this rule to personal-use property after you reduce each loss by \$100 (the \$100 rule).**	You must reduce your total casualty or theft loss by 2% of your adjusted gross income. Apply this rule to property you used in performing services as an employee after you have figured the amount of your loss and added it to your job expenses and most other miscellaneous itemized deductions.
<b>Single Event</b>		Apply this rule only once, even if many pieces of property are affected.	Apply this rule only once, even if many pieces of property are affected.	Apply this rule only once, even if many pieces of property are affected.
<b>More Than One Event</b>		Apply to the loss from each event.	Apply to the total of all your losses from all events.	Apply to the total of all your losses from all events.
<b>More Than One Person— With Loss From the Same Event (other than a married couple filing jointly)</b>		Apply separately to each person.	Apply separately to each person.	Apply separately to each person.
<b>Married Couple— With Loss From the Same Event</b>	Filing Joint Return	Apply as if you were one person.	Apply as if you were one person.	Apply as if you were one person.
	Filing Separate Return	Apply separately to each spouse.	Apply separately to each spouse.	Apply separately to each spouse.
<b>More Than One Owner (other than a married couple filing jointly)</b>		Apply separately to each owner of jointly owned property.	Apply separately to each owner of jointly owned property.	Apply separately to each owner of jointly owned property.
* Qualified disaster losses must be reduced by \$500 when figuring your deduction. See <a href="#">Disaster Area Losses</a> , later, for more information.				
** The 10% rule doesn't apply to qualified disaster losses. See <a href="#">Disaster Area Losses</a> , later, for more information.				

**Insurance payments for living expenses.** You don't reduce your casualty loss by insurance payments you receive to cover living expenses in either of the following situations.

- You lose the use of your main home because of a casualty.
- Government authorities don't allow you access to your main home because of a casualty or threat of one.

**Inclusion in income.** If these insurance payments are more than the temporary increase in your living expenses, you must include the excess in your income. Report this amount on Form 1040, line 21. However, if the casualty occurs in a federally declared disaster area, none of the insurance payments are taxable. See [Qualified disaster relief payments](#), later, under [Disaster Area Losses](#).

A temporary increase in your living expenses is the difference between the actual living expenses you and your family incurred during the period you couldn't use your home and your normal living expenses for that period. Actual living expenses are the reasonable and necessary expenses incurred because of the loss of your main home. Generally, these expenses include the amounts you pay for the following.

- Renting suitable housing.
- Transportation.
- Food.
- Utilities.
- Miscellaneous services.

Normal living expenses consist of these same expenses that you would have incurred but didn't because of the casualty or the threat of one.

**Example.** As a result of a fire, you vacated your apartment for a month and moved to a motel. You normally pay \$525 a month for rent. None was charged for the month the apartment was vacated. Your motel rent for this month was \$1,200. You normally pay \$200 a month for food. Your food expenses for the month you lived in the motel were \$400. You received \$1,100 from your insurance company to cover your living expenses. You determine the payment you must include in income as follows.

1. Insurance payment for living expenses	\$1,100
2. Actual expenses during the month you are unable to use your home because of the fire	\$1,600
3. Normal living expenses	725
4. Temporary increase in living expenses: Subtract line 3 from line 2	875
5. Amount of payment includible in income: Subtract line 4 from line 1	<u>\$ 225</u>

**Tax year of inclusion.** You include the taxable part of the insurance payment in income for the year you regain the use of your main home or, if later, for the year you receive the taxable part of the insurance payment.

**Example.** Your main home was destroyed by a tornado in August 2015. You regained use of your home in November 2016. The insurance payments you received in 2015 and 2016 were \$1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 2016 Form 1040. If, in 2017, you receive further payments to cover the living expenses you had in 2015 and 2016, you must include those payments in income on your 2017 Form 1040.

**Disaster relief.** Food, medical supplies, and other forms of assistance you receive don't reduce your casualty loss, unless they are replacements for lost or destroyed property.

**TIP** *Qualified disaster relief payments you receive for expenses you incurred as a result of a federally declared disaster, aren't taxable income to you. For more information, see [Qualified disaster relief payments](#) under [Disaster Area Losses](#), later.*

Disaster unemployment assistance payments are unemployment benefits that are taxable.



Generally, disaster relief grants received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act aren't included in your income. See [Federal disaster relief grants](#), later, under *Disaster Area Losses*.

**Loan proceeds.** Don't reduce your casualty loss by loan proceeds you use to rehabilitate or replace property on which you are claiming a casualty loss deduction. If you have a federal loan that is canceled (forgiven), see [Federal loan canceled](#), later, under *Disaster Area Losses*.

## Reimbursement Received After Deducting Loss

If you figured your casualty or theft loss using the amount of your expected reimbursement, you may have to adjust your tax return for the tax year in which you get your actual reimbursement. This section explains the adjustment you may have to make.


**Actual reimbursement less than expected.** If you later receive less reimbursement than you expected, include that difference as a loss with your other losses (if any) on your return for the year in which you can reasonably expect no more reimbursement.

**Example.** Your personal car had a FMV of \$2,000 when it was destroyed in a collision with another car in 2016. The accident was due to the negligence of the other driver. At the end of 2016, there was a reasonable prospect that the owner of the other car would reimburse you in full. You didn't have a deductible loss in 2016.

In January 2017, the court awards you a judgment of \$2,000. However, in July it becomes apparent that you will be unable to collect any amount from the other driver. Since this is your only casualty or theft loss, you can deduct the loss in 2017 that is figured by applying the [deduction limits](#) (discussed later).

**Actual reimbursement more than expected.** If you later receive a larger reimbursement amount than you expected, after you have claimed a deduction for the loss, you may have to include the extra reimbursement amount in your income for the year you receive it. However, if any part of the original deduction didn't reduce your tax for the earlier year, don't include that part of the reimbursement amount in your income. You don't refigure your tax for the year you claimed the deduction. See *Recoveries* in Pub. 525 to find out how much extra reimbursement to include in income.

**Example.** In 2016, a hurricane destroyed your motorboat. Your loss was \$3,000, and you estimated that your insurance would cover \$2,500 of it. You didn't itemize deductions on your 2016 return, so you couldn't deduct the loss. When the insurance company reimburses you for the loss, you don't report any of the reimbursement as income. This is true even if it is for the full \$3,000 because you didn't deduct the loss on your 2016 return. The loss didn't reduce your tax.

 *If the total of all the reimbursements you receive is more than your adjusted*

*basis in the destroyed or stolen property, you will have a gain on the casualty or theft. If you have already taken a deduction for a loss and you receive the reimbursement in a later year, you may have to include the gain in your income for the later year. Include the gain as ordinary income up to the amount of your deduction that reduced your tax for the earlier year. You may be able to postpone reporting any remaining gain as explained under [Postponement of Gain](#), later.*

**Actual reimbursement same as expected.** If you later receive exactly the reimbursement you expected to receive, you don't have to include any of the reimbursement in your income and you can't deduct any additional loss.

**Example.** In December 2017, you had a collision while driving your personal car. Repairs to the car cost \$950. You had \$100 deductible collision insurance. Your insurance company agreed to reimburse you for the rest of the damage. Because you expected a reimbursement from the insurance company, you didn't have a casualty loss deduction in 2017.

Due to the \$100 rule, you can't deduct the \$100 you paid as the deductible. When you receive the \$850 from the insurance company in 2018, don't report it as income.

## Deduction Limits

After you have figured your casualty or theft loss, you must figure how much of the loss you can deduct.

The deduction for casualty and theft losses of employee property and personal-use property is limited. A loss on employee property is subject to the 2% rule, discussed next. A loss on property you own for your personal use is subject to the \$100 and 10% rules, discussed later. The 2%, \$100, and 10% rules are also summarized in [Table 2](#).

Losses on business property (other than employee property) and income-producing property aren't subject to these rules. However, if your casualty or theft loss involved a home you used for business or rented out, your deductible loss may be limited. See the instructions for Form 4684, Section B. If the casualty or theft loss involved property used in a passive activity, see Form 8582, Passive Activity Loss Limitations, and its instructions.

### 2% Rule


The casualty and theft loss deduction for employee property, when added to your job expenses and most other miscellaneous itemized deductions on Schedule A (Form 1040) or Form 1040NR, Schedule A, must be reduced by 2% of your adjusted gross income. Employee property is property used in performing services as an employee.

### \$100 Rule

After you have figured your casualty or theft loss on [personal-use property](#), as discussed

earlier, you must reduce that loss by \$100. This reduction applies to each total casualty or theft loss. It doesn't matter how many pieces of property are involved in an event. Only a single \$100 reduction applies.

**Example.** You have \$750 deductible collision insurance on your car. The car is damaged in a collision. The insurance company pays you for the damage minus the \$750 deductible. The amount of the casualty loss is based solely on the deductible. The casualty loss is \$650 (\$750 - \$100) because the first \$100 of a casualty loss on personal-use property isn't deductible.

 *Qualified disaster losses must be reduced by \$500. See [Disaster Area Losses](#), later, for more information.*

**Single event.** Generally, events closely related in origin cause a single casualty. It is a single casualty when the damage is from two or more closely related causes, such as wind and flood damage caused by the same storm. A single casualty may also damage two or more pieces of property, such as a hailstorm that damages both your home and your car parked in your driveway.

**Example 1.** A thunderstorm destroyed your pleasure boat. You also lost some boating equipment in the storm. Your loss was \$5,000 on the boat and \$1,200 on the equipment. Your insurance company reimbursed you \$4,500 for the damage to your boat. You had no insurance coverage on the equipment. Your casualty loss is from a single event and the \$100 rule applies once. Figure your loss before applying the [10% rule](#) (discussed later) as follows.

	Boat	Equipment
1. Loss	\$5,000	\$1,200
2. Subtract insurance	4,500	-0-
3. Loss after reimbursement	\$ 500	\$1,200
4. Total loss		\$1,700
5. Subtract \$100		100
6. <b>Loss before 10% rule</b>		<b>\$1,600</b>

**Example 2.** Thieves broke into your home in January and stole a ring and a fur coat. You had a loss of \$200 on the ring and \$700 on the coat. This is a single theft. The \$100 rule applies to the total \$900 loss.

**Example 3.** In October, hurricane winds blew the roof off your home. Flood waters caused by the hurricane further damaged your home and destroyed your furniture and personal car. This is considered a single casualty. The \$100 rule is applied to your total loss from the flood waters and the wind.

**More than one loss.** If you have more than one casualty or theft loss during your tax year, you must reduce each loss by \$100.

**Example.** Your family car was damaged in an accident in January. Your loss after the insurance reimbursement was \$75. In February, your car was damaged in another accident.

This time your loss after the insurance reimbursement was \$90. Apply the \$100 rule to each separate casualty loss. Since neither accident resulted in a loss of over \$100, you aren't entitled to any deduction for these accidents.

**More than one person.** If two or more individuals (other than a husband and wife filing a joint return) have losses from the same casualty or theft, the \$100 rule applies separately to each individual.

**Example.** A fire damaged your house and also damaged the personal property of your house guest. You must reduce your loss by \$100. Your house guest must reduce his or her loss by \$100.

**Married taxpayers.** If you and your spouse file a joint return, you are treated as one individual in applying the \$100 rule. It doesn't matter whether you own the property jointly or separately.

If you and your spouse have a casualty or theft loss and you file separate returns, each of you must reduce your loss by \$100. This is true even if you own the property jointly. If one spouse owns the property, only that spouse can figure a loss deduction on a separate return.

If the casualty or theft loss is on property you own as tenants by the entirety, each of you can figure your deduction on only one-half of the loss on separate returns. Neither of you can figure your deduction on the entire loss on a separate return. Each of you must reduce the loss by \$100.

**More than one owner.** If two or more individuals (other than a husband and wife filing a joint return) have a loss on property jointly owned, the \$100 rule applies separately to each. For example, if two sisters live together in a home they own jointly and they have a casualty loss on the home, the \$100 rule applies separately to each sister.

## 10% Rule

You must reduce the total of all your casualty or theft losses of personal-use property by 10% of your adjusted gross income. Apply this rule after you reduce each loss by \$100. For more information, see the Instructions for Form 4684. If you have both gains and losses from casualties or thefts, see [Gains and losses](#), later in this discussion.

**Example.** In June, you discovered that your house had been burglarized. Your loss after insurance reimbursement was \$2,000. Your adjusted gross income for the year you discovered the theft is \$29,500. Figure your theft loss as follows.

1. Loss after insurance	\$2,000
2. Subtract \$100	100
3. Loss after \$100 rule	\$1,900
4. Subtract 10% of \$29,500	\$2,950
AGI	
5. <b>Theft loss deduction</b>	<b>\$ -0-</b>

You don't have a theft loss deduction because your loss (\$1,900) is less than 10% of your adjusted gross income (\$2,950).



*The 10% rule doesn't apply to qualified disaster losses. See [Disaster Area Losses](#), later, for more information.*

**More than one loss.** If you have more than one casualty or theft loss during your tax year, reduce each loss by any reimbursement and by \$100. Then you must reduce the total of all your losses by 10% of your adjusted gross income.

**Example.** In March, you had a car accident that totally destroyed your car. You didn't have collision insurance on your car, so you didn't receive any insurance reimbursement. Your loss on the car was \$1,800. In November, a fire damaged your basement and totally destroyed the furniture, washer, dryer, and other items you had stored there. Your loss on the basement items after reimbursement from your insurer was \$2,100. Your adjusted gross income for the year that the accident and fire occurred is \$25,000. You figure your casualty loss deduction as follows.

	Car	Basement
1. Loss	\$1,800	\$2,100
2. Subtract \$100 per incident	100	100
3. Loss after \$100 rule	\$1,700	\$2,000
4. Total loss		\$3,700
5. Subtract 10% of \$25,000 AGI		2,500
6. <b>Casualty loss deduction</b>		<b>\$1,200</b>

**Married taxpayers.** If you and your spouse file a joint return, you are treated as one individual in applying the 10% rule. It doesn't matter if you own the property jointly or separately.

If you file separate returns, the 10% rule applies to each return on which a loss is claimed.

**More than one owner.** If two or more individuals (other than husband and wife filing a joint return) have a loss on property that is owned jointly, the 10% rule applies separately to each.

**Gains and losses.** If you have casualty or theft gains as well as losses to your personal-use property, you must compare your total gains to your total losses. Do this after you have reduced each loss by any reimbursements and by \$100 but before you have reduced the losses by 10% of your adjusted gross income.



*Casualty or theft gains don't include gains you choose to postpone. See [Postponement of Gain](#), later.*

**Losses more than gains.** If your losses are more than your recognized gains, subtract your gains from your losses and reduce the result by 10% of your adjusted gross income. The rest, if any, is your deductible loss from personal-use property.

**Example.** Your theft loss after reducing it by reimbursements and by \$100 is \$2,700. Your

casualty gain is \$700. Your loss is more than your gain, so you must reduce your \$2,000 net loss (\$2,700 - \$700) by 10% of your adjusted gross income.

**Gains more than losses.** If your recognized gains are more than your losses, subtract your losses from your gains. The difference is treated as a capital gain and must be reported on Schedule D (Form 1040). The 10% rule doesn't apply to your gains.

**Example.** Your theft loss is \$600 after reducing it by reimbursements and by \$100. Your casualty gain is \$1,600. Because your gain is more than your loss, you must report the \$1,000 net gain (\$1,600 - \$600) on Schedule D (Form 1040).

**More information.** For information on how to figure recognized gains, see [Figuring a Gain](#), later.

## Figuring the Deduction

Generally, you must figure your loss separately for each item stolen, damaged, or destroyed. However, a special rule applies to real property you own for personal use.

**Real property.** In figuring a loss to real estate you own for personal use, all improvements (such as buildings and ornamental trees and the land containing the improvements) are considered together.

**Example 1.** In June, a fire destroyed your lakeside cottage, which cost \$144,800 (including \$14,500 for the land) several years ago. (Your land wasn't damaged.) This was your only casualty or theft loss for the year. The FMV of the property immediately before the fire was \$180,000 (\$145,000 for the cottage and \$35,000 for the land). The FMV immediately after the fire was \$35,000 (value of the land). You collected \$130,000 from the insurance company. Your adjusted gross income for the year the fire occurred is \$80,000. Your deduction for the casualty loss is \$6,700, figured in the following manner.

1. Adjusted basis of the entire property (cost in this example)	\$144,800
2. FMV of entire property before fire	\$180,000
3. FMV of entire property after fire	35,000
4. Decrease in FMV of entire property (line 2 - line 3)	\$145,000
5. Loss (smaller of line 1 or line 4)	\$144,800
6. Subtract insurance	130,000
7. Loss after reimbursement	\$14,800
8. Subtract \$100	100
9. Loss after \$100 rule	\$14,700
10. Subtract 10% of \$80,000 AGI	8,000
11. <b>Casualty loss deduction</b>	<b>\$ 6,700</b>

**Example 2.** You bought your home a few years ago. You paid \$150,000 (\$10,000 for the

land and \$140,000 for the house). You also spent an additional \$2,000 for landscaping. This year a fire destroyed your home. The fire also damaged the shrubbery and trees in your yard. The fire was your only casualty or theft loss this year. Competent appraisers valued the property as a whole at \$175,000 before the fire, but only \$50,000 after the fire. Shortly after the fire, the insurance company paid you \$95,000 for the loss. Your adjusted gross income for this year is \$70,000. You figure your casualty loss deduction as follows.

1. Adjusted basis of the entire property (cost of land, building, and landscaping) . . .	\$152,000
2. FMV of entire property before fire . . . . .	\$175,000
3. FMV of entire property after fire . . . . .	50,000
4. Decrease in FMV of entire property (line 2 – line 3) . . . . .	<u>\$125,000</u>
5. Loss (smaller of line 1 or line 4) . . . . .	\$125,000
6. Subtract insurance . . . . .	95,000
7. Loss after reimbursement . . . . .	\$30,000
8. Subtract \$100 . . . . .	100
9. Loss after \$100 rule . . . . .	\$29,900
10. Subtract 10% of \$70,000 AGI . . . . .	7,000
11. <b>Casualty loss deduction</b> . . . . .	<u><b>\$ 22,900</b></u>

**Personal property.** Personal property is any property that isn't real property. If your personal property is stolen or is damaged or destroyed by a casualty, you must figure your loss separately for each item of property. Then combine these separate losses to figure the total loss. Reduce the total loss by \$100 and 10% of your adjusted gross income to figure the loss deduction.

**Example 1.** In August, a storm destroyed your pleasure boat, which cost \$18,500. This was your only casualty or theft loss for the year. Its FMV immediately before the storm was \$17,000. You had no insurance, but were able to salvage the motor of the boat and sell it for \$200. Your adjusted gross income for the year the casualty occurred is \$70,000.

Although the motor was sold separately, it is part of the boat and not a separate item of property. You figure your casualty loss deduction as follows.

1. Adjusted basis (cost in this example) . . . . .	<u>\$18,500</u>
2. FMV before storm . . . . .	\$17,000
3. FMV after storm . . . . .	200
4. Decrease in FMV (line 2 – line 3) . . . . .	<u>\$16,800</u>
5. Loss (smaller of line 1 or line 4) . . . . .	\$16,800
6. Subtract insurance . . . . .	-0-
7. Loss after reimbursement . . . . .	\$16,800
8. Subtract \$100 . . . . .	100
9. Loss after \$100 rule . . . . .	\$16,700
10. Subtract 10% of \$70,000 AGI . . . . .	7,000
11. <b>Casualty loss deduction</b> . . . . .	<u><b>\$ 9,700</b></u>

**Example 2.** In June, you were involved in an auto accident that totally destroyed your personal car and your antique pocket watch. You had bought the car for \$30,000. The FMV of the car just before the accident was \$17,500. Its FMV just after the accident was \$180 (scrap value). Your insurance company reimbursed you \$16,000.

Your watch wasn't insured. You had purchased it for \$250. Its FMV just before the accident was \$500. Your adjusted gross income for the year the accident occurred is \$97,000. Your casualty loss deduction is zero, figured as follows.

	<u>Car</u>	<u>Watch</u>
1. Adjusted basis (cost) . . . . .	\$30,000	\$250
2. FMV before accident . . . . .	\$17,500	\$500
3. FMV after accident . . . . .	180	-0-
4. Decrease in FMV (line 2 – line 3) . . . . .	<u>\$17,320</u>	<u>\$500</u>
5. Loss (smaller of line 1 or line 4) . . . . .	\$17,320	\$250
6. Subtract insurance . . . . .	16,000	-0-
7. Loss after reimbursement . . . . .	<u>\$1,320</u>	<u>\$250</u>
8. Total loss . . . . .	\$1,570	\$250
9. Subtract \$100 . . . . .	100	-
10. Loss after \$100 rule . . . . .	\$1,470	-
11. Subtract 10% of \$97,000 AGI . . . . .	9,700	-
12. <b>Casualty loss deduction</b> . . . . .	<u><b>\$ -0-</b></u>	<u><b>\$ -0-</b></u>

**Both real and personal properties.** When a casualty involves both real and personal properties, you must figure the loss separately for each type of property. However, you apply a single \$100 reduction to the total loss. Then, you apply the 10% rule to figure the casualty loss deduction.

**Example.** In July, a hurricane damaged your home, which cost you \$164,000 including land. The FMV of the property (both building and land) immediately before the storm was \$170,000 and its FMV immediately after the storm was \$100,000. Your household furnishings were also damaged. You separately figured the loss on each damaged household item and arrived at a total loss of \$600.

You collected \$50,000 from the insurance company for the damage to your home, but your household furnishings weren't insured. Your adjusted gross income for the year the hurricane occurred is \$65,000. You figure your casualty loss deduction from the hurricane in the following manner.

1. Adjusted basis of real property (cost in this example) . . . . .	<u>\$164,000</u>
2. FMV of real property before hurricane . . . . .	\$170,000
3. FMV of real property after hurricane . . . . .	100,000
4. Decrease in FMV of real property (line 2 – line 3) . . . . .	<u>\$70,000</u>
5. Loss on real property (smaller of line 1 or line 4) . . . . .	\$70,000
6. Subtract insurance . . . . .	50,000
7. Loss on real property after reimbursement . . . . .	<u>\$20,000</u>
8. Loss on furnishings . . . . .	\$600
9. Subtract insurance . . . . .	-0-
10. Loss on furnishings after reimbursement . . . . .	<u>\$600</u>
11. Total loss (line 7 plus line 10) . . . . .	\$20,600
12. Subtract \$100 . . . . .	100
13. Loss after \$100 rule . . . . .	\$20,500
14. Subtract 10% of \$65,000 AGI . . . . .	6,500
15. <b>Casualty loss deduction</b> . . . . .	<u><b>\$14,000</b></u>

**Property used partly for business and partly for personal purposes.** When property is used partly for personal purposes and partly for business or income-producing purposes, the casualty or theft loss deduction must be figured separately for the personal-use portion and for the business or income-producing portion. You must figure each loss separately because the losses attributed to these two uses are figured in two different ways. When figuring each loss, allocate the total cost or basis, the FMV before and after the casualty or theft loss, and the insurance or other reimbursement between the business and personal use of the property. The \$100 rule and the 10% rule apply only to the casualty or theft loss on the personal-use portion of the property.

**Example.** You own a building that you constructed on leased land. You use half of the building for your business and you live in the other half. The cost of the building was \$400,000. You made no further improvements or additions to it.

A flood in March damaged the entire building. The FMV of the building was \$380,000 immediately before the flood and \$320,000 afterwards. Your insurance company reimbursed you \$40,000 for the flood damage. Depreciation on the business part of the building before the flood totaled \$24,000. Your adjusted gross income for the year the flood occurred is \$125,000.

You have a deductible business casualty loss of \$10,000. You don't have a deductible



personal casualty loss because of the 10% rule. You figure your loss as follows.

	Business Part	Personal Part
1. Cost (total \$400,000) . . . . .	\$200,000	\$200,000
2. Subtract depreciation . . . . .	24,000	-0-
3. Adjusted basis . . . . .	<u>\$176,000</u>	<u>\$200,000</u>
4. FMV before flood (total \$380,000) . . . . .	\$190,000	\$190,000
5. FMV after flood (total \$320,000) . . . . .	160,000	160,000
6. Decrease in FMV (line 4 – line 5) . . . . .	<u>\$30,000</u>	<u>\$30,000</u>
7. Loss (smaller of line 3 or line 6) . . . . .	\$30,000	\$30,000
8. Subtract insurance . . . . .	20,000	20,000
9. Loss after reimbursement . . . . .	\$10,000	\$10,000
10. Subtract \$100 on personal-use property . . . . .	-0-	100
11. Loss after \$100 rule . . . . .	\$10,000	\$9,900
12. Subtract 10% of \$125,000 AGI on personal-use property . . . . .	-0-	12,500
13. <b>Deductible business loss</b> . . . . .	<u>\$10,000</u>	
14. <b>Deductible personal loss</b> . . . . .		<u>\$ -0-</u>

## Figuring a Gain

If you receive an insurance payment or other reimbursement that is more than your adjusted basis in the destroyed, damaged, or stolen property, you have a gain from the casualty or theft. Your gain is figured as follows.

- The amount you receive (discussed next), minus
- Your adjusted basis in the property at the time of the casualty or theft. See [Adjusted Basis](#), earlier, for more information.

Even if the decrease in FMV of your property is smaller than the adjusted basis of your property, use your adjusted basis to figure the gain.

**Amount you receive.** The amount you receive includes any money plus the value of any property you receive minus any expenses you have in obtaining reimbursement. It also includes any reimbursement used to pay off a mortgage or other lien on the damaged, destroyed, or stolen property.

**Example.** A hurricane destroyed your personal residence and the insurance company awarded you \$145,000. You received \$140,000 in cash. The remaining \$5,000 was paid directly to the holder of a mortgage on the property. The

amount you received includes the \$5,000 reimbursement paid on the mortgage.

**Main home destroyed.** If you have a gain because your main home was destroyed, you generally can exclude the gain from your income as if you had sold or exchanged your home. You may be able to exclude up to \$250,000 of the gain (up to \$500,000 if married filing jointly). To exclude a gain, you generally must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date it was destroyed. For information on this exclusion, see Pub. 523. If your gain is more than the amount you can exclude, but you buy replacement property, you may be able to postpone reporting the excess gain. See [Postponement of Gain](#), later.

**Reporting a gain.** You generally must report your gain as income in the year you receive the reimbursement. However, you don't have to report your gain if you meet certain requirements and choose to postpone reporting the gain according to the rules explained under *Postponement of Gain*, next.

For information on how to report a gain, see [How To Report Gains and Losses](#), later.



*If you have a casualty or theft gain on personal-use property that you choose to postpone reporting (as explained next) and you also have another casualty or theft loss on personal-use property, don't consider the gain you are postponing when figuring your casualty or theft loss deduction. See [10% Rule](#) under Deduction Limits, earlier.*

## Postponement of Gain

Don't report a gain if you receive reimbursement in the form of property similar or related in service or use to the destroyed or stolen property. Your basis in the new property is generally the same as your adjusted basis in the property it replaces.

You must ordinarily report the gain on your stolen or destroyed property if you receive money or unlike property as reimbursement. However, you can choose to postpone reporting the gain if you purchase property that is similar or related in service or use to the stolen or destroyed property within a specified [replacement period](#), discussed later. You also can choose to postpone reporting the gain if you purchase a controlling interest (at least 80%) in a corporation owning property that is similar or related in service or use to the property. See [Controlling interest in a corporation](#), later.

If you have a gain on damaged property, you can postpone reporting the gain if you spend the reimbursement to restore the property.

To postpone reporting all the gain, the cost of your replacement property must be at least as much as the reimbursement you receive. If the cost of the replacement property is less than the reimbursement, you must include the gain in your income up to the amount of the unspent reimbursement.

**Example.** In 1970, you bought an ocean-front cottage for your personal use at a cost of \$18,000. You made no further improvements or additions to it. When a storm destroyed the cottage this January, the cottage was worth \$250,000. You received \$146,000 from the insurance company in March. You had a gain of \$128,000 (\$146,000 – \$18,000).

You spent \$144,000 to rebuild the cottage. Since this is less than the insurance proceeds received, you must include \$2,000 (\$146,000 – \$144,000) in your income.

**Buying replacement property from a related person.** You can't postpone reporting a gain from a casualty or theft if you buy the replacement property from a [related person](#) (discussed later). This rule applies to the following taxpayers.

1. C corporations.
2. Partnerships in which more than 50% of the capital or profits interests is owned by C corporations.
3. All others (including individuals, partnerships — other than those in (2) — and S corporations) if the total realized gain for the tax year on all destroyed or stolen properties on which there are realized gains is more than \$100,000.

For casualties and thefts described in (3) above, gains can't be offset by any losses when determining whether the total gain is more than \$100,000. If the property is owned by a partnership, the \$100,000 limit applies to the partnership and each partner. If the property is owned by an S corporation, the \$100,000 limit applies to the S corporation and each shareholder.

**Exception.** This rule doesn't apply if the related person acquired the property from an unrelated person within the period of time allowed for replacing the destroyed or stolen property.

**Related persons.** Under this rule, related persons include, for example, a parent and child, a brother and sister, a corporation and an individual who owns more than 50% of its outstanding stock, and two partnerships in which the same C corporations own more than 50% of the capital or profits interests. For more information on related persons, see *Nondeductible Loss under Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

**Death of a taxpayer.** If a taxpayer dies after having a gain but before buying replacement property, the gain must be reported for the year in which the decedent realized the gain. The executor of the estate or the person succeeding to the funds from the casualty or theft can't postpone reporting the gain by buying replacement property.

## Replacement Property

You must buy replacement property for the specific purpose of replacing your destroyed or stolen property. Property you acquire as a gift or inheritance doesn't qualify.

You don't have to use the same funds you receive as reimbursement for your old property to acquire the replacement property. If you

spend the money you receive from the insurance company for other purposes, and borrow money to buy replacement property, you can still postpone reporting the gain if you meet the other requirements.

**Advance payment.** If you pay a contractor in advance to replace your destroyed or stolen property, you aren't considered to have bought replacement property unless it is finished before the end of the replacement period. See [Replacement Period](#), later.

**Similar or related in service or use.** Replacement property must be similar or related in service or use to the property it replaces.

**Timber loss.** Standing timber (not land) you bought with the proceeds from the sale of timber downed by a casualty (such as high winds, earthquakes, or volcanic eruptions) qualifies as replacement property. If you bought the standing timber within the specified replacement period, you can postpone reporting the gain.

**Owner-user.** If you are an owner-user, "similar or related in service or use" means that replacement property must function in the same way as the property it replaces.

**Example.** Your home was destroyed by fire and you invested the insurance proceeds in a grocery store. Your replacement property isn't similar or related in service or use to the destroyed property. To be similar or related in service or use, your replacement property must also be used by you as your home.

**Main home in disaster area.** Special rules apply to replacement property related to the damage or destruction of your main home (or its contents) if located in a federally declared disaster area. For more information, see *Gains Realized on Homes in Disaster Areas* in the Instructions for Form 4684.

**Owner-investor.** If you are an owner-investor, "similar or related in service or use" means that any replacement property must have a similar relationship of services or uses to you as the property it replaces. You decide this by determining all the following.

- Whether the properties are of similar service to you.
- The nature of the business risks connected with the properties.
- What the properties demand of you in the way of management, service, and relations to your tenants.

**Example.** You owned land and a building you rented to a manufacturing company. The building was destroyed by fire. During the replacement period, you had a new building constructed. You rented out the new building for use as a wholesale grocery warehouse. Because the replacement property is also rental property, the two properties are considered similar or related in service or use if there is a similarity in all of the following areas.

- Your management activities.
- The amount and kind of services you provide to your tenants.
- The nature of your business risks connected with the properties.

**Business or income-producing property located in a federally declared disaster area.** If your destroyed business or income-producing property was located in a federally declared disaster area, any tangible replacement property you acquire for use in any business is treated as similar or related in service or use to the destroyed property. The replacement property doesn't have to be located in the federally declared disaster area. For more information, see [Disaster Area Losses](#), later.

**Controlling interest in a corporation.** You can replace property by acquiring a controlling interest in a corporation that owns property similar or related in service or use to your damaged, destroyed, or stolen property. You can postpone reporting your entire gain if the cost of the stock that gives you a controlling interest is at least as much as the amount received (reimbursement) for your property. You have a controlling interest if you own stock having at least 80% of the combined voting power of all classes of voting stock and at least 80% of the total number of shares of all other classes of stock.

**Basis adjustment to corporation's property.** The basis of property held by the corporation at the time you acquired control must be reduced by the amount of your postponed gain, if any. You aren't required to reduce the adjusted basis of the corporation's properties below your adjusted basis in the corporation's stock (determined after reduction by the amount of your postponed gain).

Allocate this reduction to the following classes of property in the order shown below.

1. Property that is similar or related in service or use to the destroyed or stolen property.
2. Depreciable property not reduced in (1).
3. All other property.

If two or more properties fall in the same class, allocate the reduction to each property in proportion to the adjusted bases of all the properties in that class. The reduced basis of any single property can't be less than zero.

**Main home replaced.** If your gain from the reimbursement you receive because of the destruction of your main home is more than the amount you can exclude from your income (see [Main home destroyed](#) under *Figuring a Gain*, earlier), you can postpone reporting the excess gain by buying replacement property that is similar or related in service or use. To postpone reporting all the excess gain, the replacement property must cost at least as much as the amount you received because of the destruction minus the excluded gain.

Also, if you postpone reporting any part of your gain under these rules, you are treated as having owned and used the replacement property as your main home for the period you owned and used the destroyed property as your main home.

**Basis of replacement property.** You must reduce the basis of your replacement property (its cost) by the amount of postponed gain. In this way, tax on the gain is postponed until you dispose of the replacement property.

**Example.** A fire destroyed your rental home that you never lived in. The insurance company reimbursed you \$67,000 for the property, which had an adjusted basis of \$62,000. You had a gain of \$5,000 from the casualty. If you have another rental home constructed for \$110,000 within the replacement period, you can postpone reporting the gain. You will have reinvested all the reimbursement (including your entire gain) in the new rental home. Your basis for the new rental home will be \$105,000 (\$110,000 cost – \$5,000 postponed gain).

## Replacement Period

To postpone reporting your gain, you must buy replacement property within a specified period of time. This is the replacement period.

The replacement period begins on the date your property was damaged, destroyed, or stolen.

The replacement period ends 2 years after the close of the first tax year in which any part of your gain is realized.

**Example.** You are a calendar year taxpayer. While you were on vacation, a valuable piece of antique furniture that cost \$2,200 was stolen from your home. You discovered the theft when you returned home on July 7, 2017. Your insurance company investigated the theft and didn't settle your claim until January 22, 2018, when they paid you \$3,000. You first realized a gain from the reimbursement for the theft during 2018, so you have until December 31, 2020, to replace the property.

**Main home in disaster area.** For your main home (or its contents) located in a federally declared disaster area, the replacement period generally ends 4 years after the close of the first tax year in which any part of your gain is realized. See [Disaster Area Losses](#), later.

**Example.** You are a calendar year taxpayer. A hurricane destroyed your home in September 2017. In December 2017, the insurance company paid you \$3,000 more than the adjusted basis of your home. The area in which your home is located isn't a federally declared disaster area. You first realized a gain from the reimbursement for the casualty in 2017, so you have until December 31, 2019, to replace the property. If your home had been in a federally declared disaster area, you would have until December 31, 2021, to replace the property.

**Extension.** You can apply for an extension of the replacement period. Send your written application to the Internal Revenue Service Center where you file your tax return. See your tax return instructions or go to [Where To File Paper Tax Returns With or Without a Payment](#) for the address. Your application must contain all the details about the need for the extension. You should make the application before the end of the replacement period.

However, you can file an application within a reasonable time after the replacement period ends if you have a good reason for the delay. An extension may be granted if you can show

that there is reasonable cause for not making the replacement within the regular period.

Ordinarily, requests for extensions aren't made or granted until near the end of the replacement period or the extended replacement period. Extensions are usually limited to a period of not more than 1 year. The high market value or scarcity of replacement property isn't sufficient grounds for granting an extension. If your replacement property is being constructed and you clearly show that the construction can't be completed within the replacement period, you may be granted an extension of the period.

## How To Postpone a Gain

You postpone reporting your gain from a casualty or theft by reporting your choice on your tax return for the year you have the gain. You have the gain in the year you receive insurance proceeds or other reimbursements that result in a gain.

If a partnership or a corporation owns the stolen or destroyed property, only the partnership or corporation can choose to postpone reporting the gain.

**Required statement.** You should attach a statement to your return for the year you have the gain. This statement should include the following.

- The date and details of the casualty or theft.
- The insurance or other reimbursement you received from the casualty or theft.
- How you figured the gain.

**Replacement property acquired before return filed.** If you acquire replacement property before you file your return for the year you have the gain, your statement should also include detailed information about all of the following.

- The replacement property.
- The postponed gain.
- The basis adjustment that reflects the postponed gain.
- Any gain you are reporting as income.

**Replacement property acquired after return filed.** If you intend to acquire replacement property after you file your return for the year in which you have the gain, your statement also should state that you are choosing to replace the property within the required replacement period.

You should then attach another statement to your return for the year in which you acquire the replacement property. This statement should contain detailed information on the replacement property.

If you acquire part of your replacement property in one year and part in another year, you must make a statement for each year. The statement should contain detailed information on the replacement property acquired in that year.

**Substituting replacement property.** Once you have acquired qualified replacement property that you designate as replacement property in a statement attached to your tax return, you can't later substitute other qualified replacement

property. This is true even if you acquire the other property within the replacement period. However, if you discover that the original replacement property wasn't qualified replacement property, you can (within the replacement period) substitute the new qualified replacement property.

**Amended return.** You must file an amended return (individuals use Form 1040X) for the tax year of the gain in either of the following situations.

- You don't acquire replacement property within the required replacement period plus extensions. On this amended return, you must report the gain and pay any additional tax due.
- You acquire replacement property within the required replacement period plus extensions, but at a cost less than the amount you receive for the casualty or theft. On this amended return, you must report the portion of the gain that can't be postponed and pay any additional tax due.

**Three-year limit.** The period for assessing tax on any gain ends 3 years after the date you notify the director of the Internal Revenue Service for your area of any of the following.

- You replaced the property.
- You don't intend to replace the property.
- You didn't replace the property within the replacement period.

**Changing your mind.** You can change your mind about whether to report or to postpone reporting your gain at any time before the end of the replacement period.

**Example.** Your property was stolen in 2016. Your insurance company reimbursed you \$10,000, of which \$5,000 was a gain. You reported the \$5,000 gain on your return for 2016 (the year you realized the gain) and paid the tax due. In 2017 you bought replacement property. Your replacement property cost \$9,000. Since you reinvested all but \$1,000 of your reimbursement, you can now postpone reporting \$4,000 (\$5,000 – \$1,000) of your gain.

To postpone reporting your gain, file an amended return for 2016 using Form 1040X. You should attach an explanation showing that you previously reported the entire gain from the theft but you now want to report only the part of the gain (\$1,000) equal to the part of the reimbursement not spent for replacement property.

## When To Report Gains and Losses

**Gains.** If you receive an insurance or other reimbursement that is more than your adjusted basis in the destroyed or stolen property, you have a gain from the casualty or theft. You must include this gain in your income in the year you receive the reimbursement, unless you choose to [postpone reporting the gain](#) as explained earlier.

**Losses.** Generally, you can deduct a casualty loss that isn't reimbursable only in the tax year in which the casualty occurred. This is true even

if you don't repair or replace the damaged property until a later year. (However, see [Disaster Area Losses](#), later, for an exception.)

You can deduct theft losses that aren't reimbursable only in the year you discover your property was stolen.

If you aren't sure whether part of your casualty or theft loss will be reimbursed, don't deduct that part until the tax year when you become reasonably certain that it won't be reimbursed.


**Loss on deposits.** If your loss is a loss on deposits at an insolvent or bankrupt financial institution, see [Loss on Deposits](#), earlier.

**Lessee's loss.** If you lease property from someone else, you can deduct a loss on the property in the year your liability for the loss is determined. This is true even if the loss occurred or the liability was paid in a different year. You aren't entitled to a deduction until your liability under the lease can be determined with reasonable accuracy. Your liability can be determined when a claim for recovery is settled, adjudicated, or abandoned.

## Disaster Area Losses

This section discusses the special rules that apply to federally declared disaster area losses. It contains information on when you can deduct your loss, how to claim your loss, how to treat your home in a disaster area, and what tax deadlines may be postponed. It also lists Federal Emergency Management Agency (FEMA) phone numbers. (See [Contacting the Federal Emergency Management Agency \(FEMA\)](#), later.)

A federally declared disaster is a disaster that occurred in an area declared by the President to be eligible for federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. It includes a major disaster or emergency declaration under the Act.

 **TIP** A list of the areas warranting public or individual assistance (or both) under the Act is available at [FEMA.gov/Disasters](#).

**Disaster year.** The disaster year is the tax year in which you sustained the loss attributable to a federally declared disaster. Generally, a disaster loss is sustained in the year the disaster occurred. However, a disaster loss may also be sustained in a year after the disaster occurred. For example, if a claim for reimbursement exists for which there is a reasonable prospect of recovery, no part of the loss for which reimbursement may be received is sustained until it can be ascertained with reasonable certainty whether you will be reimbursed.

**When to deduct the loss.** You generally must deduct a casualty loss in the disaster year. However, if you have a casualty loss from a federally declared disaster that occurred in an area warranting public or individual assistance (or both), you can elect to deduct that loss on your return or amended return for the tax year immediately preceding the disaster year. If you make



this election, the loss is treated as having occurred in the preceding year. A list of areas warranting public or individual assistance (or both) is available at the FEMA website at [FEMA.gov/Disasters](http://FEMA.gov/Disasters).

You must make the choice to take your casualty loss for the disaster in the preceding year on or before the date that is six months after the regular due date for filing your original return (without extensions) for the disaster year. If you are a calendar year taxpayer, you have until October 15, 2018, to amend your 2016 tax return to claim a casualty loss that occurred during 2017.

**TIP** *If you previously obtained a 6-month extension of time to file your original 2016 return and you are an affected taxpayer as a result of Hurricane or Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, or the California wildfires, you have until January 31, 2018, to timely file and make this election, except that taxpayers affected by Hurricane Maria in Puerto Rico or the U.S. Virgin Islands have until June 29, 2018, to do so.*

**How to deduct your loss in the preceding year.** If you have already filed your return for the preceding year, you can claim a disaster loss against that year's income by filing an amended return. Individuals file an amended return on Form 1040X. (See [How to report the loss on Form 1040X](#), later.)

If you make this election for a disaster loss sustained in 2017, include a statement with your 2016 original or amended return saying that you are making this election. Specify the name (or give a description) of the disaster, the date(s) of the disaster, and address, including the city or town, county or parish, state, and zip code in which the damaged or destroyed property was located. The statement can be made on the return (for example, on line 1 or 19 of Form 4684) or on an attachment filed with the return. See the 2016 Instructions for Form 4684 for more detailed information on how to claim these losses on your original or amended 2016 return.

If you claimed a deduction for a disaster loss on the tax return for the disaster year and you wish to deduct the loss in the preceding year, you must file an amended return to remove the previously deducted loss on or before the date you file the return or amended return for the preceding year that includes the disaster loss deduction.

**TIP** *Claiming a qualifying disaster loss on the previous year's return may result in a lower tax for that year, often producing or increasing a cash refund.*

**Revoking the election to deduct the loss in the preceding year.** You can revoke this election by filing an amended return for the preceding year that contains a revocation statement. The revocation statement must clearly state that the election is being revoked and include the name or a description of the disaster giving rise to the loss, the date or dates of the disaster, and address, including the city, town, county or parish, state, and ZIP code where the damaged or destroyed property was located at the time of the disaster and for which you

originally made the election. You can provide this information in either the Explanation of Changes in Form 1040X or 1120X, or other appropriate form or on a statement attached to the amended return.

Your amended return eliminating the election must be filed on or before the date that is 90 days after the due date for making the election **and** on or before the date you file any return or amended return for the year that includes the disaster loss.

Your amended return (eliminating the previous disaster loss election) should refigure your tax liability as a result of revoking the election. You must pay or make arrangements to pay any tax and interest due as a result of the revocation.

**Disaster loss to inventory.** If your inventory loss is from a disaster in an area designated by FEMA for public or individual assistance (or both), you may elect to deduct the loss on your return or amended return for the immediately preceding year. However, decrease your opening inventory for the year of the loss so that the loss won't be reported again in inventories.

**Main home in disaster area.** If your home is located in a federally declared disaster area, you can postpone reporting the gain if you spend the reimbursement to repair or replace your home. Special rules apply to replacement property related to the damage or destruction of your main home (or its contents) if located in these areas. For more information, see *Gains Realized on Homes in Disaster Areas* in the Instructions for Form 4684.

**Qualified disaster losses.** Qualified disaster losses are personal casualty losses sustained as a result of a federally declared disaster that occurred in 2016, as well as from Hurricane Harvey or Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, or the California wildfires (described below under [Qualified 2017 disaster losses](#)). You can deduct qualified disaster losses for both regular tax and alternative minimum tax (AMT) purposes without itemizing other deductions on Schedule A. Moreover, your net casualty loss from these qualified disasters doesn't need to exceed 10% of your adjusted gross income to qualify for the deduction, but the \$100 limit per casualty is increased to \$500.

**Qualified 2017 disaster losses.** A qualified 2017 disaster loss is a personal casualty loss caused by:

- Hurricane or Tropical Storm Harvey in the Hurricane Harvey disaster area after August 22, 2017,
- Hurricane Irma in the Hurricane Irma disaster area after September 3, 2017,
- Hurricane Maria in the Hurricane Maria disaster area after September 15, 2017, or the
- California wildfires in the California wildfire disaster area after October 7, 2017.

In addition, the federal disaster declaration must have been made before September 21, 2017, for Hurricane Maria; before October 17, 2017, for Hurricane Harvey or Tropical Storm Harvey and Hurricane Irma; and between January 1, 2017 through January 18, 2018, for California wildfires.

**Cost indexes safe harbor method to calculate hurricane-related losses.** Revenue Procedure 2018-09, 2018-2 I.R.B. 290, available at [IRS.gov/irb/2018-02\\_IRB#RP-2018-09](http://IRS.gov/irb/2018-02_IRB#RP-2018-09), provides a safe harbor method you may use to calculate the amount of your casualty losses for your personal-use residential real property damaged or destroyed in Texas, Louisiana, Florida, Georgia, South Carolina, the Commonwealth of Puerto Rico, or the territory of the U.S. Virgin Islands as a result of Hurricane and Tropical Storm Harvey, Hurricane Maria, or Hurricane Irma.

To figure the amount of your casualty losses, you generally must determine the decrease in the FMV of the damaged property through a competent appraisal or the cost of repairs you actually make. Revenue Procedure 2018-09 provides a safe harbor method that allows you to determine the decrease in FMV of your personal-use residential real property in other ways. If you qualify for and use the cost indexes safe harbor method described in Revenue Procedure 2018-09, the IRS won't challenge your determination. The use of the cost indexes safe harbor method isn't mandatory.

Under the cost indexes safe harbor method, you may use one or more cost indexes to figure the casualty loss to your personal-use residential real property.

**Personal-use residential real property.** Personal-use residential real property generally is real property, including improvements, that is owned by the individual who suffered a casualty loss and that contains at least one personal residence. It doesn't include a personal residence if any part of the personal residence is used as rental property or contains a home office used in a trade or business or transaction entered into for profit.

For this purpose, a personal residence is a single-family residence or a single unit within a townhouse, duplex, or similar group of attached units. It includes any enclosed structures attached to the residence or unit, such as a garage. It doesn't include a deck or screened-in porch. It also doesn't include a mobile home, trailer, condominium, or any other buildings in which you have less than full ownership in all of the structural components, such as the roof, foundation, or exterior walls.

**Improvements.** The cost indexes safe harbor method applies only to three types of improvements on personal-use residential real property.

- A personal residence.
- A detached structure of enclosed wood-frame construction, with some electrical capabilities, no heating or air conditioning, and little or no interior finishing.
- A deck.

**Damage categories.** The cost indexes safe harbor method may be used if you suffered any of the following.

- A total loss of a personal residence.
- A near total loss of a personal residence.
- Interior flooding over one foot in a personal residence.
- Structural damage from wind, rain, or debris to a personal residence.
- Roof covering damage from wind, rain, or debris to a personal residence.

- Damage to a detached structure.
- Damage to decking.

Revenue Procedure 2018-09 provides tables and calculation methods to determine the decrease in FMV for each category based on the cost per square foot or percentage of damage, the size of the property, and the geographic location.

**Total loss of a personal residence.** You had a total loss of a personal residence if, during one of the 2017 hurricanes, the residence sustained damage that caused any of the following.

- The personal residence either collapsed or became structurally unsound.
- The state or local government (or a political subdivision of either) has ordered that the personal residence be demolished or relocated.
- You sold the personal residence to an unrelated party for a price that reflects the FMV solely of the land on which the residence sits.
- A near total loss of the residence and you demolished the residence.

**Near total loss of a personal residence.** A near total loss of a personal residence occurred if, during one or more of the 2017 hurricanes, the residence sustained severe damage requiring you to remove and dispose of substantially all interior wall frame coverings (including drywall), floorings, electrical lines, ducts, plumbing, and other fixtures. To qualify, only the wood frame, rafters, and outside facade of the personal residence can remain structurally sound and reusable.

**Structural damage from wind, rain, or debris to a personal residence.** Structural damage from wind, rain, or debris occurred if, during one or more of the 2017 hurricanes, a personal residence sustained major structural damage to the roof and/or outside wall(s) from wind or windblown debris that exposed part or all of the residence's interior to rain or debris, requiring substantial renovation of the damaged areas. Substantial renovation requires the removal and replacement of drywall or other wall frame coverings, replacement of trim, and repair and painting of the damaged interior areas of the personal residence.

**Damage to a detached structure.** Damage to a detached structure occurred if the structure sustained damage during one or more of the 2017 hurricanes that required either complete or major rebuilding.

**Increases to safe harbor loss amount.** The decrease in the FMV determined under the safe harbor is the full amount of the decrease and can't be increased by amounts related to items such as landscaping, debris removal, or demolition.

**Decreases to safe harbor loss amount.** The loss determined through this method must be reduced by the value of any repairs provided by a third party at no cost (for example, work done by volunteers or via donations) to you. Figure the value of a no-cost repair by multiplying the total square footage completely repaired at no cost to you by the same cost index used to determine the decrease in the FMV of the

property. Additionally, reduce your loss by the amount of any insurance, reimbursements, or other compensation received.

**Reporting requirements on Form 4684.** Attach a statement to Form 4684 stating that you used Revenue Procedure 2018-09 to determine the amount of your casualty loss. Include the specific table number used. When completing Form 4684, don't enter an amount on line 5 or line 6 for each property. Instead, enter the decrease in the FMV determined using the safe harbor method on line 7. The cost indexes safe harbor method is subject to additional rules and exceptions. For more information, see Revenue Procedure 2018-09. You may qualify to use other safe harbor methods as well. See Revenue Procedure 2018-08, 2018-02 I.R.B. 286, available at [IRS.gov/irb/2018-02\\_IRB#RP-2018-08](http://IRS.gov/irb/2018-02_IRB#RP-2018-08), for more information.

**Home made unsafe by disaster.** If your home is located in a federally declared disaster area, your state or local government may order you to tear it down or move it because it is no longer safe to live in because of the disaster. If this happens, treat the loss in value as a casualty loss from a disaster. Your state or local government must issue the order for you to tear down or move the home within 120 days after the area is declared a disaster area.

Figure your loss in the same way as for casualty losses of personal-use property. (See [Figuring a Loss](#), earlier.) In determining the decrease in FMV, use the value of your home before you move it or tear it down as its FMV after the casualty.

**Unsafe home.** Your home will be considered unsafe only if both of the following apply.

- Your home is substantially more dangerous after the disaster than it was before the disaster.
- The danger is from a substantially increased risk of future destruction from the disaster.

**Example.** Due to a severe storm, the President declared the county you live in a federal disaster area. Although your home has only minor damage from the storm, a month later the county issues a demolition order. This order is based on a finding that your home is unsafe due to nearby mud slides caused by the storm. The loss in your home's value because the mud slides made it unsafe is treated as a casualty loss from a disaster. The loss in value is the difference between your home's FMV immediately before the disaster and immediately after the disaster.

**Figuring the loss deduction.** Unless you have a [qualified disaster loss](#), discussed above, you must figure the loss under the usual rules for casualty losses, as if it occurred in the year preceding the disaster.

**Example.** A disaster damaged your main home and destroyed your furniture in 2017. This was your only casualty loss for the year. Your home is located in a federally declared disaster area designated by FEMA for public or individual assistance (or both). The cost of your home and land was \$134,000. The FMV immediately

before the disaster was \$147,500 and the FMV immediately afterward was \$100,000. You separately figured the loss on each item of furniture (see [Figuring the Deduction](#), earlier) and arrived at a total loss for furniture of \$3,000. Your insurance didn't cover this type of casualty loss, and you expect no reimbursement for either your home or your furniture.

You elect to amend your 2016 return to claim your casualty loss for the disaster. Your adjusted gross income (AGI) on your 2016 return was \$71,000. You figure your casualty loss as follows.

	<u>House</u>	<u>Furnishings</u>
1. Cost .....	\$134,000	\$10,000
2. FMV before disaster .....	\$147,500	\$8,000
3. FMV after disaster .....	<u>100,000</u>	<u>5,000</u>
4. Decrease in FMV (line 2 – line 3) ....	<u>\$47,500</u>	<u>\$3,000</u>
5. Smaller of line 1 or line 4 .....	\$47,500	\$3,000
6. Subtract estimated insurance .....	<u>-0-</u>	<u>-0-</u>
7. Loss after reimbursement ....	<u>\$47,500</u>	<u>\$3,000</u>
8. Total loss .....		\$50,500
9. Subtract \$100 .....		<u>100</u>
10. Loss after \$100 rule .....		\$50,400
11. Subtract 10% of \$71,000 AGI .....		<u>7,100</u>
12. <b>Amount of casualty loss deduction</b> .....		<u><b>\$43,300</b></u>

**How to report the loss on Form 1040X.** You should adjust your deductions on Form 1040X. The Instructions for Form 1040X show how to do this. Explain the reasons for your adjustment and attach Form 4684 to show how you figured your loss. See [Figuring a Loss](#), earlier.

If the damaged or destroyed property was nonbusiness property or employee property **and** you didn't itemize your deductions on your original return, you must first determine whether the casualty loss deduction now makes it advantageous for you to itemize. It is advantageous to itemize if the total of the casualty loss deduction and any other itemized deductions is more than your standard deduction. If you itemize, attach Schedule A (Form 1040) or Form 1040NR, Schedule A, and Form 4684 to your amended return. Fill out Form 1040X to refigure your tax to find your refund.

**Records.** You should keep the records that support your loss deduction. You don't have to attach them to the amended return.

If your records were destroyed or lost, you may have to reconstruct them. Information about reconstructing records is available at [IRS.gov](http://IRS.gov). Type "reconstructing your records" in the search box, or see Pub. 2194, Disaster Resource Guide.

**Need a copy of your tax return for the preceding year?** It will be easier to prepare Form 1040X if you have a copy of your tax

**Table 3. When To Deduct a Casualty or Theft Loss**

IF you have a loss...	THEN deduct it in the...
from a <a href="#">casualty</a>	year the loss occurred.
in a federally declared <a href="#">disaster area</a>	<a href="#">disaster year</a> or the year immediately before the disaster year.
from a <a href="#">theft</a>	year the theft was discovered.
on a <a href="#">deposit</a> treated as a casualty	year a reasonable estimate can be made.

return for the preceding year. If you had your tax return completed by a tax preparer, he or she should be able to provide you with a copy of your return. If not, you can get a copy by filing Form 4506 with the IRS. There is a fee for each return requested. However, if your main home, principal place of business, or tax records are located in a federally declared disaster area, this fee will be waived. Write the name of the disaster in the top margin of Form 4506 (for example, "Texas Hurricane Harvey").

**Federal loan canceled.** If part of your federal disaster loan was canceled under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, it is considered to be reimbursement for the loss. The cancellation reduces your casualty loss deduction.

**Federal disaster relief grants.** Don't include post-disaster relief grants received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act in your income if the grant payments are made to help you meet necessary expenses or serious needs for medical, dental, housing, personal property, transportation, or funeral expenses. Don't deduct casualty losses or medical expenses to the extent they are specifically reimbursed by these disaster relief grants. If the casualty loss was specifically reimbursed by the grant and you received the grant after the year in which you deducted the casualty loss, see [Reimbursement Received After Deducting Loss](#), earlier. Unemployment assistance payments under the Act are taxable unemployment compensation.

**State disaster relief grants for businesses.** A grant that a business receives under a state program to reimburse businesses for losses incurred for damage or destruction of property because of a disaster isn't excludable from income under the general welfare exclusion, as a gift, as a qualified disaster relief payment (explained next), or as a contribution to capital. However, the business can choose to postpone reporting gain realized from the grant if it buys qualifying replacement property within a certain period of time. See [Postponement of Gain](#), earlier, for the rules that apply.

**Qualified disaster relief payments.** Qualified disaster relief payments aren't included in the income of individuals to the extent any expenses compensated by these payments aren't otherwise compensated for by insurance or other reimbursement. These payments aren't subject to income tax, self-employment tax, or employment taxes (social security, Medicare, and federal unemployment taxes). No withholding applies to these payments.

Qualified disaster relief payments include payments you receive (regardless of the source) for the following expenses.

- Reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a federally declared disaster.
- Reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence due to a federally declared disaster. (A personal residence can be a rented residence or one you own.)
- Reasonable and necessary expenses incurred for the repair or replacement of the contents of a personal residence due to a federally declared disaster.

Qualified disaster relief payments also include amounts paid to individuals affected by the disaster by a federal, state, or local government in connection with a federally declared disaster. These payments must be made from a governmental fund, be based on individual or family needs, and not be compensation for services. Payments to businesses generally don't qualify.



*Qualified disaster relief payments don't include:*

- *Payments for expenses otherwise paid for by insurance or other reimbursements, or*
- *Income replacement payments, such as payments of lost wages, lost business income, or unemployment compensation.*

**Qualified disaster mitigation payments.** Qualified disaster mitigation payments made under the Robert T. Stafford Disaster Relief and Emergency Assistance Act or the National Flood Insurance Act (as in effect on April 15, 2005) aren't included in income. These are payments you, as a property owner, receive to reduce the risk of future damage to your property. You can't increase your basis in the property, or take a deduction or credit, for expenditures made with respect to those payments.

**Sale of property under hazard mitigation program.** Generally, if you sell or otherwise transfer property, you must recognize any gain or loss for tax purposes unless the property is your main home. You report the gain or deduct the loss on your tax return for the year you realize it. (You can't deduct a loss on personal-use property unless the loss resulted from a [casualty](#), as discussed earlier.) However, if you sell or otherwise transfer property to the federal government, a state or local government, or an Indian tribal government under a hazard mitigation program, you can choose to postpone reporting the gain if you buy qualifying replacement property within a certain period of time.

See [Postponement of Gain](#), earlier, for the rules that apply.

**Gains.** Special rules apply if you choose to postpone reporting gain on property damaged or destroyed in a federally declared disaster area. For these special rules, see the following discussions.

- [Main home in disaster area](#), earlier, under *Replacement Property*.
- [Business or income-producing property located in a federally declared disaster area](#), earlier, under *Replacement Property*.

## Postponed Tax Deadlines

The IRS may postpone for up to one year certain tax deadlines of taxpayers who are affected by a federally declared disaster. The tax deadlines the IRS may postpone include those for filing income, excise, and employment tax returns; paying income, excise, and employment taxes; and making contributions to a traditional IRA or Roth IRA.

If any tax deadline is postponed, the IRS will publicize the postponement in your area and publish a news release and, where necessary, in a revenue ruling, revenue procedure, notice, announcement, or other guidance in the Internal Revenue Bulletin (IRB). Go to [IRS.gov/Newsroom/Tax-Relief-In-Disaster-Situations](#) to find out if a tax deadline has been postponed for your area.

**Who is eligible.** If the IRS postpones a tax deadline, the following taxpayers are eligible for the postponement.

- Any individual whose main home is located in a [covered disaster area](#) (defined later).
- Any business entity or sole proprietor whose principal place of business is located in a covered disaster area.
- Any individual who is a relief worker affiliated with a recognized government or philanthropic organization and who is assisting in a covered disaster area.
- Any individual, business entity, or sole proprietorship whose records are needed to meet a postponed tax deadline, provided those records are maintained in a covered disaster area. The main home or principal place of business doesn't have to be located in the covered disaster area.
- Any estate or trust that has tax records necessary to meet a postponed tax deadline, provided those records are maintained in a covered disaster area.
- The spouse on a joint return with a taxpayer who is eligible for postponements.
- Any individual, business entity, or sole proprietorship not located in a covered disaster area, but whose records necessary to meet a postponed tax deadline are located in the covered disaster area.
- Any individual visiting the covered disaster area who was killed or injured as a result of the disaster.
- Any other person determined by the IRS to be affected by a federally declared disaster.

**Covered disaster area.** This is an area of a federally declared disaster in which the IRS



has decided to postpone tax deadlines for up to 1 year.

**Abatement of interest and penalties.** The IRS may abate the interest and penalties on underpaid income tax for the length of any postponement of tax deadlines.

## Contacting the Federal Emergency Management Agency (FEMA)

If you live in an area that was declared a disaster area by the President, you can get information from FEMA by visiting [DisasterAssistance.gov](https://www.fema.gov/disaster-assistance), or calling the following phone numbers. These numbers are only activated after a federally declared disaster.

- 1-800-621-3362.
- 1-800-462-7585, if you are deaf, hard of hearing, or have a speech disability.

## How To Report Gains and Losses

How you report gains and losses depends on whether the property was business, income-producing, or personal-use property.

**Personal-use property.** If you have a loss, use both of the following.

- Form 4684, Casualties and Thefts.
- Schedule A (Form 1040), Itemized Deductions (or Form 1040NR, Schedule A, if you are a nonresident alien).

If you have a gain, report it on both of the following.

- Form 4684, Casualties and Thefts.
- Schedule D (Form 1040), Capital Gains and Losses.

Don't report on these forms any gain you postpone. If you choose to postpone gain, see [How To Postpone a Gain](#), earlier.

**Business and income-producing property.** Use Form 4684 to report your gains and losses. You will also have to report the gains and losses on other forms as explained next.

**Property held 1 year or less.** Individuals report losses from income-producing property and property used in performing services as an employee on Schedule A (Form 1040). Gains from business and income-producing property are combined with losses from business property (other than property used in performing services as an employee) and the net gain or loss is reported on Form 4797. If you aren't otherwise required to file Form 4797, only enter the net gain or loss on your tax return on the line identified as from Form 4797. Next to that line, enter "Form 4684." Partnerships and S corporations should see the Instructions for Form 4684 to find out where to report these gains and losses.

**Property held more than 1 year.** If your losses from business and income-producing property are more than gains from these types

of property, combine your losses from business property (other than property used in performing services as an employee) with total gains from business and income-producing property. Report the net gain or loss as an ordinary gain or loss on Form 4797. If you aren't otherwise required to file Form 4797, only enter the net gain or loss on your tax return on the line identified as from Form 4797. Next to that line, enter "Form 4684." Individuals deduct any loss of income-producing property and property used in performing services as an employee on Schedule A (Form 1040). Partnerships and S corporations should see Form 4684 to find out where to report these gains and losses.

If losses from business and income-producing property are less than or equal to gains from these types of property, report the net amount on Form 4797. You may also have to report the gain on Schedule D depending on whether you have other transactions. Partnerships and S corporations should see Form 4684 to find out where to report these gains and losses.

**Depreciable property.** If the damaged or stolen property was depreciable property held more than 1 year, you may have to treat all or part of the gain as ordinary income to the extent of depreciation allowed or allowable. You figure the ordinary income part of the gain in Part III of Form 4797. See *Depreciation Recapture* in chapter 3 of Pub. 544 for more information about the recapture rule.

## Adjustments to Basis

If you have a casualty or theft loss, you must decrease your basis in the property by any insurance or other reimbursement you receive and by any deductible loss. The result is your adjusted basis in the property.

If you make either of the basis adjustments described above, amounts you spend on repairs that restore the property to its pre-casualty condition increase your adjusted basis. Don't increase your basis in the property by any qualified disaster mitigation payments (discussed earlier under [Disaster Area Losses](#)). See *Adjusted Basis* in Pub. 551 for more information on adjustments to basis.

## If Deductions Are More Than Income

If your casualty or theft loss deduction causes your deductions for the year to be more than your income for the year, you may have a net operating loss (NOL). You can use an NOL to lower your tax in an earlier year, allowing you to get a refund for tax you already paid. Or, you can use it to lower your tax in a later year. You don't have to be in business to have an NOL from a casualty or theft loss. For more information, see Pub. 536, Net Operating Losses (NOLs) for Individuals, Estates, and Trusts.

## How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go

to [IRS.gov](https://www.irs.gov) and find resources that can help you right away.

**Preparing and filing your tax return.** Find free options to prepare and file your return on [IRS.gov](https://www.irs.gov) or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$54,000 or less, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to [IRS.gov](https://www.irs.gov) to see your options for preparing and filing your return which include the following.

- **Free File.** Go to [IRS.gov/FreeFile](https://www.irs.gov/FreeFile). See if you qualify to use brand-name software to prepare and e-file your federal tax return for free.
- **VITA.** Go to [IRS.gov/VITA](https://www.irs.gov/VITA), download the free IRS2Go app, or call 1-800-906-9887 to find the nearest VITA location for free tax preparation.
- **TCE.** Go to [IRS.gov/TCE](https://www.irs.gov/TCE), download the free IRS2Go app, or call 1-888-227-7669 to find the nearest TCE location for free tax preparation.



**Getting answers to your tax questions.** On [IRS.gov](https://www.irs.gov) get answers to your tax questions anytime, anywhere.

- Go to [IRS.gov/Help](https://www.irs.gov/Help) or [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp) pages for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to [IRS.gov/ITA](https://www.irs.gov/ITA) for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to [IRS.gov/Pub17](https://www.irs.gov/Pub17) to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2017 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML, as a PDF, or download it to your mobile device as an eBook.
- You may also be able to access tax law information in your electronic filing software.

**Getting tax forms and publications.** Go to [IRS.gov/Forms](https://www.irs.gov/Forms) to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or, you can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to place an order and have forms mailed to you within 10 business days.

**Access your online account (Individual taxpayers only).** Go to [IRS.gov/Account](https://www.irs.gov/Account) to securely access information about your federal tax account.

- View the amount you owe, pay online or set up an online payment agreement.

- Access your tax records online.
- Review the past 18 months of your payment history.
- Go to [IRS.gov/SecureAccess](https://www.irs.gov/SecureAccess) to review the required identity authentication process.

**Using direct deposit.** The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. IRS issues more than 90% of refunds in less than 21 days.

**Delayed refund for returns claiming certain credits.** Due to changes in the law, the IRS can't issue refunds before mid-February 2018, for returns that properly claimed the earned income credit (EIC) or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

**Getting a transcript or copy of a return.** The quickest way to get a copy of your tax transcript is to go to [IRS.gov/Transcripts](https://www.irs.gov/Transcripts). Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 1-800-908-9946.
- Mail Form 4506-T or Form 4506T-EZ (both available on [IRS.gov](https://www.irs.gov)).

**Using online tools to help prepare your return.** Go to [IRS.gov/Tools](https://www.irs.gov/Tools) for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/EIC\)](https://www.irs.gov/EIC) determines if you're eligible for the EIC.
- The [Online EIN Application \(IRS.gov/EIN\)](https://www.irs.gov/EIN) helps you get an employer identification number.
- The [IRS Withholding Calculator \(IRS.gov/W4App\)](https://www.irs.gov/W4App) estimates the amount you should have withheld from your paycheck for federal income tax purposes.
- The [First Time Homebuyer Credit Account Look-up \(IRS.gov/HomeBuyer\)](https://www.irs.gov/HomeBuyer) tool provides information on your repayments and account balance.
- The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](https://www.irs.gov/SalesTax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

**Resolving tax-related identity theft issues.**

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to [IRS.gov/IDProtection](https://www.irs.gov/IDProtection) for information and videos.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit [IRS.gov/ID](https://www.irs.gov/ID) to learn what steps you should take.

**Checking on the status of your refund.**

- Go to [IRS.gov/Refunds](https://www.irs.gov/Refunds).

- Due to changes in the law, the IRS can't issue refunds before mid-February 2018, for returns that properly claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

**Making a tax payment.** The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to [IRS.gov/Payments](https://www.irs.gov/Payments) to make a payment using any of the following options.

- **IRS Direct Pay:** Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.
- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** You may be able to pay your taxes with cash at a participating retail store.

**What if I can't pay now?** Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an [online payment agreement \(IRS.gov/OPA\)](https://www.irs.gov/OPA) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier \(IRS.gov/OIC\)](https://www.irs.gov/OIC) to see if you can settle your tax debt for less than the full amount you owe.

**Checking the status of an amended return.** Go to [IRS.gov/WMAR](https://www.irs.gov/WMAR) to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it to show up in our system and processing it can take up to 16 weeks.

**Understanding an IRS notice or letter.** Go to [IRS.gov/Notices](https://www.irs.gov/Notices) to find additional information about responding to an IRS notice or letter.

**Contacting your local IRS office.** Keep in mind, many questions can be answered on [IRS.gov](https://www.irs.gov) without visiting an IRS Tax Assistance Center (TAC). Go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp) for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All

TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TACLocator](https://www.irs.gov/TACLocator) to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

**Watching IRS videos.** The IRS Video portal ([IRSvideos.gov](https://www.irs.gov/IRSvideos)) contains video and audio presentations for individuals, small businesses, and tax professionals.

**Getting tax information in other languages.** For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on [IRS.gov](https://www.irs.gov) in the following languages.

- [Spanish \(IRS.gov/Spanish\)](https://www.irs.gov/Spanish).
- [Chinese \(IRS.gov/Chinese\)](https://www.irs.gov/Chinese).
- [Vietnamese \(IRS.gov/Vietnamese\)](https://www.irs.gov/Vietnamese).
- [Korean \(IRS.gov/Korean\)](https://www.irs.gov/Korean).
- [Russian \(IRS.gov/Russian\)](https://www.irs.gov/Russian).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

## The Taxpayer Advocate Service Is Here To Help You

### What is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an *independent* organization within the IRS that helps taxpayers and protects taxpayer rights. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](https://www.irs.gov/TaxpayerBillOfRights).

### What Can the Taxpayer Advocate Service Do For You?

We can help you resolve problems that you can't resolve with the IRS. And our service is free. If you qualify for our assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business,
- You face (or your business is facing) an immediate threat of adverse action, or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

### How Can You Reach Us?

We have offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at [TaxpayerAdvocate.IRS.gov/Contact-Us](https://www.irs.gov/ContactUs). You can also call us at 1-877-777-4778.

## How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Our Tax Toolkit at [TaxpayerAdvocate.IRS.gov](http://TaxpayerAdvocate.IRS.gov) can help you understand *what these rights mean to you* and how they apply. These are **your** rights. Know them. Use them.

## How Else Does the Taxpayer Advocate Service Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of

these broad issues, please report it to us at [IRS.gov/SAMS](http://IRS.gov/SAMS).

## Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak

English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit [TaxpayerAdvocate.IRS.gov/LITCmap](http://TaxpayerAdvocate.IRS.gov/LITCmap) or see IRS Publication 4134, [Low Income Taxpayer Clinic List](#).

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To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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