2000

DISASTER LOSSES KIT

FOR INDIVIDUALS

HELP FROM THE IRS

IRS

Department of the Treasury
Internal Revenue Service

www.irs.gov

Publication 2194 (Rev. 12-2000)
Catalog Number 24928R

Quick and Easy Access to IRS Tax Help and Tax Products

Personal Computer

*Access the IRS's web site at **www.irs.gov** to:*

- Obtain Frequently Asked Tax Questions
- Download Electronically Fillable Forms
- Search Tax Publications by Topic or Keyword
- Request Help via E-mail
- Receive Hot Tax News via E-mail

You can also reach us using:

- File Transfer Protocol at **ftp.irs.gov**

TaxFax Service

*Dial **703-368-9694** from your fax machine to get up to 3 items per call. See menu of tax products available on pages 2 through 4. Follow the directions of the prompts and your items will be immediately faxed back to you.*

Phone

Obtain forms, instructions, and publications 24 hours a day, 7 days a week, by calling:

- **1-800-829-3676** to order current and prior year forms, instructions, and publications. You should receive your order within 10 days.

Walk-In

Pick up certain forms, instructions, and publications at many post offices, libraries, and IRS offices. Some IRS offices, libraries, grocery stores, copy centers, and office supply stores have an extensive collection of products available to photocopy or print from a CD-ROM.

Mail

Send your order for tax products to the Distribution Center nearest you. You should receive your products within 10 days after we receive your order.

- **Western part of U.S.**
  Western Area Distribution Center
  Rancho Cordova, CA 95743-0001
- **Central part of U.S.**
  Central Area Distribution Center
  P.O. Box 8903
  Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261-5074

CD-ROM

Order IRS Publication 1796, Federal Tax Products on CD-ROM, and obtain:

- Current tax forms, instructions and publications
- Prior-year tax forms and instructions
- Popular tax forms which may be filled-in electronically, printed out for submission, and saved for recordkeeping
- Internal Revenue Bulletin

Purchase the CD-ROM via Internet at **http://www.irs.gov/cdorders** from the National Technical Information Service (NTIS) for $21 (plus no handling fee). Order by phone at 1-877-CDFORMS (1-877-233-6767) for $21 (plus $5 handling fee). The price for 25 or more copies is $15.75 per CD plus a $5.00 handling fee.

Availability: First release—late December
Final release—late January

Minimum System Requirements:

- Microsoft Windows 95, Windows 98, Windows NT 4.0 with service pack 3 or later
  - i486 or Pentium-based personal computer (Pentium recommended);
  - 16 MB of RAM Windows 95, Windows 98, 24 MB of RAM Windows NT 4.0 (32 MB recommended);
  - 75 MB of available hard disk space;
  - VGA or higher resolution display adaptor supported by Windows;
  - Microsoft CD Extensions with a CD controller board;
  - Windows-compatible printer with at least 1 MB of user RAM
- Macintosh
  - Power Macintosh
  - Apple System Software version 7.5.3 or later
  - 6 MB RAM (12 MB Recommended)
  - 60 MB available hard disk space

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Disaster Losses Kit for Individuals

Introduction

If you were affected this year by a major disaster or emergency in your area, this Disaster Losses Kit can help you claim casualty losses on property that was destroyed by a natural disaster.

To qualify for disaster loans and grants from other federal agencies, you must have filed all required federal tax returns. IRS understands that many of your tax records may have been lost or destroyed. We can provide transcripts of your previously filed tax returns free of charge when you submit Form 4506, *Request for Copy or Transcript of Tax Form,* included in the Disaster Kit. Just write the name of the county where your property was located and a brief description of the incident (i.e., Hurricane Dennis) in the space provided at the top of the form.

If you need additional forms or publications, there are several ways you can obtain them. You can download forms from www.irs.gov. or IRS will fax forms to you when you dial 703-368-9694 from your fax machine and follow the directions of the prompts. You can also order forms or publications at no cost by calling 1-800-829-3676. If you need additional tax assistance, please call 1-800-829-1040.

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DISASTER

LOSSES

HELP FROM THE IRS

If your property has been damaged or destroyed in an area the President of the United States has declared eligible for federal disaster assistance, the enclosed information is for you. And if you have been the victim of such a disaster, you may be able to get a tax refund immediately, based on your unreimbursed loss.

This brochure highlights federal tax treatment of disaster area losses for individuals and business owners.

A number of tax laws may apply to many taxpayers who are victims of a Presidentially-declared disaster. These laws include:

- *abating your interest for periods for which you received an extension of time to file tax returns and pay taxes because you were located in a Presidentially-declared disaster area.*
- *allowing you to use an appraisal that you used to get a federal loan or federal loan guarantee, as the result of a Presidentially-declared disaster, to establish the amount of a disaster loss.*
- *allowing a farmer who sells livestock and poultry due to a drought, flood, or other weather-related condition, to choose to include income from the sale in the tax year following the tax year of the sale. Sales, made before the area became eligible for federal assistance, qualify if the weather-related condition that caused the sale also caused the area to be designated as eligible for federal assistance.*

What is a casualty loss for tax purposes?

A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. Deductible casualty losses can result from: earthquakes, fires, floods, hurricanes, vandalism or similar events.

Your unreimbursed loss from a casualty may be deductible on your tax return for the year the casualty occurred. If the loss happened in an area the President designated a disaster area, you may not have to wait until the end of the year to file a tax return and claim the loss. You may be able to file an amended return for the year before the disaster, right now, and get a refund of taxes you have already paid.

Where do I start when I have a casualty loss?

First, you need to know the amount of your loss. This can be difficult to determine, but it is worth the effort. In general, you make a list of your damaged, lost, or destroyed property. For each item, you need to know its adjusted basis before the casualty and the decrease in its value due to the casualty. Normally, your loss is the smaller of these amounts. For business property completely destroyed, use its adjusted basis as your loss.

In some cases, you may be able to use the cost of cleaning up or making repairs, or an appraisal used in obtaining a federal loan or loan guarantee, to establish the decrease in the fair market value of your property.

IRS Publication 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness)*, gives you more information regarding your loss, and Form 4684, *Casualties and Thefts*, gives you step-by-step instructions on how to figure your loss.

How will insurance affect my loss?

When figuring your casualty loss, reduce the loss by any insurance reimbursement you receive or expect to receive. If you had insurance coverage at the time of the casualty, but did not file a claim, you can deduct only the amount of the loss that the insurance would not have covered. If the insurance company pays you more than your adjusted basis, you will have a gain from the casualty. Usually, that gain is taxable for the year that you receive it. However, you may be able to postpone reporting the gain if you buy property similar or related in service or use to the destroyed property within a specified period. See Publication 547 for details.

My casualty loss is greater than my insurance coverage. Is there any tax relief available to me?

You may be able to get a tax refund by filing an amended return right now. It works like this.

If your loss was in an area the President declared a disaster area, you may choose to deduct the loss on an amended return for the tax year immediately preceding the tax year in which the disaster occurred. If you choose to file an amended return, you may qualify for a refund now without having to wait until you file your return for this year.

Where can I get copies of my financial records and other important documents that were lost or destroyed as a result of a casualty?

Fortunately, you can get copies of many important records. For example, contact your bank for bank statements, the county clerk for real estate records, and your tax preparer or the IRS for copies of federal tax returns.

To get a copy or transcript of your prior years' Forms 1040, 1040A, or 1040EZ, send a completed Form 4506, *Request for Copy or Transcript of Tax Form*, to the IRS address where you filed your tax return.

Where can I get more information on casualty losses?

Start with Publication 2194, *Disaster Losses Kit - Help From the IRS*. This kit has information about IRS tax services and forms and publications to help individuals and business owners with their loss. In addition to the following forms and publications, there are other materials in this kit that may help you determine your loss.

Form 1040X, *Amended U.S. Individual Income Tax Return*

Form 1120X, *Amended U.S. Corporation Income Tax Return*

Form 4506, *Request for Copy or Transcript of Tax Form*

Form 4684, *Casualties and Thefts*

Pub 536, *Net Operating Losses*

Pub 547, *Casualties, Disasters, and Thefts (Business and Non-Business)*

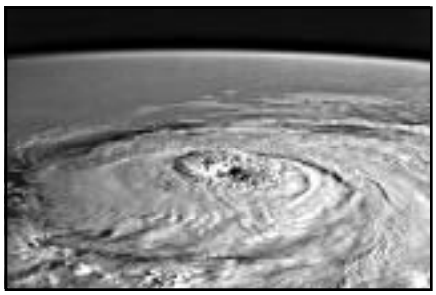
Pub 584, *Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)*

You may download and print IRS forms and publications from the Internet at www.irs.gov and you may call the IRS at 1-800-829-3676 (1-800-TAX-FORM) to order free forms and publications.

You may also get tax forms and publications by ordering Publication 1796, *Federal Tax Products on CD-ROM* through the National Technical Information Service (NTIS) at 1-877-233-6767 or via the Internet at www.irs.gov/cdorders. This CD includes current year and prior year tax forms and publications.

From a fax machine, dial (703) 368-9694 and you will immediately get a list of IRS tax forms faxed back to you. Follow the voice prompts to get specific forms faxed to you.

If you have access to teletypewriter/telecommunications device for the deaf (TTY/TDD) equipment, you can call 1-800-829-4059 to ask questions or to order forms and publications.



Often your tax questions can be answered by reading tax publications and related forms. When you need more information, call the IRS at 1-800-829-1040 for assistance.

IRS Department of the Treasury
Internal Revenue Service
Publication 1600a (Rev. 01-2000)
Catalog Number 13670 E

Form **4506**
(Rev. May 1997)
Department of the Treasury
Internal Revenue Service

Request for Copy or Transcript of Tax Form

▶ **Read instructions before completing this form.**

▶ **Type or print clearly. Request may be rejected if the form is incomplete or illegible.**

OMB No. 1545-0429

Note: ***Do not*** *use this form to get* ***tax account information.*** *Instead, see instructions below.*

1a Name shown on tax form. If a joint return, enter the name shown first.	**1b First social security number on tax form or employer identification number** (see instructions)
2a If a joint return, spouse's name shown on tax form	**2b Second social security number on tax form**

3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code

4 Address, (including apt., room, or suite no.), city, state, and ZIP code shown on the last return filed if different from line 3

5 If copy of form or a tax return transcript is to be mailed to someone else, enter the third party's name and address

6 If we cannot find a record of your tax form and you want the payment refunded to the third party, check here . . . . . ▶ ☐

7 If name in third party's records differs from line 1a above, enter that name here (see instructions) ▶

8 Check only one box to show what you want. There is **no charge** for items 8a, b, and c:

a ☐ Tax return transcript of Form 1040 series filed during the **current calendar year** and the **3 prior calendar years** (see instructions).

b ☐ Verification of nonfiling.

c ☐ Form(s) W-2 information (see instructions).

d ☐ Copy of tax form and all attachments (including Form(s) W-2, schedules, or other forms). **The charge is $23 for each period requested.**
Note: *If these copies must be certified for court or administrative proceedings, see instructions and check here* . . . . . ▶ ☐

9 If this request is to meet a requirement of one of the following, check all boxes that apply.
☐ Small Business Administration ☐ Department of Education ☐ Department of Veterans Affairs ☐ Financial institution

10 Tax form number (Form 1040, 1040A, 941, etc.)	**12** Complete only if **line 8d** is checked. Amount due:
11 Tax period(s) (year or period ended date). If more than four, see instructions.	**a** Cost for each period . . . . . $ 23.00
	b Number of tax periods requested on line 11
	c Total cost. Multiply line 12a by line 12b. . $
	Full payment must accompany your request. Make check or money order payable to "Internal Revenue Service."

Caution: *Before signing, make sure all items are complete and the form is dated.*

I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. I am aware that based upon this form, the IRS will release the tax information requested to any party shown on line 5. The IRS has no control over what that party does with the information.

Please Sign Here

▶ Signature. See instructions. If other than taxpayer, attach authorization document. Date	Telephone number of requester ( )
▶ Title (if line 1a above is a corporation, partnership, estate, or trust)	Best time to call
▶ Spouse's signature Date	**TRY A TAX RETURN TRANSCRIPT** (see line 8a instructions)

Instructions

Section references are to the Internal Revenue Code.

TIP: If you had your tax form filled in by a paid preparer, check first to see if you can get a copy from the preparer. This may save you both time and money.

Purpose of Form.—Use Form 4506 to get a tax return transcript, verification that you did not file a Federal tax return, Form W-2 information, or a copy of a tax form. Allow 6 weeks after you file a tax form before you request a copy of it or a transcript. For W-2 information, wait 13 months after the end of the year in which the wages were earned. For example, wait until Feb. 1999 to request W-2 information for wages earned in 1997.

Do not use this form to request Forms 1099 or tax account information. See this page for details on how to get these items.

Note: *Form 4506 must be received by the IRS within 60 calendar days after the date you signed and dated the request.*

How Long Will It Take?—You can get a tax return transcript or verification of nonfiling within 7 to 10 workdays after the IRS receives your request. It can take up to 60 calendar days to get a copy of a tax form or W-2 information. To avoid any delay, be sure to furnish all the information asked for on Form 4506.

Forms 1099.—If you need a copy of a Form 1099, contact the payer. If the payer cannot help you, call or visit the IRS to get Form 1099 information.

Tax Account Information.—If you need a statement of your tax account showing any later changes that you or the IRS made to the original return, request tax account information. Tax account information lists

(Continued on back)

certain items from your return, including any later changes.

To request tax account information, write or visit an IRS office or call the IRS at the number listed in your telephone directory.

If you want your tax account information sent to a third party, complete **Form 8821,** Tax Information Authorization. You may get this form by phone (call 1-800-829-3676) or on the Internet (at http://www.irs.ustreas.gov).

Line 1b.—Enter your employer identification number (EIN) **only** if you are requesting a copy of a **business** tax form. Otherwise, enter the first social security number (SSN) shown on the tax form.

Line 2b.—If requesting a copy or transcript of a joint tax form, enter the second SSN shown on the tax form.

Note: *If you do not complete line 1b and, if applicable, line 2b, there may be a delay in processing your request.*

Line 5.—If you want someone else to receive the tax form or tax return transcript (such as a CPA, an enrolled agent, a scholarship board, or a mortgage lender), enter the name and address of the individual. If we cannot find a record of your tax form, we will notify the third party directly that we cannot fill the request.

Line 7.—Enter the name of the client, student, or applicant if it is different from the name shown on line 1a. For example, the name on line 1a may be the parent of a student applying for financial aid. In this case, you would enter the student's name on line 7 so the scholarship board can associate the tax form or tax return transcript with their file.

Line 8a.—If you want a tax return transcript, check this box. Also, on line 10 enter the tax form number and on line 11 enter the tax period for which you want the transcript.

A tax return transcript is available only for returns in the 1040 series (Form 1040, Form 1040A, 1040EZ, etc.). It shows most line items from the original return, including accompanying forms and schedules. In many cases, a transcript will meet the requirement of any lending institution such as a financial institution, the Department of Education, or the Small Business Administration. It may also be used to verify that you did not claim any itemized deductions for a residence.

Note: *A tax return transcript **does not** reflect any changes you or the IRS made to the original return. If you want a statement of your tax account with the changes, see **Tax Account Information** on page 1.*

Line 8b.—Check this box only if you want proof from the IRS that you did not file a return for the year. Also, on line 11 enter the tax period for which you want verification of nonfiling.

Line 8c.—If you want only Form(s) W-2 information, check this box. Also, on line 10 enter "Form(s) W-2 only" and on line 11 enter the tax period for which you want the information.

You may receive a copy of your actual Form W-2 or a transcript of the information, depending on how your employer filed the form. However, state withholding information is not shown on a transcript. If you have filed your tax return for the year the wages were earned, you can get a copy of the actual Form W-2 by requesting a complete copy of your return and paying the required fee.

Contact your employer if you have lost your current year's Form W-2 or have not received it by the time you are ready to prepare your tax return.

Note: *If you are requesting information about your spouse's Form W-2, your spouse must sign Form 4506.*

Line 8d.—If you want a certified copy of a tax form for court or administrative proceedings, check the box to the right of line 8d. It will take at least 60 days to process your request.

Line 11.—Enter the year(s) of the tax form or tax return transcript you want. For fiscal-year filers or requests for quarterly tax forms, enter the date the period ended; for example, 3/31/96, 6/30/96, etc. If you need more than four different tax periods, use additional Forms 4506. Tax forms filed 6 or more years ago may not be available for making copies. However, tax account information is generally still available for these periods.

Line 12c.—Write your SSN or EIN **and** "Form 4506 Request" on your check or money order. If we cannot fill your request, we will refund your payment.

Signature.—Requests for copies of tax forms or tax return transcripts to be sent to a third party must be signed by the person whose name is shown on line 1a or by a person authorized to receive the requested information.

Copies of tax forms or tax return transcripts for a jointly filed return may be furnished to either the husband or the wife. Only one signature is required. However, see the line 8c instructions. Sign Form 4506 exactly as your name appeared on the original tax form. If you changed your name, **also** sign your current name.

For a corporation, the signature of the president of the corporation, or any principal officer and the secretary, or the principal officer and another officer are generally required. For more details on who may obtain tax information on corporations, partnerships, estates, and trusts, see section 6103.

If you are **not** the taxpayer shown on line 1a, you must attach your authorization to receive a copy of the requested tax form or tax return transcript. You may **attach a copy of the authorization document** if the original has already been filed with the IRS. This will generally be a **power of attorney** (Form 2848), or **other authorization,** such as Form 8821, or evidence of entitlement (for Title 11 Bankruptcy or Receivership Proceedings). If the taxpayer is deceased, you must send Letters Testamentary or other evidence to establish that you are authorized to act for the taxpayer's estate.

Where To File.—Mail Form 4506 with the correct total payment attached, if required, to the **Internal Revenue Service Center** for the place where you lived when the requested tax form was filed.

Note: *You must use a separate form for each service center from which you are requesting a copy of your tax form or tax return transcript.*

If you lived in:	Use this address:
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	1040 Waverly Ave. Photocopy Unit Stop 532 Holtsville, NY 11742
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	310 Lowell St. Photocopy Unit Stop 679 Andover, MA 01810
Florida, Georgia, South Carolina	4800 Buford Hwy. Photocopy Unit Stop 91 Doraville, GA 30362
Indiana, Kentucky, Michigan, Ohio, West Virginia	P.O. Box 145500 Photocopy Unit Stop 521 Cincinnati, OH 45250
Kansas, New Mexico, Oklahoma, Texas	3651 South Interregional Hwy. Photocopy Unit Stop 6716 Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	P.O. Box 9941 Photocopy Unit Stop 6734 Ogden, UT 84409
California (all other counties), Hawaii	5045 E. Butler Avenue Photocopy Unit Stop 52180 Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	2306 E. Bannister Road Photocopy Unit Stop 6700, Annex 1 Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	P.O. Box 30309 Photocopy Unit Stop 46 Memphis, TN 38130
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, a foreign country, or A.P.O. or F.P.O address	11601 Roosevelt Blvd. Photocopy Unit DP 536 Philadelphia, PA 19255

Privacy Act and Paperwork Reduction Act Notice.—We ask for the information on this form to establish your right to gain access to your tax form or transcript under the Internal Revenue Code, including sections 6103 and 6109. We need it to gain access to your tax form or transcript in our files and properly respond to your request. If you do not furnish the information, we will not be able to fill your request. We may give the information to the Department of Justice or other appropriate law enforcement official, as provided by law.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 13 min.; **Learning about the law or the form,** 7 min.; **Preparing the form,** 26 min.; and **Copying, assembling, and sending the form to the IRS,** 17 min.

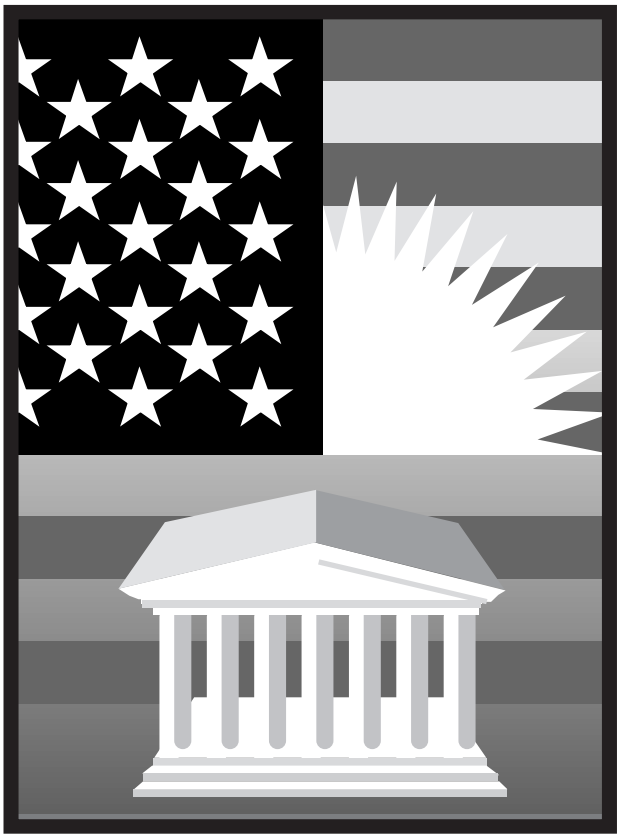
If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the form to this address. Instead, see **Where To File** on this page.

Department of the Treasury

Internal Revenue Service

Publication 584
(Rev. April 1999)
Cat. No. 15151M

Casualty, Disaster, and Theft Loss Workbook
(Personal-Use Property)



Get forms and other information faster and easier by:

COMPUTER
- World Wide Web • www.irs.ustreas.gov
- FTP • ftp.irs.ustreas.gov
- IRIS at FedWorld • (703) 321-8020

FAX
- From your FAX machine, dial • (703) 368-9694

See *How To Get More Information* in this publication.

Introduction

This workbook is designed to help you figure your loss on personal-use property in the event of a disaster, casualty, or theft. It contains schedules to help you figure the loss to your main home, its contents, and your motor vehicles. However, these schedules are for your information only. You must complete Form 4684 to report your loss.

To help you figure your loss, the following schedules are included in this workbook.

- Schedules 1 – 18, for listing the contents of your home
- Schedule 19, *Summary of Contents of Home*
- Schedule 20, *Loss on Personal-Use Real Property*
- Schedule 21, *Loss on Cars, Vans, Trucks, and Motorcycles*
- Schedule 22, *Casualty or Theft Loss Deduction*

To use this workbook, you will need the following items.

Publication 547. Publication 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness),* explains the comprehensive rules for figuring a loss.

Form 4684 and instructions. Form 4684, *Casualties and Thefts,* is used to report your casualty, disaster, or theft. You must attach it to your tax return (Form 1040).

See *How To Get More Information,* later, if you need to get this publication or form.

Losses

Generally, you may deduct losses to your home, household goods, and motor vehicles on your federal income tax return. However, you may not deduct a casualty or theft loss that is covered by insurance unless you filed a timely insurance claim for reimbursement. Any reimbursement you receive will reduce the loss. If you did not file an insurance claim, you may deduct only the part of the loss not covered by insurance.

Amount of loss. To determine the amount of your loss, you must know the adjusted basis of the property, and its fair market value (FMV) immediately before and immediately after the disaster or casualty. If you bought the property, your basis is usually its cost. If you acquired it in any other way, your basis is determined as discussed in Publication 551, *Basis of Assets.*

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.

You 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*** of the property as a result of the casualty or theft. (The decrease in FMV is the difference between the property's

value immediately before and immediately after 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.

Apply the deduction limits, discussed later, to determine the amount of your deductible loss.

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.

Deduction limits. After you have figured the amount of your loss, as discussed earlier, you must figure how much of the loss you can deduct. If the loss was to property for your personal use or your family's, there are ***two limits*** on the amount you can deduct for your casualty or theft loss.

1) You must reduce each casualty or theft loss by $100 ($100 rule).
2) You must further reduce the total of all your losses by 10% of your adjusted gross income (10% rule).

For more information about the deduction limits, see Publication 547.

When your loss is deductible. You can generally deduct a casualty or disaster area loss only in the tax year in which the casualty or disaster occurred. You can generally deduct a theft loss only in the year you discovered your property was stolen. However, you can choose to deduct disaster area losses on your return for the year immediately before the year of the disaster if the President has declared your area a federal disaster area. For details, see *Disaster Area Losses* in Publication 547.

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free tax services. To find out what services are available, see Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.ustreas.gov.** While visiting our Web Site, you can select:

- *Frequently Asked Tax Questions* to find answers to questions you may have.
- *Fill-in Forms* to complete tax forms online.
- *Forms and Publications* to download forms and publications or search publications by topic or keyword.
- *Comments & Help* to e-mail us with comments about the site or with tax questions.
- *Digital Dispatch* and *IRS Local News Net* to receive our electronic newsletters on hot tax issues and news.

You can also reach us with your computer using any of the following.

- Telnet at **iris.irs.ustreas.gov**
- File Transfer Protocol at **ftp.irs.ustreas.gov**
- Direct dial (by modem) **703–321–8020**

TaxFax Service. Using the phone attached to your fax machine, you can receive forms, instructions, and tax information by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can pick up certain forms, instructions, and publications at many post offices, libraries, and IRS offices. Some libraries and IRS offices have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response 7 to 15 workdays after your request is received. Find the address that applies to your part of the country.

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  Western Area Distribution Center
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  P.O. Box 8903
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  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261–5074

CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) for $25.00 by calling 1–877–233–6767 or for $18.00 on the Internet at **www.irs.ustreas.gov/cdorders.**

Schedule 1. **Entrance Hall**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Chairs							
Clock							
Curtains							
Draperies							
Lamps							
Mirrors							
Pictures							
Rugs							
Tables							
Umbrella stands							
Wall fixtures							
Total (enter on Schedule 19, page 21)							**$**

Schedule 2. **Living Room**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Accessories							
Blinds							
Bookcases							
Books							
Chairs							
Chests							
Clocks							
Coffee table							
Curtains							
Desk							
Draperies							
Fireplace hardware							
Lamps							
Magazine rack							
Mirrors							
Piano							
Pictures							
Pillows							
Radio							
Rugs & pads							
Shades							
Shutters							
Sofa							
Stereo							
Television							
Wall fixtures							
Total (enter on Schedule 19, page 21)							**$**

Schedule 3. **Dining Room**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Buffet							
Chairs							
China cabinet							
Chinaware							
Crystal							
Curtains							
Draperies							
Glassware							
Mirrors							
Pictures							
Rugs & pads							
Silver flatware							
Silver tea set							
Silver items							
Table							
Tea cart							
Wall fixtures							
Total (enter on Schedule 19, page 21)							**$**

Schedule 4. **Kitchen**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Blender							
Broiler							
Canned goods							
Can opener							
Clock							
Coffee maker							
Curtains							
Cutlery							
Dishes							
Dishwasher							
Food processor							
Freezer							
Frozen food							
Glassware							
Ice crusher							
Microwave oven							
Mixer							
Pots and pans							
Radio							
Refrigerator							
Stove							
Table and chairs							
Telephone							
Toaster							
Trash compactor							
Utensils							
Wall accessories							
Total (enter on Schedule 19, page 21)							**$**

Schedule 5. **Den**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Bookcase							
Books							
Chairs							
Computer							
Clock							
Curtains							
Desk							
Draperies							
Lamps							
Mirrors							
Pictures							
Pillows							
Radio							
CDs/Records							
Rugs & pads							
Telephone							
Sofa							
Stereo							
Tables							
Television							
VCR							
Total (enter on Schedule 19, page 21)							**$**

Schedule 6. **Bedrooms**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Bed covers							
Beds							
Bedside tables							
Bureaus							
Chairs							
Chests							
Clocks							
Clothes hamper							
Desks							
Dresser							
Jewelry box							
Lamps							
Linens							
Mirrors							
Pictures							
Radio							
Rugs & pads							
Telephone							
Television							
Total (enter on Schedule 19, page 21)							**$**

Schedule 7. **Bathrooms**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Bath mats							
Clothes hamper							
Curtains							
Hair dryers							
Linens							
Mirrors							
Pictures							
Razor							
Scales							
Towel rack							
Wall fixtures							
Total (enter on Schedule 19, page 21)							**$**

Schedule 8. **Recreation Room**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Billiard table							
Books							
Card table							
Chairs							
Clocks							
Curtains							
Games							
Lamps							
Pictures							
Ping Pong table							
Pool table							
Radio							
CDs/Records							
Rugs							
Sofa							
Stereo							
Tables							
Television							
VCR							
Total (enter on Schedule 19, page 21)							**$**

Schedule 9. **Laundry and Basement**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Chairs							
Dryer							
Electric iron							
Food freezer							
Ironing board							
Ladder							
Luggage							
Tables							
Tools							
Tubs							
Washing machine							
Work bench							
Total (enter on Schedule 19, page 21)							**$**

Schedule 10. **Garage**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Bicycles							
Garden hose							
Garden tools							
Hedger							
Ladder							
Lawn mower							
Snow blower							
Sprayer							
Spreader							
Tiller							
Tools							
Wheelbarrow							
Total (enter on Schedule 19, page 21)							**$**

Schedule 11. **Sporting Equipment**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Boat & motor							
Cameras							
Camping equipment							
Field glasses							
Fishing tackle							
Golf clubs							
Guns							
Lawn games							
Projectors							
Tennis rackets							
Total (enter on Schedule 19, page 21)							**$**

Schedule 12. **Men's Clothing**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Belts							
Boots							
Gloves							
Handkerchiefs							
Hats							
Overcoats							
Raincoats							
Shirts							
Shoes							
Shorts							
Slacks							
Socks							
Sport jackets							
Suits							
Sweaters							
Ties							
Underwear							
Total (enter on Schedule 19, page 21)							**$**

Schedule 13. **Women's Clothing**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Belts							
Blouses							
Boots							
Coats							
Dresses							
Furs							
Gloves							
Hats							
Hosiery							
Jackets							
Lingerie							
Scarves							
Shirts							
Shoes							
Skirts							
Slacks							
Suits							
Sweaters							
Total (enter on Schedule 19, page 21)							**$**

Schedule 14. **Children's Clothing**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Blouses							
Boots							
Coats							
Dresses							
Gloves							
Hats							
Shirts							
Shoes							
Skirts							
Slacks							
Socks							
Sport jackets							
Stockings							
Suits							
Sweaters							
Underwear							
Total (enter on Schedule 19, page 21)							**$**

Schedule 15. **Jewelry**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Bracelets							
Brooches							
Earrings							
Engagement ring							
Necklaces							
Pins							
Rings							
Studs							
Watches							
Wedding rings							
Total (enter on Schedule 19, page 21)							**$**

Schedule 16. **Electrical Appliances**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Air conditioner							
Blankets							
Dehumidifier							
Fans							
Floor polisher							
Grill							
Heating pad							
Humidifier							
Sewing machine							
Sun lamp							
Vacuum cleaner							
Total (enter on Schedule 19, page 21)							**$**

Schedule 17. **Linens**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Bath mats							
Bedspreads							
Blankets							
Comforters							
Mattress pads							
Napkins							
Pillows							
Pillowcases							
Placemats							
Quilts							
Sheets							
Tablecloths							
Towels							
Washcloths							
Total (enter on Schedule 19, page 21)							**$**

Schedule 18. **Miscellaneous**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Decrease in fair market value	(8) Smaller of column (4) or column (7)
Barbeque							
Lawn furniture							
Musical instruments							
Outdoor shed							
Picnic set							
Porch furniture							
Swing set							
Toys							
Total (enter on Schedule 19, page 21)							**$**

Schedule 19. **Summary of Contents of Home**

Schedule	**Totals from column (8), pages 3 to 20**
1) Entrance hall	$
2) Living room	
3) Dining room	
4) Kitchen	
5) Den	
6) Bedrooms	
7) Bathrooms	
8) Recreation room	
9) Laundry and basement	
10) Garage	
11) Sporting equipment	
12) Men's clothing	
13) Women's clothing	
14) Children's clothing	
15) Jewelry	
16) Electrical appliances	
17) Linens	
18) Miscellaneous	
Total loss on contents before reimbursements	$
MINUS: Insurance and other reimbursements	
Total loss after reimbursements (ENTER on Schedule 22, *Casualty or Theft Loss Deduction*)	$

Schedule 20. **Loss on Personal-Use Real Property**

Description of property (Show location and date acquired) _____

_____

1) **Basis of property damaged or destroyed**		$ _____	
2) Minus:			
Deferred gain on sale of previous home	$ _____		
Prior casualty losses	_____		
Any other reduction to basis	_____	_____	$ _____
3) Plus:			
Permanent improvements made—			
Aluminum siding		$ _____	
Central air conditioning		_____	
Fence		_____	
Heating system		_____	
Landscaping		_____	
Remodeling		_____	
Roof		_____	
Wall to wall carpeting		_____	
Other: _____		_____	
_____		_____	
_____		_____	
_____		_____	_____
4) **Adjusted basis**			$ _____
5) Fair market value of property before casualty or disaster		$ _____	
6) Fair market value of property after casualty or disaster		_____	
7) **Decrease in fair market value.** Subtract line 6 from line 5			$ _____
8) **Loss on personal-use real property before reimbursements—**			
Lesser of line 4 or line 7			_____
9) Insurance and other reimbursements			_____
10) **Total loss after reimbursement.** Subtract line 9 from line 8. (Enter on Schedule 22, *Casualty or Theft Loss Deduction*)			$ _____

Schedule 21. **Loss on Cars, Vans, Trucks, and Motorcycles**

Vehicle #1

Description of vehicle (Show kind, make, model, and date acquired) _____

_____

1)	Basis	$ _____	
2)	Fair market value before casualty or disaster	$ _____	
3)	Fair market value after casualty or disaster . .	_____	
4)	Decrease in fair market value. Subtract line 3 from line 2	$ _____	
5)	Loss on vehicle before reimbursements—Lesser of line 1 or line 4		$ _____
6)	Insurance and other reimbursements . . .		_____
7)	Total loss after reimbursement. Subtract line 6 from line 5 . . . . . If you do not have a second vehicle, enter this amount on Schedule 22. Otherwise, complete lines 1–8 below.		$ _____

Vehicle #2

Description of vehicle (Show kind, make, model, and date acquired) _____

_____

1)	Basis	$ _____	
2)	Fair market value before casualty or disaster	$ _____	
3)	Fair market value after casualty or disaster . .	_____	
4)	Decrease in fair market value. Subtract line 3 from line 2	$ _____	
5)	Loss on vehicle before reimbursements—Lesser of line 1 or line 4		$ _____
6)	Insurance and other reimbursements . . .		_____
7)	Total loss after reimbursements. Subtract line 6 from line 5		$ _____
8)	**Total loss on cars, vans, trucks, and motorcycles.** Add line 7 for vehicle 1 and line 7 for vehicle 2. (Enter the total on Schedule 22, *Casualty or Theft Loss Deduction*) . . .		$ _____

Schedule 22. **Casualty or Theft Loss Deduction**

(**Note:** *You can use this schedule to figure your deductible loss. But remember to report your loss on Form 4684.*)

1)	Loss on contents of home (from Schedule 19)	$
2)	Loss on personal-use real property (from Schedule 20)	
3)	Loss on cars, vans, trucks, and motorcycles (from Schedule 21)	
4)	**Total.** Add lines 1, 2, and 3	$
5)	Minus: $100 (This applies to each disaster, casualty, or theft.)	
6)	Minus: 10% of your adjusted gross income	
7)	**Casualty or theft loss deduction**	$

Department of the Treasury

Internal Revenue Service

Publication 547
(Rev. December 2000)
Cat. No. 15090K

Casualties, Disasters, and Thefts
(Business and Nonbusiness)

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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 hurricane, fire, car accident, or similar event. A ***theft*** occurs if 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. When you have a casualty or theft, you have to file Form 4684. You will also have to file one or more of the following forms.

- Schedule A (Form 1040)
- Schedule D (Form 1040)
- 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 Publication 544.

Workbook for casualties and thefts. Publication 584 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.

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

You can e-mail us while visiting our web site at **www.irs.gov/help/email2.html**.

You can write to us at the following address:

Internal Revenue Service
Technical Publications Branch
W:CAR:MP:FP:P
1111 Constitution Ave. NW
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

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)

Form (and Instructions)

- ☐ **Schedule A** (Form 1040) Itemized Deductions
- ☐ **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 is not a day-to-day occurrence and that is not typical of the activity in which you were engaged.

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.
- Hurricanes.
- Mine cave-ins.
- Shipwrecks.
- Sonic booms.
- Storms.
- Tornadoes.
- Vandalism.
- Volcanic eruptions.

Nondeductible losses. A casualty loss is not 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.
- 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 next).

Progressive deterioration. Loss of property due to progressive deterioration is not 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. ***But*** 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. ***But,*** a sudden destruction due to an unexpected or unusual infestation of beetles or other insects may result in a casualty loss.

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.

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

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

Mislaid or lost property. The simple disappearance of money or property is not 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.

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.

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

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

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 cannot treat the same amount of the loss as a nonbusiness bad debt when it actually becomes worthless.

Nonbusiness bad debt. If you do not choose to deduct the loss as a casualty loss or as an ordinary loss, you must wait until the actual loss is determined before you can deduct the loss as a nonbusiness bad debt. Once you make the choice, you cannot change it without permission from the Internal Revenue Service.

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 did not reduce your tax in the earlier year, you

Table 1. **How To Report**

IF you choose to report the loss as a(n). . .	THEN report it on. . .
Casualty	Form 4684 and Schedule A (Form 1040)
Ordinary loss	Schedule A (Form 1040)
Nonbusiness bad debt	Schedule D (Form 1040)

do not have to include that part of the recovery in your income. For more information, see *Recoveries* in Publication 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. For a casualty loss, you should be able to show all the following.

1) The type of casualty (car accident, fire, storm, etc.) and when it occurred.
2) That the loss was a direct result of the casualty.
3) 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.

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

1) When you discovered that your property was missing.
2) That your property was stolen.
3) That you were the owner of the property.

RECORDS It is important that you have records that will prove your deduction. If you do not have the actual records to support your deduction, you can use other satisfactory evidence that is sufficient to establish your deduction.

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 more 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 is not 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. You can claim a casualty or theft loss of inventory, including items you hold for sale to customers, through the increase in the cost of goods sold by properly reporting your opening and closing inventories. Do not 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.

You can choose to deduct the loss separately. If you deduct it separately, eliminate the items from cost of goods sold by making a downward adjustment to opening inventory or purchases. Reduce the loss by the reimbursement you received. Do not include the reimbursement in gross income. If you do not 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 the discussion for 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 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 since 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 when stolen, and insurance did not cover them. Your theft loss is $150.

Recovered stolen property. Recovered 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 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 Publication 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. But other measures can also be used to establish certain decreases. See *Appraisal* and *Cost of cleaning up or making repairs,* next.

Appraisal. An appraisal to determine the difference between the FMV of the property immediately before a casualty or theft and immediately afterwards 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 Presidentially declared disaster to establish the amount of your disaster loss. For more information on disasters, see* Disaster Area Losses, *later.*

Appraisal fee. The appraisal fee is not a part of the casualty or theft loss. It is an expense in determining your tax liability. You can deduct your appraisal fees as a miscellaneous itemized deduction subject to the 2%-of-adjusted-gross-income limit on Schedule A (Form 1040).

Cost of cleaning up or making repairs. The cost of repairing damaged property is not 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 actually had the repairs made and you meet all the following conditions.

- The repairs are necessary to bring the property back to its condition before the casualty.
- The amount spent for repairs is not excessive.
- The repairs take care of the damage only.
- The value of the property after the repairs is not, 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 your car may be useful in figuring the value of your car. You can use the books' retail values and modify them by factors such as the mileage and condition of your car to figure its value. The prices are not "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 is not 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 is not usually a measure of its true value.

Figuring Decreases in FMV — Items Not To Consider

You generally should not 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 is not part of a casualty or theft loss. The amount you spend on insurance or to board up your house against a storm is not 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.

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, are not 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 is not 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 was not insured. Your loss is $100, the FMV of the chair before the fire. It is not $500, the replacement cost.

Sentimental value. Do not consider sentimental value when determining your loss. If a family portrait, heirloom, or keepsake is damaged, destroyed, or stolen, you must base your loss only on its fair market value.

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, is not 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.

Photographs. 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.

The cost of photographs obtained for this purpose is not a part of the loss. It is an expense in determining your tax liability. You can claim this cost 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 ***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 Publication 551.

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 Publication 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 do not 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 do not 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. Otherwise, you cannot deduct this loss as a casualty or theft.

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

Example. You have a car insurance policy with a $500 deductible. Because your insurance did not cover the first $500 of an auto collision, the $500 would be deductible (subject to the $100 and 10% rules discussed later). This is true, even if you do not file an insurance claim, because your insurance policy would never have reimbursed 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 be-

fore 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 do not 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 applied part of the cash gifts to the cost of repairing your home. There were no limits or restrictions on how you could use the cash gifts. Because it was received as excludable gifts, the money you received and used to pay for repairs to your home does not reduce your casualty loss on the damaged home.

Insurance payments for living expenses. You do not 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 do not 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 line 21 of Form 1040.

A temporary increase in your living expenses is the difference between the actual living expenses you and your family incurred during the period you could not 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 did not because of the casualty.

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 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	$225

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 1998. You regained use of your home in November 1999. The insurance payments you received in 1998 and 1999 were $1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 1999 Form 1040. If, in 2000, you receive further payments to cover the living expenses you had in 1998 and 1999, you must include those payments in income on your 2000 Form 1040.

Disaster relief. Food, medical supplies, and other forms of assistance you receive do not reduce your casualty loss, unless they are replacements for lost or destroyed property. They also are not taxable income to you.

Disaster unemployment assistance payments are unemployment benefits that are taxable.

Reimbursement Received After Deducting Loss

If you figured your casualty or theft loss using 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 an FMV of $2,000 when it was destroyed in a collision with another car last year. The accident was due to the negligence of the other driver. At the end of the year, there was a reasonable prospect that the owner of the other car would reimburse you in full. You did not have a deductible loss last year.

This January, 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 this year that is more than $100 and 10% of this year's adjusted gross income.

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

Example. Last year, a hurricane destroyed your motorboat. Your loss was $3,000, and you estimated that your insurance would cover $2,500 of it. Since you did not itemize deductions on your return last year, you could not deduct the loss. When the insurance company reimburses you for the loss, you do not report any of the reimbursement as income. This is true even if it is for the full $3,000 because you did not deduct the loss on your return. The loss did not reduce your tax.

CAUTION *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 receive exactly the reimbursement you expected to receive, you do not have any amount to include in your income or any loss to deduct.

Example. Last December, 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. As a result of your expected reimbursement from the insurance company, you did not have a casualty loss deduction last year.

Due to the $100 rule, you cannot deduct the $100 you paid as the deductible. When you receive the $850 from the insurance company this year, do not 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 $100 and 10% rules are also summarized in *Table 2.*

Losses on business property (other than employee property) and income-producing property are not subject to these rules.

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), must be reduced by 2% of your adjusted gross income. Employee property is property used in performing services as an employee.

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

		$100 Rule	10% Rule
General Application		You must reduce each casualty or theft loss by $100 when figuring your deduction. Apply this rule 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 after you reduce each loss by $100 (the $100 rule).
Single Event		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.
More Than One Event		Apply to the loss from each event.	Apply to the total of all your losses from all events.
More Than One Person— With Loss From the Same Event (other than a married couple filing jointly)		Apply separately to each person.	Apply separately to each person.
Married Couple— With Loss From the Same Event	Filing Jointly	Apply as if you were one person.	Apply as if you were one person.
	Filing Separately	Apply separately to each spouse.	Apply separately to each spouse.
More Than One Owner (other than a married couple filing jointly)		Apply separately to each owner of jointly owned property.	Apply separately to each owner of jointly owned property.

$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 does not matter how many pieces of property are involved in an event. Only a single $100 reduction applies.

Example. You have $250 deductible collision insurance on your car. The car is damaged in a collision. The insurance company pays you for the damage minus the $250 deductible. Your casualty loss for the collision is $150 ($250 – $100) because the first $100 of a casualty loss on personal-use property is not deductible.

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. **Loss before 10% rule**		**$1,600**

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 September, hurricane winds blew the roof from 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 are not 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 does not 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 on personal-use property by 10% of your adjusted gross income. Apply this rule after you reduce each loss by $100. 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 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 AGI	$2,950
5. **Theft loss deduction**	**–0–**

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

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 did not have collision insurance on your car, so you did not receive any insurance reimbursement. Your loss on the car was $1,200. 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 was $1,700. Your adjusted gross income is $25,000. You figure your casualty loss deduction as follows.

	Car	Basement
1. Loss	$1,200	$1,700
2. Subtract $100 per incident	100	100
3. Loss after $100 rule	$1,100	$1,600
4. Total loss		$2,700
5. Subtract 10% of $25,000 AGI		2,500
6. **Casualty loss deduction**		**$200**

Married taxpayers. If you and your spouse file a joint return, you are treated as one individual in applying the 10% rule. It does not 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 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.

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. Because your loss is more than your gain, 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 does not apply to your losses.

Example. Your theft loss after reducing it by reimbursements and by $100 is $600. 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.

More information. For information on how to figure recognized gains, see *Figuring a Gain,* later. Recognized gains do not include gains you choose to postpone. See *Postponement of 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, are considered together.

Example 1. In June, a fire destroyed your lakeside cottage, which cost $44,800 (including $4,500 for the land) several years ago. (Your land was not damaged.) This was your only casualty or theft loss for the year. The FMV of the property immediately before the fire was $80,000 ($45,000 for the cottage and $35,000 for the land). The FMV immediately after the fire was $35,000 (value of the land). You collected $30,000 from the insurance company. Your adjusted gross income is $40,000. Your deduction for the casualty loss is $10,700, figured in the following manner.

1. Adjusted basis of the entire property (cost in this example)	$44,800
2. FMV of entire property before fire	$80,000
3. FMV of entire property after fire	35,000
4. Decrease in FMV of entire property (line 2 – line 3)	$45,000
5. Amount of loss (smaller of line 1 or line 4)	$44,800
6. Subtract insurance	30,000
7. Loss after reimbursement	$14,800
8. Subtract $100	100
9. Loss after $100 rule	$14,700
10. Subtract 10% of $40,000 AGI	4,000
11. **Casualty loss deduction**	**$10,700**

Example 2. You bought your home a few years ago. You paid $50,000 ($10,000 for the land and $40,000 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 $75,000 before the fire, but only $15,000 after the fire. Shortly after the fire, the insurance company paid you $45,000 for the loss. Your adjusted gross income is $48,000. You figure your casualty loss deduction as follows.

1. Adjusted basis of the entire property (cost of land, building, and landscaping)	$52,000
2. FMV of entire property before fire	$75,000
3. FMV of entire property after fire	15,000
4. Decrease in FMV of entire property (line 2 – line 3)	$60,000
5. Amount of loss (smaller of line 1 or line 4)	$52,000
6. Subtract insurance	45,000
7. Loss after reimbursement	$7,000
8. Subtract $100	100
9. Loss after $100 rule	$6,900
10. Subtract 10% of $48,000 AGI	4,800
11. **Casualty loss deduction**	**$2,100**

Personal property. Personal property is generally any property that is not 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 casualty loss deduction.

Example 1. In August, a storm destroyed your pleasure boat, which cost you $8,500. This was your only casualty or theft loss for the year. Its FMV immediately before the storm was $7,000. You had no insurance, but were able to salvage the motor of the boat and sell it for $200. Your adjusted gross income is $52,000.

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)	$8,500
2. FMV before storm	$7,000
3. FMV after storm	200
4. Decrease in FMV (line 2 – line 3)	$6,800
5. Amount of loss (smaller of line 1 or line 4)	$6,800
6. Subtract insurance	–0–
7. Loss after reimbursement	$6,800
8. Subtract $100	100
9. Loss after $100 rule	$6,700
10. Subtract 10% of $52,000 AGI	5,200
11. **Casualty loss deduction**	**$1,500**

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 $10,000. The FMV of the car just before the accident was $7,500. Its FMV just after the accident was $80 (scrap value). Your insurance company reimbursed you $6,000.

Your watch was not insured. You had purchased it for $250. Its FMV just before the accident was $500. Your adjusted gross income is $31,000. Your casualty loss deduction is zero, figured as follows.

	Car	Watch
1. Adjusted basis (cost)	$10,000	$250
2. FMV before accident	$7,500	$500
3. FMV after accident	80	–0–
4. Decrease in FMV (line 2 – line 3)	$7,420	$500
5. Loss (smaller of line 1 or line 4)	$7,420	$250
6. Subtract insurance	6,000	–0–
7. Loss after reimbursement	$1,420	$250
8. Total loss		$1,670
9. Subtract $100		100
10. Loss after $100 rule		$1,570
11. Subtract 10% of $31,000 AGI		3,100
12. **Casualty loss deduction**		**–0–**

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. But you apply a single $100 reduction to the total loss. Then you apply the 10% rule.

Example. In July, a hurricane damaged your home, which cost you $64,000 including land. The FMV of the property (both building and land) immediately before the storm was $70,000 and its FMV immediately after the storm was $60,000. 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 $5,000 from the insurance company for the damage to your home, but your household furnishings were not insured. Your adjusted gross income is $44,000. You figure your casualty loss deduction from the hurricane in the following manner.

1. Adjusted basis of real property (cost in this example)	$64,000
2. FMV of real property before hurricane	$70,000
3. FMV of real property after hurricane	60,000
4. Decrease in FMV of real property (line 2 – line 3)	$10,000
5. Loss on real property (smaller of line 1 or line 4)	$10,000
6. Subtract insurance	5,000
7. Loss on real property after reimbursement	$5,000
8. Loss on furnishings	$600
9. Subtract insurance	–0–
10. Loss on furnishings after reimbursement	$600
11. Total loss (line 7 plus line 10)	$5,600
12. Subtract $100	100
13. Loss after $100 rule	$5,500
14. Subtract 10% of $44,000 AGI	4,400
15. **Casualty loss deduction**	**$1,100**

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. 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 $40,000. You made no further improvements or additions to it.

A flood in March damaged the entire building. The FMV of the building was $38,000 immediately before the flood and $32,000 afterwards. Your insurance company reimbursed you $4,000 for the flood damage. Depreciation on the business part of the building before the flood totaled $2,400. Your adjusted gross income is $25,000.

You have a deductible business casualty loss of $1,000. You do not have a deductible personal casualty loss because of the 10% rule. You figure your loss as follows.

	Business Part	Personal Part
1. Cost (total $40,000)	$20,000	$20,000
2. Subtract depreciation	2,400	–0–
3. Adjusted basis	$17,600	$20,000
4. FMV before flood (total $38,000)	$19,000	$19,000
5. FMV after flood (total $32,000)	16,000	16,000
6. Decrease in FMV (line 4 – line 5)	$3,000	$3,000
7. Amount of loss (smaller of line 3 or line 6)	$3,000	$3,000
8. Subtract insurance	2,000	2,000
9. Loss after reimbursement	$1,000	$1,000
10. Subtract $100 on personal-use property	–0–	100
11. Loss after $100 rule	$1,000	$900
12. Subtract 10% of $25,000 AGI on personal-use property	–0–	2,500
13. **Deductible business loss**	**$1,000**	
14. **Deductible personal loss**		**–0–**

Figuring a Gain

If you receive insurance 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 later), minus
- Your adjusted basis in the property at the time of the casualty or theft.

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 $45,000. You received $40,000 in cash. The remaining $5,000 was paid directly to the holder of a mortgage on the property. The reimbursement you received includes the $5,000 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. For information on this exclusion, see Publication 523. If your gain is more than the amount you can exclude, but you buy replacement property, you may be able to postpone 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. But you do not have to report your gain if you meet certain requirements and choose to postpone the gain according to the rules explained under *Postponement of Gain,* later.

For information on how to report a gain, see *How To Report Gains and Losses,* later.

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

Postponement of Gain

Do not 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 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. But 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 can also 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 the gain if you spend the reimbursement to restore the property.

To postpone 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 1955, you bought an oceanfront cottage for your personal use at a cost of $8,000. 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 $138,000 ($146,000 – $8,000).

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 cannot 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 casualties and thefts occurring ***after*** the following dates.

1) February 5, 1995, for C corporations and partnerships in which more than 50% of the capital or profits interest is owned by C corporations.
2) June 8, 1997, for all others (including individuals, partnerships —other than those in (1) above— 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 (2) above, gains cannot 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 does not 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 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 Publication 544.

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

You do not 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 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 are not considered to have bought replacement property unless it is finished before the end of the replacement period. See *Replacement period,* later.

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

Timber loss. Standing timber 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 is not 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 to or destruction of your main home (or its contents) if located in a federally declared disaster area. See *Disaster Area Losses,* later.

Owner-investor. If you are an owner-investor, similar or related in service or use means that any replacement property must have the same relationship of services or uses to you as the property it replaces. You decide this by determining 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 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 federal 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 a business is treated as similar or related in service or use to the destroyed property. 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 the tax on your entire gain if the cost of the stock that gives you controlling interest is at least as much as the amount realized (reimbursement) for your property. You have 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. For casualties or thefts, 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 are not required to reduce the adjusted bases 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) above.
3) All other property.

If two or more properties fall in class (1), (2), or (3), 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 cannot be less than zero.

Main home replaced. If your gain from a casualty loss 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 the excess gain by buying replacement property that is similar or related in service or use. To postpone all the gain, the replacement property must cost at least as much as the amount you received from the casualty minus the excluded gain.

You must reduce the basis of your replacement property by the amount of postponed gain. Also, if you postpone 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. Your basis in replacement property is its cost minus any gain postponed. In this way, tax on the gain is postponed until you dispose of the replacement property.

Example. A fire destroyed your home. 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 home constructed for $70,000 within the time limit, you can postpone reporting the gain. You will have reinvested all the reimbursement (including your entire gain) in your new home. Your basis for the new home will be $65,000 ($70,000 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.

Main home in disaster area. For your main home (or its contents) located in a federally declared disaster area, the replacement period 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 1. You are a calendar year taxpayer. A hurricane destroyed your home in September 2000. In December 2000, the insurance company paid you $3,000 more than the adjusted basis of your home. The area in which your home is located is not a federally declared disaster area. Because you first realized a gain from the reimbursement for the casualty in 2000, you have until December 31, 2002, to replace the property. If your home had been in a federally declared disaster area, you would have until December 31, 2004, to replace the property.

Example 2. 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 August 11, 2000. Your insurance company investigated the theft and did not settle your claim until January 3, 2001, when they paid you $3,000. Because you first realized a gain from the reimbursement for the theft during 2001, you have until December 31, 2003, to replace the property.

Extension. You may get an extension of the replacement period if you apply to the director of the Internal Revenue Service for your area. 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 are not 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 is not sufficient grounds for granting an extension. If your replacement property is being constructed and you clearly show that the replacement or restoration cannot be made within the replacement period, you may be granted an extension of the period.

How To Postpone a Gain

You postpone 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.

Table 3. **When To Deduct a Loss**

IF you have a loss. . .	THEN deduct it in the year. . .
On a deposit treated as a:	
• Casualty	• A reasonable estimate can be made
• Bad debt	• Deposits are totally worthless
• Ordinary loss	• A reasonable estimate can be made
From a casualty	The loss occurred
In a federal disaster area	The disaster occurred or the year immediately before the disaster
From a theft	The theft was discovered

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

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

- 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 should also 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 bought in that year.

Substituting replacement property. Once you have acquired qualified replacement property that you designate as replacement property, you cannot later substitute other qualified replacement property. This is true even if you acquire the other property within the replacement period. The designation is made by the statement with your return reporting that you have acquired replacement property. However, if you discover that the original replacement property was not 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 do not acquire replacement property within the required replacement period. On this amended return, you must report the gain and pay any additional tax due.
- You acquire replacement property within the required replacement period but at a cost less than the amount you receive from the casualty or theft. On this amended return, you must report the portion of the gain that cannot 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 do not intend to replace the property.
- You did not replace the property within the specified period of time.

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 cannot postpone the gain by buying replacement property.

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

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

To postpone your gain, file an amended return for last year 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 Gain or Loss

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 the gain as explained earlier.

Casualty loss. Generally, you can deduct a casualty loss only in the tax year in which the casualty occurred. This is true even if you do not repair or replace the damaged property until a later year. (But see *Disaster Area Losses,* later.)

Theft loss. You generally can deduct theft losses only in the year you discover your property was stolen. You must be able to show there was a theft, but you do not have to know when the theft occurred. However, you should show when you discovered that your property was missing.

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 your loss is on leased property and you were liable to the owner for the loss, you can deduct the loss only in the year in which the liability becomes fixed. This is true even if the loss occurred or the liability was paid in a different year.

Disaster Area Losses

This section discusses the special rules that apply to Presidentially declared disaster area losses. It contains information on when you can deduct your loss, how to claim your loss, and the treatment of your home in a disaster area. It also lists Federal Emergency Management Agency (FEMA) phone numbers. (See *Contacting the Federal Emergency Management Agency (FEMA),* later.)

A ***Presidentially declared disaster*** is a disaster that occurred in an area declared by the President to be eligible for federal assistance under the Disaster Relief and Emergency Assistance Act.

When to deduct the loss. If you have a casualty loss from a disaster that occurred in a Presidentially declared disaster area, you can choose to deduct that loss on your return or amended return for the tax year immediately preceding the tax year in which the disaster happened. If you make this choice, the loss is treated as having occurred in the preceding year.

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.

If you do not choose to deduct your loss on your return for the earlier year, deduct it on your return for the year in which the disaster occurred.

Example. You are a calendar year taxpayer. A flood damaged your home this June. The flood damaged or destroyed a consider-

able amount of property in your town. The town was declared a federal disaster area as a result of the flood. You can choose to deduct the flood loss on your home on last year's tax return.

Disaster loss to inventory. If your inventory loss is from a disaster in an area declared by the President of the United States to be eligible for federal assistance, you may choose 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 will not be reported again in inventories.

Home made unsafe by disaster. If your home is located in a federal 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.) 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.

You do not have a casualty loss if your home is unsafe due to dangerous conditions existing before the disaster. (For example, the location of your house is in an area known for severe storms.) This is true even if your home is condemned.

Example. Because of a severe storm, the county you live in is declared 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.

How to deduct your loss in the preceding year. If you choose to deduct your loss on your return or amended return for the tax year immediately preceding the tax year in which the disaster happened, include a statement saying that you are making that choice. The statement can be made on the return or can be filed with the return. The statement should specify the date or dates of the disaster and the city, town, county, and state where the damaged or destroyed property was located at the time of the disaster.

Time limit for making choice. You must make this choice to take your casualty loss for the disaster in the preceding year by the later of the following dates.

- The due date (without extensions) for filing your income tax return for the tax year in which the disaster actually occurred.
- The due date (with extensions) for the return for the preceding tax year.

Example. If you are a calendar year taxpayer, you ordinarily have until April 16, 2001, to amend your 1999 tax return to claim a casualty loss that occurred during 2000.

Revoking your choice. You can revoke your choice within 90 days after making it by returning to the Internal Revenue Service any refund or credit you received from making the choice. However, if you revoke your choice before receiving a refund, you must return the refund within 30 days after receiving it for the revocation to be effective.

Figuring the loss deduction. 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 home and destroyed your furniture. This was your only casualty loss for the year. The area was later determined to warrant federal assistance. The cost of your home and land was $34,000. The FMV immediately before the disaster was $47,500 and the FMV immediately afterwards was $15,000. 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 did not cover this type of casualty loss, and you expect no reimbursement for either your home or your furniture.

You choose to amend your previous year's return to claim your casualty loss for the disaster. Your adjusted gross income was $40,000. You figure your casualty loss as follows:

	House	Furnishings
1. Cost	$34,000	$10,000
2. FMV before disaster	$47,500	$8,000
3. FMV after disaster	15,000	5,000
4. Decrease in FMV (line 2 – line 3)	$32,500	$3,000
5. Smaller of line 1 or line 4	$32,500	$3,000
6. Subtract estimated insurance	–0–	–0–
7. Loss after reimbursement	$32,500	$3,000
8. Total loss		$35,500
9. Subtract $100		100
10. Loss after $100 rule		$35,400
11. Subtract 10% of $40,000 AGI		4,000
12. **Amount of casualty loss deduction**		**$31,400**

Claiming a disaster loss on an amended return. 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.

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 and you did not 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) along with Form 4684, to your amended return. Fill out Form 1040X to refigure your tax on the rest of the form to find your refund.

Records. You should keep the records that support your loss deduction. You do not have to attach them to the amended return.

Grants. You do not have to include grants received under the Disaster Relief and Emergency Assistance Act in your gross income. However, you cannot deduct a casualty loss to the extent you are specifically reimbursed for it by the grant.

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

Special rules for main home in a disaster area. Special rules regarding gains may apply to insurance proceeds you receive because of the damage to or destruction of your main home (whether owned or rented) or its contents. For a discussion of these rules, see *Gains Realized on Homes in Disaster Areas* in the instructions for Form 4684.

Interest abatement on underpayments in disaster areas. The IRS will abate interest for the length of the extension period granted to all taxpayers who meet both of the following requirements.

1) They were located in an area declared a disaster area by the President after 1997.

2) They were granted extensions to file income tax returns and pay income tax for tax years beginning after 1997.

For individuals living in an area declared a disaster area by the President during 1998, the IRS will also abate interest on income tax for the length of any extension period granted for filing their 1997 income tax returns and paying income tax for that year.

Contacting the Federal Emergency Management Agency (FEMA)

If you need to contact FEMA for general information, call **1–800–372–4792** or visit their web site at **www.fema.gov**.

If you live in an area that was declared a disaster area by the President, you can get information from FEMA by calling the following phone numbers. These numbers are only activated after a Presidentially declared disaster.

- **1–800–462–9029**
- **1–800–462–7585** if you are a TTY/TDD user

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
- Schedule A (Form 1040), *Itemized Deductions*

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

- Form 4684
- Schedule D (Form 1040), *Capital Gains and Losses*

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 are not otherwise required to file Form 4797, only enter the net gain or loss on page 1 of Form 1040. Partnerships and S corporations should see 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. Individuals report the net gain or loss as an ordinary gain or loss on Form 4797, *Sales of Business Property.* If you are not otherwise required to file Form 4797, only enter the net gain or loss on page 1 of Form 1040. 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. Individuals may also have to report the gain on Schedule D depending on whether they 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 chapter 3 in Publication 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.

You must increase your basis in the property by the amount you spend on repairs that substantially prolong the life of the property, increase its value, or adapt it to a different use. To make this determination, compare the repaired property to the property before the casualty. See *Adjusted Basis* in Publication 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 do not have to be in business to have an NOL from a casualty or theft loss. For more information, see Publication 536, *Net Operating Losses (NOLs) for Individuals, Estates, and Trusts.*

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed)* to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs)* to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)).*
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business)* to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business)* to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov**.

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does

not keep a record of any taxpayer's name or tax identification number.

- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

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  Bloomington, IL 61702–8903
- **Eastern part of U.S. and foreign addresses:**
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CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1–877–233–6767** or on the Internet at **www.irs.gov/cdorders.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *The Small Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676** or visiting the IRS web site at **www.irs.gov/prod/bus_info/sm_bus/smbus-cd.html**.

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Department of the Treasury

Internal Revenue Service

Publication 551
(Rev. December 2000)
Cat. No. 15094C

Basis of Assets

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Introduction

Basis is the amount of your investment in property for tax purposes. Use the basis of property to figure depreciation, amortization, depletion, and casualty losses. Also use it to figure gain or loss on the sale or other disposition of property. You must keep accurate records of all items that affect the basis of property so you can make these computations.

This publication is divided into the following three sections.

- Cost Basis.
- Adjusted Basis.
- Basis Other Than Cost.

The basis of property you buy is usually its cost. You may also have to capitalize (add to basis) certain other costs related to buying or producing the property.

Your original basis in property is adjusted (increased or decreased) by certain events. If you make improvements to the property, increase your basis. If you take deductions for depreciation or casualty losses, reduce your basis.

You cannot determine your basis in some assets by cost. This includes property you receive as a gift or inheritance. It also applies to property received in an involuntary conversion and certain other circumstances.

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

You can e-mail us while visiting our web site at **www.irs.gov/help/email2.html**.

You can write to us at the following address:

Internal Revenue Service
Technical Publications Branch
W:CAR:MP:FP:P
1111 Constitution Ave. NW
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Useful Items

You may want to see:

Publication

- ☐ **463** Travel, Entertainment, Gift, and Car Expenses
- ☐ **523** Selling Your Home
- ☐ **525** Taxable and Nontaxable Income
- ☐ **527** Residential Rental Property
- ☐ **530** Tax Information for First-Time Homeowners
- ☐ **535** Business Expenses
- ☐ **537** Installment Sales
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **550** Investment Income and Expenses
- ☐ **559** Survivors, Executors, and Administrators
- ☐ **564** Mutual Fund Distributions
- ☐ **587** Business Use of Your Home
- ☐ **946** How To Depreciate Property

Form (and Instructions)

- ☐ **706-A** United States Additional Estate Tax Return
- ☐ **8594** Asset Acquisition Statement

See *How To Get Tax Help* near the end of this publication for information about getting publications and forms.

Cost Basis

Terms you may need to know (see Glossary):

Business assets
Nonbusiness assets
Real property
Unstated interest

The basis of property you buy is usually its cost. The cost is the amount you pay in cash, debt obligations, other property, or services. Your cost also includes amounts you pay for the following items.

- Sales tax.
- Freight.
- Installation and testing.
- Excise taxes.
- Legal and accounting fees (when they must be capitalized).
- Revenue stamps.
- Recording fees.
- Real estate taxes (if assumed for the seller).

You may also have to capitalize certain other costs related to buying or producing property.

Loans with low or no interest. If you buy property on any time-payment plan that charges little or no interest, the basis of your property is your stated purchase price, minus the amount considered to be unstated interest. You generally have unstated interest if your interest rate is less than the applicable federal rate. See the discussion of unstated interest in Publication 537.

Purchase of a business. When you purchase a trade or business, you generally purchase all assets used in the business operations, such as land, buildings, and machinery. Spread the price among the various assets including any section 197 intangibles, such as goodwill. See *Allocating the Basis,* later.

Stocks and Bonds

The basis of stocks or bonds you buy is generally the purchase price plus any costs of purchase, such as commissions and recording or transfer fees. If you get stocks or bonds other than by purchase, your basis is usually determined by the fair market value (FMV) or the previous owner's adjusted basis.

You must adjust the basis of stocks for certain events that occur after purchase. See *Stocks and Bonds* in chapter 4 of Publication 550 for more information on basis.

Identifying stock or bonds sold. If you can adequately identify the shares of stock or the bonds you sold, their basis is the cost or other basis of the particular shares of stock or bonds. If you buy and sell securities at various times in varying quantities and you cannot adequately identify the shares you sell, the basis of the securities you sell is the basis of the securities you acquired first. For more information about identifying securities you sell, see *Stocks and Bonds* under *Basis of Investment Property* in chapter 4 of Publication 550.

Mutual fund shares. If you sell mutual fund shares acquired at different times and prices, you can choose to use an average basis. For more information, see *Average Basis* in Publication 564.

Real Property

If you buy real property, certain fees and other expenses become part of your cost basis in the property.

Real estate taxes. If you pay the real estate taxes the seller owed on real property you bought, and the seller did not reimburse you, treat those taxes as part of your basis. You cannot deduct them as taxes.

If you reimburse the seller for taxes the seller paid for you, you can usually deduct that amount as an expense in the year of purchase. Do not include that amount in the basis of the property. If you did not reimburse the seller, you must reduce your basis by the amount of those taxes.

Settlement costs. You can include in the basis of property you buy the settlement fees and closing costs that are for buying the property. You cannot include fees and costs for getting a loan on the property. (A fee for buying property is a cost that must be paid even if you bought the property for cash.)

The following items are some of the settlement fees or closing costs you can include in the basis of your property.

- Abstract fees (abstract of title fees).
- Charges for installing utility services.
- Legal fees (including title search and preparation of the sales contract and deed).
- Recording fees.
- Surveys.
- Transfer taxes.
- Owner's title insurance.
- Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

Settlement costs ***do not include*** amounts placed in escrow for the future payment of items such as taxes and insurance.

The following items are some settlement fees and closing costs you ***cannot*** include in the basis of the property.

1) Fire insurance premiums.
2) Rent for occupancy of the property before closing.
3) Charges for utilities or other services related to occupancy of the property before closing.
4) Charges connected with getting a loan. The following are examples of these charges.
   a) Points (discount points, loan origination fees).
   b) Mortgage insurance premiums.
   c) Loan assumption fees.
   d) Cost of a credit report.
   e) Fees for an appraisal required by a lender.
5) Fees for refinancing a mortgage.

If these costs relate to business property, items (1) through (3) are deductible as business expenses. Items (4) and (5) must be capitalized as costs of getting a loan and can be deducted over the period of the loan.

Points. If you pay points to obtain a loan (including a mortgage, second mortgage, line of credit, or a home equity loan), do not add the points to the basis of the related property. Generally, you deduct the points over the term of the loan. For more information on how to deduct points, see *Points* in chapter 5 of Publication 535.

Points on home mortgage. Special rules may apply to points you and the seller pay when you obtain a mortgage to purchase your main home. If certain requirements are met, you can deduct the points in full for the year in which they are paid. Reduce the basis of your home by any seller-paid points. For more information, see *Points* in Publication 936, *Home Mortgage Interest Deduction.*

Assumption of mortgage. If you buy property and assume (or buy subject to) an existing mortgage on the property, your basis includes the amount you pay for the property plus the amount to be paid on the mortgage.

Example. If you buy a building for $20,000 cash and assume a mortgage of $80,000 on it, your basis is $100,000.

Constructing assets. If you build property or have assets built for you, your expenses for this construction are part of your basis. Some of these expenses include the following items.

- The cost of land.
- The cost of labor and materials.
- Architect's fees.
- Building permit charges.
- Payments to contractors.
- Payments for rental equipment.
- Inspection fees.

In addition, if you own a business and use your employees, material, and equipment to build an asset, your basis would also include the following costs.

1) Employee wages paid for the construction work.
2) Depreciation on equipment you own while it is used in the construction.
3) Operating and maintenance costs for equipment used in the construction.
4) The cost of business supplies and materials used in the construction.

Do not deduct these expenses. You must capitalize them (include them in the asset's basis). Also, reduce your basis by any work opportunity credit, welfare-to-work credit, Indian employment credit, or empowerment zone employment credit allowable on the wages you pay in (1), above. For information about these credits, see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities.*

CAUTION *Do not include the value of your own labor, or any other labor you did not pay for, in the basis of any property you construct.*

Business Assets

Terms you may need to know (see Glossary):

Amortization
Capital assets
Capital expenses
Capitalization
Depletion
Depreciation
Fair market value
Going concern value
Goodwill
Intangible property
Personal property
Recapture
Section 179 deduction
Section 197 intangibles
Tangible property

If you purchase property to use in your business, your basis is usually its actual cost to you. If you construct, create, or otherwise produce property, you must capitalize the costs as your basis. In certain circumstances, you may be subject to the uniform capitalization rules, next.

Uniform Capitalization Rules

The uniform capitalization rules specify the costs you add to basis in certain circumstances.

Who must use. You must use the uniform capitalization rules if you do any of the following in your trade or business or activity carried on for profit.

- Produce real or tangible personal property for use in the business or activity.
- Produce real or tangible personal property for sale to customers.
- Acquire property for resale.

You produce property if you construct, build, install, manufacture, develop, improve, create, raise or grow the property. Treat the property produced for you under a contract as produced by you up to the amount you pay or costs you otherwise incur for the property. Tangible personal property includes films, sound recordings, video tapes, books, or similar property.

Under the uniform capitalization rules, you must capitalize all direct costs and an allocable part of most indirect costs you incur due to your production or resale activities. The term ***capitalize*** means to include certain expenses in the basis of property you produce or in your inventory costs rather than deduct them as a current expense. You can recover these costs through depreciation, amortization, or cost of goods sold when you use, sell, or otherwise dispose of the property.

Any cost that you could not use to figure your taxable income for any tax year is not subject to the uniform capitalization rules.

Example. If you incur a business meal expense for which your deduction would be limited to 50% of the cost of the meal, that amount is subject to the uniform capitalization rules. The part of the cost that is not deductible is not subject to the uniform capitalization rules.

More information. For more information about these rules, see the regulations under section 263A of the Internal Revenue Code and Publication 538, *Accounting Periods and Methods.*

Exceptions. The following are not subject to the uniform capitalization rules.

1) Property you produce that you do not use in your trade, business, or activity conducted for profit.
2) Qualified creative expenses you pay or incur as a free-lance (self-employed) writer, photographer, or artist that are otherwise deductible on your tax return.
3) Property you produce under a long-term contract, except for certain home construction contracts.
4) Research and experimental expenses allowable as a deduction under section 174 of the Internal Revenue Code.
5) Costs for personal property acquired for resale if your (or your predecessor's) average annual gross receipts for the 3 previous tax years do not exceed $10 million.

For other exceptions to the uniform capitalization rules, see section 1.263A-1(b) of the regulations.

For information on the special rules that apply to costs incurred in the business of farming, see chapter 7 of Publication 225, *Farmer's Tax Guide.*

Intangible Assets

Intangible assets include goodwill, patents, copyrights, trademarks, trade names, and franchises. The basis of an intangible asset is usually the cost to buy or create it. If you acquire multiple assets, for example a going business for a lump sum, see *Allocating the Basis,* later, to figure the basis of the individual assets. The basis of certain intangibles can be amortized. See chapter 9 of Publication 535 for information on the amortization of these costs.

Patents. The basis of a patent you get for your invention is the cost of development, such as research and experimental expenditures, drawings, working models, and attorneys' and governmental fees. If you deduct the research and experimental expenditures as current business expenses, you cannot include them in the basis of the patent. The value of the inventor's time spent on an invention is not part of the basis.

Copyrights. If you are an author, the basis of a copyright will usually be the cost of getting the copyright plus copyright fees, attorneys' fees, clerical assistance, and the cost of plates that remain in your possession. Do not include the value of your time as the author, or any other person's time you did not pay for.

Franchises, trademarks, and trade names. If you buy a franchise, trademark, or trade name, the basis is its cost, unless you can deduct your payments as a business expense.

Allocating the Basis

If you buy multiple assets for a lump sum, allocate the amount you pay among the assets you receive. Make this allocation to figure your basis for depreciation and gain or loss on a later disposition of any of these assets. See *Trade or Business Acquired,* later.

Group of Assets Acquired

If you buy multiple assets for a lump sum, you and the seller may agree to a specific allocation of the purchase price among the assets in the sales contract. If this allocation is based on the value of each asset and you and the seller have adverse tax interests, the allocation generally will be accepted. However, see *Trade or Business Acquired,* next.

Trade or Business Acquired

If you acquire a trade or business, allocate the purchase price to the various assets acquired.

For asset acquisitions occurring ***after January 5, 2000,*** the allocation must be made among the following assets in proportion to (but not more than) their fair market value on the purchase date in the following order.

1) Certificates of deposit, U.S. Government securities, foreign currency, and actively traded personal property, including stock and securities.

2) Accounts receivable, mortgages, and credit card receivables that arose in the ordinary course of business.

3) Property of a kind that would properly be included in inventory if on hand at the end of the tax year and property held by the taxpayer primarily for sale to customers in the ordinary course of business.

4) All other assets except section 197 intangibles, goodwill, and going concern value.

5) Section 197 intangibles except goodwill and going concern value.

6) Goodwill and going concern value (whether or not they qualify as section 197 intangibles).

For asset acquisitions occurring ***before January 6, 2000,*** the allocation must be made among the following assets in proportion to (but not more than) their fair market value on the purchase date in the following order.

1) Certificates of deposit, U.S. Government securities, foreign currency, and actively traded personal property, including stock and securities.

2) Accounts receivable, mortgages, and credit card receivables that arose in the ordinary course of business.

3) Property of a kind that would properly be included in inventory if on hand at the end of the tax year and property held by the taxpayer primarily for sale to customers in the ordinary course of business.

4) All other assets except section 197 intangibles, goodwill, and going concern value.

5) Section 197 intangibles except goodwill and going concern value.

6) Section 197 intangibles in the nature of goodwill and going concern value.

Agreement. The buyer and seller may enter into a written agreement as to the allocation of any consideration or the FMV of any of the assets. This agreement is binding on both parties unless the IRS determines the amounts are not appropriate.

Reporting requirement. Both the buyer and seller involved in the sale of business assets must report to the IRS the allocation of the sales price among section 197 intangibles and the other business assets. Use ***Form 8594*** to provide this information. The buyer and seller should each attach Form 8594 to their federal income tax return for the year in which the sale occurred.

More information. See *Sale of a Business* in chapter 2 of Publication 544 for more information.

Land and Buildings

If you buy buildings and the land on which they stand for a lump sum, allocate the basis of the property among the land and the buildings so you can figure the depreciation allowable on the buildings.

Figure the basis of each asset by multiplying the lump sum by a fraction. The numerator is the FMV of that asset and the denominator is the FMV of the whole property at the time of purchase. If you are not certain of the FMV of the land and buildings, you can allocate the basis based on their assessed values for real estate tax purposes.

Demolition of building. Add demolition costs, and other losses incurred for the demolition of any building, to the basis of the land on which the demolished building was located. Do not claim the costs as a current deduction.

Modification of building. A modification of a building will not be treated as a demolition if the following conditions are satisfied.

- 75 percent or more of the existing external walls of the building are retained in place as internal or external walls.
- 75 percent or more of the existing internal structural framework of the building is retained in place.

If the building is a ***certified historic structure*** the modification must also be part of a certified rehabilitation.

If these conditions are met, add the costs of the modifications to the basis of the building.

Subdivided lots. If you buy a tract of land and subdivide it, you must determine the basis of each lot. This is necessary because you must figure the gain or loss on the sale of each individual lot. As a result, you do not recover the entire cost in the tract until you have sold all of the lots.

To determine the basis of an individual lot, multiply the total cost of the tract by a fraction. The numerator is the FMV of the lot and the denominator is the FMV of the entire tract.

Future improvement costs. If you are a developer and sell subdivided lots before the development work is completed, you can (with IRS consent) include, in the basis of the properties sold, an allocation of the estimated future cost for common improvements. See Revenue Procedure 92–29 for more information, including an explanation of the procedures for getting consent from the IRS.

Use of erroneous cost basis. If you made a mistake in figuring the cost basis of subdivided lots sold in previous years, you cannot correct the mistake for years for which the statute of limitations has expired. Figure the basis of any remaining lots by allocating the correct original cost basis of the entire tract among the original lots.

Example. You bought a tract of land to which you assigned a cost of $15,000. You subdivided the land into 15 building lots of equal size and equitably divided your basis so that each lot had a basis of $1,000. You treated the sale of each lot as a separate transaction and figured gain or loss separately on each sale.

Several years later you determine that your original basis in the tract was $22,500 and not $15,000. You sold eight lots using $8,000 of basis in years for which the statute of limitations has expired. You now can take $1,500 of basis into account for figuring gain or loss only on the sale of each of the remaining seven lots ($22,500 basis divided among all 15 lots). You cannot refigure the basis of the eight lots sold in tax years barred by the statute of limitations.

Adjusted Basis

Before figuring gain or loss on a sale, exchange, or other disposition of property or figuring allowable depreciation, depletion, or amortization, you must usually make certain adjustments to the basis of the property. The result of these adjustments to the basis is the adjusted basis.

Increases to Basis

Increase the basis of any property by all items properly added to a capital account. These include the cost of any improvements having a useful life of more than 1 year.

Rehabilitation expenses also increase basis. However, you must subtract any rehabilitation credit allowed for these expenses before you add them to your basis. If you have to recapture any of the credit, increase your basis by the recapture amount.

If you make additions or improvements to business property, keep separate accounts for them. Also, depreciate the basis of each according to the depreciation rules that would apply to the underlying property had you placed it in service at the same time you placed the addition or improvement in service. For more information, see Publication 946.

The following items increase the basis of property.

- The cost of extending utility service lines to the property.
- Legal fees, such as the cost of defending and perfecting title.
- Legal fees for obtaining a decrease in an assessment levied against property to pay for local improvements.
- Zoning costs.
- The capitalized value of a redeemable ground rent.

Assessments for Local Improvements

Increase the basis of property by assessments for items such as paving roads and building ditches that increase the value of the property assessed. Do not deduct them as taxes. However, you can deduct as taxes charges for maintenance, repairs, or interest charges related to the improvements.

Example. Your city changes the street in front of your store into an enclosed pedestrian mall and assesses you and other affected landowners for the cost of the conversion. Add the assessment to your property's basis. In this example, the assessment is a depreciable asset.

Deducting vs. Capitalizing Costs

Do not add to your basis costs you can deduct as current expenses. For example, amounts paid for incidental repairs or maintenance that are deductible as business ex-

penses cannot be added to basis. However, you can choose either to deduct or to capitalize certain other costs. If you capitalize these costs, include them in your basis. If you deduct them, do not include them in your basis. (See *Uniform Capitalization Rules,* earlier.)

The costs you can choose to deduct or to capitalize include the following.

- Carrying charges, such as interest and taxes, that you pay to own property, except carrying charges that must be capitalized under the uniform capitalization rules.
- Research and experimentation costs.
- Intangible drilling and development costs for oil, gas, and geothermal wells.
- Exploration costs for new mineral deposits.
- Mining development costs for a new mineral deposit.
- Costs of establishing, maintaining, or increasing the circulation of a newspaper or other periodical.
- Cost of removing architectural and transportation barriers to people with disabilities and the elderly. If you claim the disabled access credit, you must reduce the amount you deduct or capitalize by the amount of the credit.

For more information about deducting or capitalizing costs, see chapter 8 in Publication 535.

Decreases to Basis

The following items reduce the basis of property.

- Section 179 deduction.
- Deduction for clean-fuel vehicles and refueling property.
- Nontaxable corporate distributions.
- Deductions previously allowed (or allowable) for amortization, depreciation, and depletion.
- Exclusion of subsidies for energy conservation measures.
- Credit for qualified electric vehicles.
- Postponed gain from sale of home.
- Investment credit (part or all) taken.
- Casualty and theft losses and insurance reimbursements.
- Certain canceled debt excluded from income.
- Rebates received from a manufacturer or seller.
- Easements.
- Gas-guzzler tax.
- Tax credit or refund for buying a diesel-powered highway vehicle.
- Adoption tax benefits.

Some of these items are discussed next.

Casualties and Thefts

If you have a casualty or theft loss, decrease the basis in your property by the amount of any insurance or other reimbursement and by any deductible loss not covered by insurance.

Table 1. **Examples of Increases and Decreases to Basis**

Increases to Basis	Decreases to Basis
Capital improvements: Putting an addition on your home Replacing an entire roof Paving your driveway Installing central air conditioning Rewiring your home	Exclusion from income of subsidies for energy conservation measures
Assessments for local improvements: Water connections Sidewalks Roads	Casualty or theft loss deductions and insurance reimbursements
Casualty losses: Restoring damaged property	Credit for qualified electric vehicles
Legal fees: Cost of defending and perfecting a title	Section 179 deduction
Zoning costs	Deduction for clean-fuel vehicles and clean-fuel vehicle refueling property
	Depreciation
	Nontaxable corporate distributions

You must increase your basis in the property by the amount you spend on repairs that substantially prolong the life of the property, increase its value, or adapt it to a different use. To make this determination, compare the repaired property to the property before the casualty. For more information on casualty and theft losses, see Publication 547, *Casualties, Disasters, and Thefts.*

Easements

The amount you receive for granting an easement is generally considered to be a sale of an interest in real property. It reduces the basis of the affected part of the property. If the amount received is more than the basis of the part of the property affected by the easement, reduce your basis in that part to zero and treat the excess as a recognized gain.

Credit for Qualified Electric Vehicles

If you claim the credit for a qualified electric vehicle, you must reduce your basis in that vehicle by the lesser of the following amounts.

- $4,000.
- 10% of the vehicle's cost.

This basis reduction rule applies even if the credit allowed is less than the reduction. For more information on this credit, see chapter 12 in Publication 535.

Gas-Guzzler Tax

Decrease the basis in your car by the gas-guzzler (fuel economy) tax if you begin using the car within 1 year of the date of its first sale for ultimate use. This rule also applies to someone who later buys the car and begins using it not more than 1 year after the original sale for ultimate use. If the car is imported, the one-year period begins on the date of entry or withdrawal of the car from the warehouse if that date is ***later*** than the date of the first sale for ultimate use.

Diesel-Powered Vehicle

If you received an income tax credit or refund for a diesel-powered highway vehicle purchased before August 21, 1996, reduce your basis in that vehicle by the credit or refund allowable.

Section 179 Deduction

If you take the section 179 deduction for all or part of the cost of qualifying business property, decrease the basis of the property by the deduction. For more information about the section 179 deduction, see Publication 946.

Deduction for Clean-Fuel Vehicles and Refueling Property

If you take the deduction for clean-fuel vehicles or clean-fuel vehicle refueling property, decrease the basis of the property by the amount of the deduction. For more information about these deductions, see chapter 12 in Publication 535.

Exclusion of Subsidies for Energy Conservation Measures

You can exclude from gross income any subsidy you received from a public utility company for the purchase or installation of any energy conservation measure for a dwelling unit. Reduce the basis of the property for which you received the subsidy by the excluded amount. For more information on this subsidy, see Publication 525.

Depreciation

Decrease the basis of property by the depreciation you deducted, or could have deducted, on your tax returns under the method of depreciation you chose. If you took less depreciation than you could have under the method chosen, decrease the basis by the amount you could have taken under that method. If you did not take a depreciation deduction, reduce the basis by the full amount of the depreciation you could have taken.

If you deducted more depreciation than you should have, decrease your basis by the amount equal to the depreciation you should have deducted plus the part of the excess depreciation you deducted that actually reduced your tax liability for the year.

In decreasing your basis for depreciation, take into account the amount deducted on your tax returns as depreciation and any depreciation capitalized under the uniform capitalization rules.

For information on figuring depreciation, see Publication 946.

If you are claiming depreciation on a business vehicle, see Publication 463. If the car is not used more than 50% for business during the tax year, you may have to recapture excess depreciation. Include the excess depreciation in your gross income and add it to your basis in the property. For information on the computation of excess depreciation, see chapter 4 in Publication 463.

Canceled Debt Excluded From Income

If a debt you owe is canceled or forgiven, other than as a gift or bequest, you generally must include the canceled amount in your gross income for tax purposes. A debt includes any indebtedness for which you are liable or which attaches to property you hold.

You can exclude your canceled debt from income in the following situations.

1) Debt canceled in a bankruptcy case or when you are insolvent.
2) Qualified farm debt.
3) Qualified real property business debt (provided you are not a C corporation).

If you exclude from income canceled debt under situation (1) or (2), you may have to reduce the basis of your depreciable and nondepreciable property. However, in situation (3), you ***must*** reduce the basis of your depreciable property by the excluded amount.

For more information about canceled debt in a bankruptcy case or during insolvency, see Publication 908, *Bankruptcy Tax Guide.* For more information about canceled debt that is qualified farm debt, see chapter 4 in Publication 225. For more information about qualified real property business debt, see chapter 5 in Publication 334, *Tax Guide for Small Business.*

Postponed Gain From Sale of Home

If you postponed gain from the sale of your main home before May 7, 1997, you must reduce the basis of your new home by the postponed gain. For more information on the rules for the sale of a home, see Publication 523.

Adoption Tax Benefits

If you claim an adoption credit for the cost of improvements you added to the basis of your home, decrease the basis of your home by the credit allowed. This also applies to amounts you received under an employer's adoption assistance program and excluded from income. For more information on these benefits, see Publication 968, *Tax Benefits for Adoption.*

Example

In January 1995, you paid $80,000 for real property to be used as a factory. You also paid commissions of $2,000 and title search and legal fees of $600. You allocated the total cost of $82,600 between the land and the building—$10,325 for the land and $72,275 for the building. Immediately you spent $20,000 in remodeling the building before you placed it in service. You were allowed depreciation of $14,526 for the years 1995 through 1999. In 1998 you had a casualty loss that was not covered by insurance of $5,000 on the building from a fire. You claimed this loss as a deduction and spent $5,500 to repair the fire damages. The adjusted basis of the building on January 1, 2000, is figured as follows:

Original cost of building, including fees and commissions		$72,275
Adjustments to basis:		
Add:		
Improvements		20,000
Repair of fire damages		5,500
		$97,775
Subtract:		
Depreciation	$14,526	
Deducted casualty loss	5,000	19,526
Adjusted basis on January 1, 2000		**$78,249**

The basis of the land, $10,325, remains unchanged. It is not affected by any of the above adjustments, which affect only the basis of the building.

Basis Other Than Cost

There are many times when you cannot use cost as basis. In these cases, the FMV or the adjusted basis of property may be used. Adjusted basis is discussed earlier. FMV is discussed next.

Fair market value (FMV). FMV is the price at which property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts. Sales of similar property on or about the same date may be helpful in figuring the property's FMV.

Property Received for Services

If you receive property for services, include the property's FMV in income. The amount you include in income becomes your basis. If the services were performed for a price agreed on beforehand, it will be accepted as the FMV of the property if there is no evidence to the contrary.

Bargain Purchases

A bargain purchase is a purchase of an item for less than its FMV. If, as compensation for services, you purchase goods or other property at less than FMV, include the difference between the purchase price and the property's FMV in your income. Your basis in the property is its FMV (your purchase price plus the amount you include in income).

If the difference between your purchase price and the FMV represents a qualified employee discount do not include the difference in income. However, your basis in the property is still its FMV. See *Employee Discounts* in Publication 15–B, *Employer's Tax Guide to Fringe Benefits*.

Restricted Property

If you receive property for your services and the property is subject to certain restrictions, your basis in the property is its FMV when it becomes substantially vested, unless you make the election discussed later. Property becomes substantially vested when your rights in the property or the rights of any person to whom you transfer the property are not subject to a substantial risk of forfeiture.

There is substantial risk of forfeiture when the rights to full enjoyment of the property depend on the future performance of substantial services by any person.

When the property becomes substantially vested, include the FMV, less any amount you paid for the property, in income.

Example. Your employer gives you stock for services performed under the condition that you will have to return the stock unless you complete 5 years of service. The stock is under a substantial risk of forfeiture and is not substantially vested when you receive it. You need not report any income until you have completed the 5 years of service that satisfy the condition.

Fair market value. Figure the FMV of property you received without considering any restriction except one that by its terms will never end.

Example. For services you performed, you received stock from your employer. If you want to sell the stock while still employed, you must sell the stock to your employer at book value. At your retirement or death, you or your estate must offer to sell the stock to your employer at its book value. This is a restriction that by its terms will never end and you consider it when you figure the FMV.

Election. You may choose to include in your gross income the FMV of the property at the time of transfer, less any amount you paid for it. If you make this choice, the substantially vested rules do not apply. Your basis is the amount you paid plus the amount you included in your income.

See the discussion of *Restricted Property* in Publication 525 for more information.

Taxable Exchanges

A taxable exchange is one in which the gain is taxable or the loss is deductible. A taxable gain or deductible loss is also known as a recognized gain or loss. If you receive property in exchange for other property in a taxable exchange, the basis of property you receive is usually its FMV at the time of the exchange. A taxable exchange occurs when you receive cash or get property not similar or related in use to the property exchanged.

Example. You trade a tract of farm land with an adjusted basis of $3,000 for a tractor that has an FMV of $6,000. You must report a taxable gain of $3,000 for the land. The tractor has a basis of $6,000.

Involuntary Conversions

If you receive property as a result of an involuntary conversion, such as a casualty, theft, or condemnation, you may figure the basis of the replacement property you receive using the basis of the converted property.

Similar or related property. If you receive replacement property similar or related in service or use to the converted property, the replacement property's basis is the old property's basis on the date of the conversion. However, make the following adjustments.

1) Decrease the basis by the following.

a) Any loss you recognize on the conversion.

b) Any money you receive that you do not spend on similar property.

2) Increase the basis by the following.

a) Any gain you recognize on the conversion.

b) Any cost of acquiring the replacement property.

Money or property not similar or related. If you receive money or property not similar or related in service or use to the converted property, and you buy replacement property similar or related in service or use to the converted property, the basis of the new property is its cost decreased by the gain not recognized on the conversion.

Example. The state condemned your property. The property had an adjusted basis of $26,000, and the state paid you $31,000 for it. You realized a gain of $5,000 ($31,000 – $26,000). You bought replacement property similar in use to the converted property for $29,000. You recognize a gain of $2,000 ($31,000 – $29,000), the unspent part of the payment from the state. Your gain not recognized is $3,000, the difference between the $5,000 realized gain and the $2,000 recognized gain. The basis of the new property is figured as follows:

Cost of replacement property	$29,000
Minus: Gain not recognized	3,000
Basis of the replacement property	**$26,000**

Allocating the basis. If you buy more than one piece of replacement property, allocate your basis among the properties based on their respective costs.

Example. The state in the previous example condemned your unimproved real property and the replacement property you bought was improved real property with both land and buildings. Allocate the replacement property's $26,000 basis between land and buildings based on their respective costs.

More information. For more information about condemnations, see *Involuntary Conversions* in Publication 544. For more information about casualty and theft losses, see Publication 547.

Nontaxable Exchanges

Terms you may need to know (see Glossary):

Intangible property
Like-class property
Like-kind property
Personal property
Real property
Tangible property

A nontaxable exchange is an exchange in which you are not taxed on any gain and you cannot deduct any loss. If you receive property in a nontaxable exchange, its basis is usually the same as the basis of the property you transferred. A nontaxable gain or loss is also known as an unrecognized gain or loss.

Like-Kind Exchanges

The exchange of property for the same kind of property is the most common type of nontaxable exchange.

To qualify as a like-kind exchange, you must hold for business or investment purposes both the property you transfer and the property you receive. There must also be an exchange of like-kind property. For more information, see *Like-Kind Exchanges* in Publication 544.

The basis of the property you receive is the same as the basis of the property you gave up.

Example. You exchange real estate (adjusted basis $50,000, FMV $80,000) held for investment for other real estate (FMV $80,000) held for investment. Your basis in the new property is the same as the basis of the old ($50,000).

Exchange expenses. Exchange expenses are generally the closing costs you pay. They include such items as brokerage commissions, attorney fees, deed preparation fees, etc. Add them to the basis of the like-kind property received.

Property plus cash. If you trade property in a like-kind exchange and also pay money, the basis of the property received is the basis of the property you gave up increased by the money you paid.

Example. You trade in a truck (adjusted basis $3,000) for another truck (FMV $7,500) and pay $4,000. Your basis in the new truck is $7,000 (the $3,000 basis of the old truck plus the $4,000 paid).

Special rules for related persons. If a like-kind exchange takes place directly or indirectly between related persons and either party disposes of the property within 2 years after the exchange, the exchange no longer qualifies for like-kind exchange treatment. Each person must report any gain or loss not recognized on the original exchange. Each person reports it on the tax return filed for the year in which the later disposition occurs. If this rule applies, the basis of the property received in the original exchange will be its fair market value.

These rules generally do not apply to the following kinds of property dispositions.

1) Dispositions due to the death of either related person.

2) Involuntary conversions.

3) Dispositions in which neither the original exchange nor the subsequent disposition had as a main purpose the avoidance of federal income tax.

Related persons. Generally, related persons are ancestors, lineal descendants, brothers and sisters (whole or half), and a spouse.

For other related persons (for example, two corporations, an individual and a corporation, a grantor and fiduciary, etc.), see *Nondeductible Loss* in chapter 2 of Publication 544.

Exchange of business property. Exchanging the assets of one business for the assets of another business is a multiple property exchange. For information on figuring basis, see *Multiple Property Exchanges* in chapter 1 in Publication 544.

Partially Nontaxable Exchange

A partially nontaxable exchange is an exchange in which you receive unlike property or money in addition to like property. The basis of the property you receive is the same as the basis of the property you gave up, with the following adjustments.

1) Decrease the basis by the following amounts.

a) Any money you receive.

b) Any loss you recognize on the exchange.

2) Increase the basis by the following amounts.

a) Any additional costs you incur.

b) Any gain you recognize on the exchange.

If the other party to the exchange assumes your liabilities, treat the debt assumption as money you received in the exchange.

Example. You traded a truck (adjusted basis $6,000) for a new truck (FMV $5,200) and $1,000 cash. You realized a gain of $200 ($6,200 – $6,000). This is the FMV of the truck received plus the cash minus the adjusted basis of the truck you traded ($5,200 + $1,000 – $6,000). You include all the gain in income (recognized gain) because the gain is less than the cash received. Your basis in the new truck is:

Adjusted basis of old truck	$6,000
Minus: Cash received (adjustment 1(a))	1,000
	$5,000
Plus: Gain recognized (adjustment 2(b))	200
Basis of new truck	**$5,200**

Allocation of basis. Allocate the basis first to the unlike property, other than money, up to its FMV on the date of the exchange. The rest is the basis of the like property.

Example. You had an adjusted basis of $15,000 in real estate you held for investment. You exchanged it for other real estate to be held for investment with an FMV of $12,500, a truck with an FMV of $3,000, and $1,000 cash. The truck is unlike property. You realized a gain of $1,500 ($16,500 – $15,000). This is the FMV of the real estate received plus the FMV of the truck received plus the cash ***minus*** the adjusted basis of the real estate you traded ($12,500 + $3,000 + $1,000 – $15,000). You include in income (recognize) all $1,500 of the gain because it is less than the FMV of the unlike property plus the cash received. Your basis in the properties you received is figured as follows.

Adjusted basis of real estate transferred	$15,000
Minus: Cash received (adjustment 1(a))	1,000
	$14,000
Plus: Gain recognized (adjustment 2(b))	1,500
Total basis of properties received	**$15,500**

Allocate the total basis of $15,500 first to the unlike property — the truck ($3,000). This is the truck's FMV. The rest ($12,500) is the basis of the real estate.

Sale and Purchase

If you sell property and buy similar property in two mutually dependent transactions, you may have to treat the sale and purchase as a single nontaxable exchange.

Example. You are a salesperson and you use one of your cars 100% for business. You have used this car in your sales activities for 2 years and have depreciated it. Your adjusted basis in the car is $22,600 and its FMV is $23,100. You are interested in a new car, which sells for $28,000. If you trade your old car and pay $4,900 for the new one, your basis for depreciation for the new car would be $27,500 ($4,900 plus the $22,600 basis of your old car). However, you want a higher basis for depreciating the new car, so you agree to pay the dealer $28,000 for the new car if he will pay you $23,100 for your old car. Because the two transactions are dependent on each other, you are treated as having exchanged your old car for the new one and paid $4,900 ($28,000 – $23,100). Your basis for depreciating the new car is $27,500, the same as if you traded the old car.

Partial Business Use of Property

If you have property used partly for business and partly for personal use, and you exchange it in a nontaxable exchange for property to be used wholly or partly in your business, the basis of the property you receive is figured as if you had exchanged two properties. The first is an exchange of like-kind property. The second is personal-use property on which gain is recognized and loss is not recognized.

First, figure your adjusted basis in the property as if you transferred two separate properties. Figure the adjusted basis of each part of the property by taking into account any adjustments to basis. Deduct the depreciation you took or could have taken from the adjusted basis of the business part. Then figure the amount realized for your property and allocate it to the business and nonbusiness parts of the property.

The business part of the property is permitted to be exchanged tax free. However, recognize any gain from the exchange of the nonbusiness part. You are deemed to have received, in exchange for the nonbusiness part, an amount equal to its FMV on the date of the exchange. The basis of the property you acquired is the total basis of the property transferred (adjusted to the date of the exchange), increased by any gain recognized on the nonbusiness part.

TIP *If the nonbusiness part of the property transferred is your main home, you may qualify to exclude from income all or part of the gain on that part. For more information, see Publication 523.*

Traded car used partly in business. If you trade in a car that you used partly in your business for another car that you will use in your business, your basis for depreciating the new car is not the same as your basis for figuring a gain or loss on its sale.

For information on figuring your basis for depreciation, see Publication 463.

Property Transferred From a Spouse

The basis of property transferred to you or transferred in trust for your benefit by your spouse (or former spouse if the transfer is incident to divorce), is the same as your spouse's adjusted basis. However, adjust your basis for any gain recognized by your spouse or former spouse on property transferred in trust. This rule applies only to a transfer of property in trust in which the liabilities assumed, plus the liabilities to which the property is subject, are more than the adjusted basis of the property transferred.

If the property transferred to you is a series E, series EE, or series I United States savings bond, the transferor must include in income the interest accrued to the date of transfer. Your basis in the bond immediately after the transfer is equal to the transferor's basis increased by the interest income includable in the transferor's income. For more information on these bonds, see Publication 550.

The transferor must give you, at the time of the transfer, the records necessary to determine the adjusted basis and holding period of the property as of the date of transfer.

For more information, see Publication 504, *Divorced or Separated Individuals.*

Property Received as a Gift

To figure the basis of property you receive as a gift, you must know its adjusted basis (defined earlier) to the donor just before it was given to you, its FMV at the time it was given to you, and any gift tax paid on it.

FMV Less Than Donor's Adjusted Basis

If the FMV of the property at the time of the gift is less than the donor's adjusted basis, your basis depends on whether you have a gain or a loss when you dispose of the property. Your basis for figuring gain is the same as the donor's adjusted basis plus or minus any required adjustment to basis while you held the property. Your basis for figuring loss is its FMV when you received the gift plus or minus any required adjustment to basis while you held the property (see *Adjusted Basis,* earlier).

If you use the donor's adjusted basis for figuring a gain and get a loss, and then use the FMV for figuring a loss and have a gain, you have neither gain nor loss on the sale or disposition of the property.

Example. You received an acre of land as a gift. At the time of the gift, the land had an FMV of $8,000. The donor's adjusted basis was $10,000. After you received the land, no events occurred to increase or decrease your basis. If you sell the land for $12,000, you will have a $2,000 gain because you must use the donor's adjusted basis ($10,000) at the time of the gift as your basis to figure gain. If you sell the land for $7,000, you will have a $1,000 loss because you must use the FMV ($8,000) at the time of the gift as your basis to figure a loss.

If the sales price is between $8,000 and $10,000, you have neither gain nor loss. For instance, if the sales price was $9,000 and you tried to figure a gain using the donor's adjusted basis ($10,000), you would get a $1,000 loss. If you then tried to figure a loss using the FMV ($8,000), you would get a $1,000 gain.

Business property. If you hold the gift as business property, your basis for figuring any depreciation, depletion, or amortization deduction is the same as the donor's adjusted basis plus or minus any required adjustments to basis while you hold the property.

FMV Equal to or More Than Donor's Adjusted Basis

If the FMV of the property is equal to or greater than the donor's adjusted basis, your basis is the donor's adjusted basis at the time you received the gift. Increase your basis by all or part of any gift tax paid, depending on the date of the gift.

Also, for figuring gain or loss from a sale or other disposition of the property, or for figuring depreciation, depletion, or amortization deductions on business property, you must increase or decrease your basis (the donor's adjusted basis) by any required adjustments to basis while you held the property. See *Adjusted Basis,* earlier.

Gift received before 1977. If you received a gift before 1977, increase your basis in the gift (the donor's adjusted basis) by any gift tax paid on it. However, do not increase your basis above the FMV of the gift at the time it was given to you.

Example 1. You were given a house in 1976 with an FMV of $21,000. The donor's adjusted basis was $20,000. The donor paid a gift tax of $500. Your basis is $20,500, the donor's adjusted basis plus the gift tax paid.

Example 2. If, in Example 1, the gift tax paid had been $1,500, your basis would be $21,000. This is the donor's adjusted basis plus the gift tax paid, limited to the FMV of the house at the time you received the gift.

Gift received after 1976. If you received a gift after 1976, increase your basis in the gift (the donor's adjusted basis) by the part of the gift tax paid on it that is due to the net increase in value of the gift. Figure the increase by multiplying the gift tax paid by the following fraction. The numerator is the net increase in value of the gift and the denominator is the amount of the gift.

The net increase in value of the gift is the FMV of the gift less the donor's adjusted basis. The amount of the gift is its value for gift tax purposes after reduction by any annual exclusion and marital or charitable deduction that applies to the gift. For information on the gift tax, see Publication 950, *Introduction to Estate and Gift Taxes.*

Example. In 2000, you received a gift of property from your mother that had an FMV of $50,000. Her adjusted basis was $20,000. The amount of the gift for gift tax purposes was $40,000 ($50,000 minus the $10,000 annual exclusion). She paid a gift tax of $9,000. Your basis, $26,750, is figured as follows:

Fair market value	$50,000
Minus: Adjusted basis	20,000
Net increase in value	$30,000
Gift tax paid	$9,000
Multiplied by ($30,000 ÷ $40,000)	.75
Gift tax due to net increase in value	$6,750
Adjusted basis of property to your mother	20,000
Your basis in the property	**$26,750**

Inherited Property

Your basis in property you inherit from a decedent is generally one of the following.

1) The FMV of the property at the date of the individual's death.

2) The FMV on the alternate valuation date, if the personal representative for the estate chooses to use alternate valuation. For information on the alternate valuation date, see the instructions for Form 706.

3) The value under the special-use valuation method for real property used in farming or other closely held business, if chosen for estate tax purposes. This method is discussed later.

4) The decedent's adjusted basis in land to the extent of the value that is excluded from the decedent's taxable estate as a qualified conservation easement. For information on a qualified conservation easement see the instructions to Form 706.

If a federal estate tax return does not have to be filed, your basis in the inherited property is its appraised value at the date of death for state inheritance or transmission taxes.

Appreciated property. The above rule does not apply to appreciated property you receive from a decedent if you or your spouse originally gave the property to the decedent within 1 year before the decedent's death. Your basis in this property is the same as the decedent's adjusted basis in the property immediately before his or her death, rather than its FMV. Appreciated property is any property whose FMV on the day it was given to the decedent is more than its adjusted basis.

Community Property

In community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin), husband and wife are each usually considered to own half the community property. When either spouse dies, the total value of the community property, even the part belonging to the surviving spouse, generally becomes the basis of the entire property. For this rule to apply, at least half the value of the community property interest must be includable in the decedent's gross estate, whether or not the estate must file a return.

For example, you and your spouse owned community property that had a basis of $80,000. When your spouse died, half the FMV of the community interest was includible in your spouse's estate. The FMV of the community interest was $100,000. The basis of your half of the property after the death of your spouse is $50,000 (half of the $100,000 FMV). The basis of the other half to your spouse's heirs is also $50,000.

For more information on community property, see Publication 555, *Community Property*.

Property Held by Surviving Tenant

The following example explains the rule for the basis of property held by a surviving tenant in a joint tenancy or tenancy by the entirety.

Example. John and Jim owned, as joint tenants with right of survivorship, business property that they purchased for $30,000. John furnished two-thirds of the purchase price and Jim furnished one-third. Depreciation deductions allowed before John's death were $12,000. Under local law, each had a half interest in the income from the property. At the date of John's death, the property had an FMV of $60,000, two-thirds of which is includable in John's estate. Jim figures his basis in the property at the date of John's death as follows:

Interest Jim bought with his own funds—1/3 of $30,000 cost	$10,000	
Interest Jim received on John's death—2/3 of $60,000 FMV	40,000	$50,000
Minus: 1/2 of $12,000 depreciation before John's death		6,000
Jim's basis at the date of John's death		**$44,000**

If Jim had not contributed any part of the purchase price, his basis at the date of John's death would be $54,000. This is figured by subtracting from the $60,000 FMV, the $6,000 depreciation allocated to Jim's half interest before the date of death.

If, under local law, Jim had no interest in the income from the property and if he contributed no part of the purchase price, his basis at John's death would be $60,000. This $60,000 is the FMV of the property.

Qualified Joint Interest

Include one-half of the value of a qualified joint interest in the decedent's gross estate. It does not matter how much each spouse contributed to the purchase price. Also, it does not matter which spouse dies first.

A qualified joint interest is any interest in property held by husband and wife as either of the following.

- Tenants by the entirety.
- Joint tenants with right of survivorship, if husband and wife are the only joint tenants.

Basis. As the surviving spouse, your basis in property that you owned with your spouse as a qualified joint interest is the cost of your half of the property with some adjustments. Decrease the cost by any deductions allowed to you for depreciation and for depletion. Increase the reduced cost by your basis in the half you inherited.

Farm or Closely Held Business

Under certain conditions, when a person dies the executor or personal representative of that person's estate may choose to value the qualified real property on other than its FMV. If so, the executor or personal representative values the qualified real property based on its use as a farm or its use in a closely held business. If the executor or personal representative chooses this method of valuation for estate tax purposes, that value is the basis of the property for the heirs. The qualified heirs should be able to get the necessary value from the executor or personal representative of the estate.

If you are a qualified heir who received special-use valuation property, your basis in the property is the estate's or trust's basis in that property immediately before the distribution. Increase your basis by any gain recognized by the estate or trust because of post-death appreciation. Post-death appreciation is the property's FMV on the date of distribution minus the property's FMV either on the date of the individual's death or the alternate valuation date. Figure all FMVs without regard to the special-use valuation.

You can elect to increase your basis in special-use valuation property if it becomes subject to the additional estate tax. This tax is assessed if, within 10 years after the death of the decedent, you transfer the property to a person who is not a member of your family or the property stops being used as a farm or in a closely held business.

To increase your basis in the property, you must make an irrevocable election and pay interest on the additional estate tax figured from the date 9 months after the decedent's death until the date of the payment of the additional estate tax. If you meet these requirements, increase your basis in the property to its FMV on the date of the decedent's death or the alternate valuation date. The increase in your basis is considered to have occurred immediately before the event that results in the additional estate tax.

You make the election by filing with Form 706-A a statement that does all of the following.

1) Contains your (and the estate's) name, address, and taxpayer identification number.

2) Identifies the election as an election under section 1016(c) of the Internal Revenue Code.

3) Specifies the property for which the election is made.

4) Provides any additional information required by the Form 706-A instructions.

For more information, see the instructions for Form 706 and Form 706-A.

Property Changed to Business or Rental Use

When you hold property for personal use and change it to business use or use it to produce rent, you must figure its basis for depreciation. An example of changing property held for personal use to business use would be renting out your former main home.

Basis for depreciation. The basis for depreciation is the lesser of the following amounts.

- The FMV of the property on the date of the change.
- Your adjusted basis on the date of the change.

Example. Several years ago you paid $160,000 to have your home built on a lot that cost you $25,000. Before changing the property to rental use last year, you paid $20,000 for permanent improvements to the house and claimed a $2,000 casualty loss deduction for damage to the house. Because land is not depreciable, you can only include the cost of the house when figuring the basis for depreciation.

Your adjusted basis in the house when you changed its use was $178,000 ($160,000 + $20,000 – $2,000). On the same date, your property has an FMV of $180,000, of which $15,000 is for the land and $165,000 is for the house. The basis for figuring depreciation on the house is its FMV on the date of change

($165,000), because it is less than your adjusted basis ($178,000).

Sale of property. If you later sell or dispose of the property, the basis of the property you use will depend on whether you are figuring gain or loss.

Gain. The basis for figuring a gain is your adjusted basis when you sell the property.

Example. Assume the same facts as in the previous example except that you sell the property at a gain after being allowed depreciation deductions of $37,500. Your adjusted basis for figuring gain is $165,500 ($178,000 + $25,000 (land) – $37,500).

Loss. Figure the basis for a loss starting with the smaller of your adjusted basis or the FMV of the property at the time of the change to business or rental use. Then adjust this amount for the period after the change in the property's use, as discussed earlier under *Adjusted Basis,* to arrive at a basis for loss.

Example. Assume the same facts as in the previous example, except that you sell the property at a loss after being allowed depreciation deductions of $37,500. In this case, you would start with the FMV on the date of the change to rental use ($180,000), because it is less than the adjusted basis of $203,000 ($178,000 + $25,000) on that date. Reduce that amount ($180,000) by the depreciation deductions to arrive at a basis for loss of $142,500 ($180,000–$37,500).

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed)* to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs)* to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)).*
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business)* to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business)* to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov**.

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1–877–233–6767** or on the Internet at **www.irs.gov/cdorders.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676** or visiting the IRS web site at **www.irs.gov/prod/bus_info/sm_bus/smbus-cd.html.**

Glossary

The definitions in this glossary are the meanings of the terms as used in this publication. The same term used in another publication may have a slightly different meaning.

Amortization: A ratable deduction for the cost of certain intangible property over the period specified by law. Examples of costs that can be amortized are goodwill, agreement not to compete, and research and mining exploration costs.

Business assets: Property used in the conduct of a trade or business, such as business machinery and office furniture.

Capital assets: Generally, everything you own for personal purposes or investment is a capital asset. This includes your home, personal car, or stocks and bonds. It does not include inventory or depreciable property.

Capital expenses: These are costs that must be added to (increase the basis of) your business investments or your capital assets.

Capitalization: Adding costs, such as improvements, to the basis of assets.

Depletion: Yearly deduction allowed to recover your investment in minerals in place or standing timber. To take the deduction, you must have the right to income from the extraction and sale of the minerals or the cutting of the timber.

Depreciation: Ratable deduction allowed over a number of years to recover your basis in property that is used more than one year for business or income producing purposes.

Fair market value (FMV): FMV is the price at which property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts.

Going concern value: Going concern value is the additional value of a trade or business that attaches to property because the property is an integral part of a going concern. It includes value based on the ability of a business to continue to function and generate income even though there is a change in ownership.

Goodwill: Goodwill is the value of a trade or business based on expected continued customer patronage due to its name, reputation, or any other factor.

Intangible property: Property that cannot be perceived by the senses such as goodwill, patents, copyrights, etc.

Like-class property: Depreciable tangible personal properties within the same General Asset Class in Revenue Procedure 87–56 or Product Class in the *Standard Industrial Classification Manual.* See *Personal property* under *Like Property* in chapter 1 of Publication 544 for detailed information.

Like-kind property: Items of property with the same nature or character. The grade or quality of the properties does not matter. Examples are two vacant plots of land.

Nonbusiness assets: Property used for personal purposes, such as a home or family car.

Personal property: Property, such as machinery, equipment, or furniture, that is not real property.

Real property: Land and generally anything erected on, growing on, or attached to land, for example, a building.

Recapture: Amount of depreciation or section 179 deduction that must be reported as ordinary income when property is sold at a gain.

Section 179 deduction: This is a special deduction allowed against the cost of certain property purchased for use in the active conduct of a trade or business.

Section 197 intangibles: Certain intangibles held in connection with the conduct of a trade or business or an activity entered into for profit, including goodwill, going concern value, patents, copyrights, formulas, franchises, trademarks, and trade names.

Tangible property: This is property that can be seen or touched, such as furniture and buildings.

Unstated interest: The part of the sales price treated as interest when an installment contract provides for little or no interest.

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Department of the Treasury

Internal Revenue Service

Publication 536
Cat. No. 46569U

Net Operating Losses (NOLs) for Individuals, Estates, and Trusts

For use in preparing

2000 Returns

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Important Changes for 2000

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. 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.

Paid preparer authorization. Beginning with your return for 2000, you can check a box and authorize the IRS to discuss your tax return with the paid preparer who signed it. If you check the "Yes" box in the signature area of your return, the IRS can call your paid preparer to answer any questions that may arise during the processing of your return. Also, you are authorizing your paid preparer to perform certain actions. See your income tax package for details.

Introduction

If your deductions for the year are more than your income for the year, you may have a net operating loss (NOL). You can use an NOL by deducting it from your income in another year or years.

What this publication covers. This publication discusses NOLs for individuals, estates and trusts. It covers:

- How to figure an NOL,
- When to use an NOL,
- How to claim an NOL deduction, and
- How to figure an NOL carryover.

What is an NOL? Examples of typical losses include, but are not limited to, losses incurred from:

- Your trade or business,
- Your work as an employee (unreimbursed employee business expenses),
- Casualty and theft losses,
- Moving expenses, and
- Rental property.

A loss from operating a business is the most common reason for an NOL.

Partnerships and S corporations generally cannot use an NOL. But partners or shareholders can use their separate shares of the partnership's or S corporation's business income and business deductions to figure their individual NOLs.

What is not covered in this publication? The following topics are not covered in this publication.

- Bankruptcies. See Publication 908, *Bankruptcy Tax Guide.*
- NOLs of Corporations. See Publication 542, *Corporations.*
- Specified liability losses. See the Form 1045 instructions.

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

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You can write to us at the following address:

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Useful Items

You may want to see:

Form (and Instructions)

☐ **1040X** Amended U.S. Individual Income Tax Return

☐ **1045** Application for Tentative Refund

See *How To Get Tax Help* near the end of this publication for information about getting these forms.

NOL Steps

Figure and use your NOL in the following steps:

Step 1. Complete your tax return for the year. You may have an NOL if a negative figure appears on the line below:

Individuals — line 37 of Form 1040.

Estates and trusts — line 22 of Form 1041.

If the amount on that line is zero or more, ***stop here —*** you do not have an NOL.

Step 2. Determine whether you have an NOL and its amount. See *How To Figure an NOL,* later. If you do not have an NOL, ***stop here.***

Step 3. Decide whether to carry the NOL back to a past year or to choose to waive the carryback period and instead carry the NOL forward to a future year. See *When To Use an NOL,* later.

Step 4. Deduct the NOL in the carryback or carryforward year. See *How To Claim an NOL Deduction,* later. If your NOL deduction is equal to or smaller than your taxable income without the deduction, ***stop here —*** you have used up your NOL.

Step 5. Determine the amount of your unused NOL. See *How To Figure an NOL Carryover,* later. Carry over the unused NOL to the next carryback or carryforward year and begin again at Step 4.

Note. If your NOL deduction includes more than one NOL amount, apply Step 5 separately to each NOL amount, starting with the amount from the earliest year.

How To Figure an NOL

If your deductions for the year are more than your income for the year, you have a potential NOL.

There are rules that limit what you can deduct when figuring an NOL. In general, you cannot deduct the following items.

1) Personal exemptions.
2) Capital losses in excess of capital gains.
3) The section 1202 exclusion of 50% of the gain from the sale or exchange of qualified small business stock.
4) Nonbusiness deductions in excess of nonbusiness income.
5) Net operating loss deduction.

Schedule A (Form 1045). Use Schedule A (Form 1045) to figure an NOL. This discussion explains Schedule A and includes an illustrated example.

First, complete lines 1-3 of Schedule A, using amounts from your return. If line 3 is a negative amount, you have a net loss and a potential NOL.

Next, complete the rest of Schedule A to figure your NOL. Adjust the amount on line 3 for deductions that are allowed when figuring your taxable income, but not when figuring an NOL. The following discussions explain these adjustments.

Adjustment for exemptions (line 4). You cannot deduct your personal exemption or your exemptions for dependents. An estate or trust cannot deduct its exemption amount. Your adjustment is the total amount you deducted for exemptions.

Adjustment for nonbusiness deductions (line 12). You can deduct your nonbusiness deductions (line 9) only up to the total of:

1) Your nonbusiness capital gains that are more than your nonbusiness capital losses (not including any section 1202 exclusion shown as a loss on Schedule D of Form 1040) (line 8), and
2) Your nonbusiness income other than capital gains (line 10).

Your adjustment is your nonbusiness deductions that are more than the total of (1) and (2).

Nonbusiness deductions (line 9). Enter on line 9 as your nonbusiness deductions only those that are not related to your trade or business or your employment. For example, enter your deductions for alimony, contributions to an IRA or other self-employed retirement plan, and your itemized deductions, except for casualty and theft losses, and any employee business expenses. If you do not itemize deductions, include your standard deduction.

Do ***not*** include your deduction for one-half of your self-employment tax or your deduction for self-employed health insurance. Treat these items as business deductions.

Also, do not include your deductions for expenses that are ordinary and necessary in carrying on your trade or business or your employment, or related deductions for the following items.

1) If you itemize your deductions, employee business expenses, such as, union dues, uniforms, tools, education expenses, and travel and transportation expenses.
2) If you itemized your deductions, casualty and theft losses, even if they involve nonbusiness property.
3) Your share of a business loss from a partnership or an S corporation.
4) Moving expenses.
5) State income tax on business profits.
6) Interest and litigation expenses on state and federal income taxes related to your business income.
7) Payments by a federal employee to buy back sick leave used in an earlier year.
8) Loss on property you rent out.
9) Loss on the sale or exchange of business real estate or depreciable business property.
10) Loss on the sale of accounts receivable (if you use an accrual method of accounting).
11) Loss on the sale or exchange of stock in a small business corporation or a small business investment company, if treated as ordinary loss.
12) Unrecovered investment in a pension or annuity claimed on a decedent's final return.

Nonbusiness income (line 10). Enter on line 10 only income that is not related to your trade or business or your employment. For example, enter your annuity income, dividends, and interest on investments. Also, include your share of nonbusiness income from partnerships and S corporations.

Do ***not*** include the income you receive from your trade or business or your employment. This includes salaries and wages, self-employment income, and your share of business income from partnerships and S corporations. Also, do not include rental income or ordinary gain from the sale or other disposition of business real estate or depreciable business property.

Adjustment for section 1202 exclusion (line 20). Enter on line 20 any gain you excluded on the sale or exchange of qualified small business stock.

Adjustments for capital losses (lines 24 and 25). You can deduct your nonbusiness capital losses (line 5) only up to the amount of your nonbusiness capital gains (line 6), without regard to any section 1202 exclusion. If your nonbusiness capital losses are more than your nonbusiness capital gains, you cannot deduct the excess.

You can deduct your business capital losses (line 14) only up to the total of:

1) Your nonbusiness capital gains that are more than the total of your nonbusiness capital losses and excess nonbusiness deductions (line 13), and

2) Your total business capital gains (line 15), without regard to any section 1202 exclusion.

The adjustment on line 24 is your capital loss deduction (line 22) that is more than your net capital loss without regard to any section 1202 exclusion (line 21).

Your adjustment on line 25 is your nondeductible capital losses (line 18) that are more than the nondeductible net capital loss on your return (line 23), without regard to any section 1202 exclusion claimed on Schedule D. (You had a nondeductible net capital loss if your net capital loss was more than your capital loss deduction.)

Adjustment for NOL deduction (line 26). You cannot deduct any NOL carryovers or carrybacks from other years. Your adjustment is the total amount of your NOL deduction for losses from other years.

Illustrated Schedule A (Form 1045)

The following example illustrates how to figure an NOL. It includes filled in pages 1 and 2 of Form 1040 and Schedule A (Form 1045).

Example. Glenn Johnson is in the retail record business. He is single and has the following income and deductions on his Form 1040 for 2000.

INCOME	
Wages from part-time job	$1,225
Interest on savings	425
Net long-term capital gain on sale of real estate used in business	2,000
Glenn's total income	$3,650
DEDUCTIONS	
Net loss from business (gross income of $67,000 minus expenses of $72,000)	$5,000
Net short-term capital loss on sale of stock	1,000
Standard deduction	4,400
Personal exemption	2,800
Glenn's total deductions	$13,200

Glenn's deductions exceed his income by $9,550 ($13,200 – $3,650). However, to figure whether he has an NOL, he must modify certain deductions. He uses Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045) included later.

Glenn cannot deduct the following items on Schedule A (Form 1045).

Nonbusiness net short-term capital loss	$1,000
Nonbusiness deductions (standard deduction, $4,400) minus nonbusiness income (interest, $425)	3,975
Personal exemption	2,800
Total adjustments to net loss	$7,775

Therefore, Glenn's NOL for 2000 is figured as follows:

Glenn's total 2000 income		$3,650
Less:		
Glenn's original 2000 total deductions	$13,200	
Less:		
Glenn's total adjustments to net loss (above)	– 7,775	– 5,425
Glenn's NOL for 2000		$1,775

When these items are eliminated, Glenn's net loss is reduced to $1,775 ($9,550 – $7,775).

Form **1040** Department of the Treasury-Internal Revenue Service

U.S. Individual Income Tax Return 2000

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Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial	Last name	Your social security number
Glenn M.	Johnson	765 00 4321
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see page 19.	Apt. no.	
5603 E. Main Street		
City, town or post office, state, and ZIP code. If you have a foreign address, see page 19.		
Anytown, VA 20000		

Important! You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 19.)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? ► ☑ Yes ☐ No ☐ Yes ☐ No (You / Spouse)

Filing Status

Check only one box.

1 ☑ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ►
4 ☐ Head of household (with qualifying person). (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here. ►
5 ☐ Qualifying widow(er) with dependent child (year spouse died ►). (See page 19.)

Exemptions

6a ☑ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a
b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4)✓ if qualifying child for child tax credit (see page 20)
			☐
			☐
			☐
			☐
			☐
			☐

If more than six dependents, see page 20.

No. of your children on 6c who:
- lived with you
- did not live with you due to divorce or separation (see page 20)

Dependents on 6c not entered above

Add numbers entered on lines above ► 1

d Total number of exemptions claimed

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 21.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	1,225
8a	**Taxable** interest. Attach Schedule B if required	8a	425
b	**Tax-exempt** interest. **Do not** include on line 8a. 8b		
9	Ordinary dividends. Attach Schedule B if required	9	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 22)	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	(5,000)
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ► ☐	13	1,000 *
14	Other gains or (losses). Attach Form 4797	14	
15a	Total IRA distributions 15a — **b** Taxable amount (see page 23)	15b	
16a	Total pensions and annuities 16a — **b** Taxable amount (see page 23)	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits 20a — **b** Taxable amount (see page 25)	20b	
21	Other income. List type and amount (see page 25)	21	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ►	22	(2,350)

Adjusted Gross Income

23	IRA deduction (see page 27)	23	
24	Student loan interest deduction (see page 27)	24	
25	Medical savings account deduction. Attach Form 8853	25	
26	Moving expenses. Attach Form 3903	26	
27	One-half of self-employment tax. Attach Schedule SE	27	
28	Self-employed health insurance deduction (see page 29)	28	
29	Self-employed SEP, SIMPLE, and qualified plans	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ►	31a	
32	Add lines 23 through 31a	32	
33	Subtract line 32 from line 22. This is your **adjusted gross income** ►	33	(2,350)

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 56. Cat. No. 11320B Form **1040** (2000)

* Net capital gain ($2,000 gain less $1,000 loss)

Tax and Credits

34	Amount from line 33 (adjusted gross income)	34	(2,350)
35a	Check if: ☐ **You** were 65 or older, ☐ Blind; ☐ **Spouse** was 65 or older, ☐ Blind. Add the number of boxes checked above and enter the total here ▶ **35a**		
b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 31 and check here ▶ **35b** ☐		
36	Enter your **itemized deductions** from Schedule A, line 28, **or standard deduction** shown on the left. **But** see page 31 to find your standard deduction if you checked any box on line 35a or 35b **or** if someone can claim you as a dependent.	36	4,400
37	Subtract line 36 from line 34	37	(6,750)
38	If line 34 is $96,700 or less, multiply $2,800 by the total number of exemptions claimed on line 6d. If line 34 is over $96,700, see the worksheet on page 32 for the amount to enter	38	2,800
39	**Taxable income.** Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-	39	-0-
40	**Tax** (see page 32). Check if any tax is from **a** ☐ Form(s) 8814 **b** ☐ Form 4972	40	
41	Alternative minimum tax. Attach Form 6251	41	
42	Add lines 40 and 41 ▶	42	
43	Foreign tax credit. Attach Form 1116 if required	43	
44	Credit for child and dependent care expenses. Attach Form 2441	44	
45	Credit for the elderly or the disabled. Attach Schedule R	45	
46	Education credits. Attach Form 8863	46	
47	Child tax credit (see page 36)	47	
48	Adoption credit. Attach Form 8839	48	
49	Other. Check if from **a** ☐ Form 3800 **b** ☐ Form 8396 **c** ☐ Form 8801 **d** ☐ Form (specify) _____	49	
50	Add lines 43 through 49. These are your **total credits**	50	
51	Subtract line 50 from line 42. If line 50 is more than line 42, enter -0- ▶	51	

Standard Deduction for Most People

Single: $4,400

Head of household: $6,450

Married filing jointly or Qualifying widow(er): $7,350

Married filing separately: $3,675

Other Taxes

52	Self-employment tax. Attach Schedule SE	52	
53	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	53	
54	Tax on IRAs, other retirement plans, and MSAs. Attach Form 5329 if required	54	
55	Advance earned income credit payments from Form(s) W-2	55	
56	Household employment taxes. Attach Schedule H	56	
57	Add lines 51 through 56. This is your **total tax** ▶	57	

Payments

58	Federal income tax withheld from Forms W-2 and 1099	58	
59	2000 estimated tax payments and amount applied from 1999 return	59	
60a	**Earned income credit (EIC)**	60a	
b	Nontaxable earned income: amount ▶ and type ▶		
61	Excess social security and RRTA tax withheld (see page 50)	61	
62	Additional child tax credit. Attach Form 8812	62	
63	Amount paid with request for extension to file (see page 50)	63	
64	Other payments. Check if from **a** ☐ Form 2439 **b** ☐ Form 4136	64	
65	Add lines 58, 59, 60a, and 61 through 64. These are your **total payments** ▶	65	

If you have a qualifying child, attach Schedule EIC.

Refund

66	If line 65 is more than line 57, subtract line 57 from line 65. This is the amount you **overpaid**	66	
67a	Amount of line 66 you want **refunded to you** ▶	67a	
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number		
68	Amount of line 66 you want **applied to your 2001 estimated tax.** ▶	68	

Have it directly deposited! See page 50 and fill in 67b, 67c, and 67d.

Amount You Owe

69	If line 57 is more than line 65, subtract line 65 from line 57. This is the **amount you owe**. For details on how to pay, see page 51 ▶	69	
70	Estimated tax penalty. Also include on line 69	70	

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See page 19. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
Glenn M. Johnson	2-5-2001	Self-employed	( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	May the IRS discuss this return with the preparer shown below (see page 52)? ☐ **Yes** ☐ **No**

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code		EIN	
		Phone no. ( )	

Schedule A—Net Operating Loss (NOL). See page 4 of the instructions.

1	Adjusted gross income from your 2000 Form 1040, line 34. Estates and trusts, skip lines 1 and 2			**1**	(2,350)
2	Deductions (individuals only):				
a	Enter the amount from your 2000 Form 1040, line 36	**2a**	4,400		
b	Enter your deduction for exemptions from your 2000 Form 1040, line 38	**2b**	2,800		
c	Add lines 2a and 2b			**2c**	(7,200)
3	Combine lines 1 and 2c. Estates and trusts, enter taxable income increased by the sum of the charitable deduction and income distribution deduction			**3**	(9,550)
	Note: *If line 3 is zero or more, do not complete the rest of the schedule. You* ***do not*** *have an NOL.*				
4	Deduction for exemptions from line 2b above. Estates and trusts, enter the exemption amount from tax return			**4**	2,800
5	Total nonbusiness capital losses before limitation. Enter as a positive number	**5**	1,000		
6	Total nonbusiness capital gains (without regard to any section 1202 exclusion)	**6**			
7	If line 5 is more than line 6, enter the difference; otherwise, enter -0-	**7**	1,000		
8	If line 6 is more than line 5, enter the difference; otherwise, enter -0-	**8**	-0-		
9	Nonbusiness deductions. See page 4 of the instructions	**9**	4,400		
10	Nonbusiness income other than capital gains. See page 4 of the instructions	**10**	425		
11	Add lines 8 and 10	**11**	425		
12	If line 9 is more than line 11, enter the difference; otherwise, enter -0-			**12**	3,975
13	If line 11 is more than line 9, enter the difference; otherwise, enter -0-. **But do not enter more than line 8**	**13**	-0-		
14	Total business capital losses before limitation. Enter as a positive number	**14**			
15	Total business capital gains (without regard to any section 1202 exclusion)	**15**	2,000		
16	Add lines 13 and 15	**16**	2,000		
17	If line 14 is more than line 16, enter the difference; otherwise, enter -0-	**17**	-0-		
18	Add lines 7 and 17	**18**	1,000		
19	Enter the loss, if any, from line 17 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 16, column (3), of Schedule D (Form 1041).) Enter as a positive number. If you do not have a loss on that line (and do not have a section 1202 exclusion), skip lines 19 through 24 and enter on line 25 the amount from line 18	**19**			
20	Section 1202 exclusion. Enter as a positive number			**20**	
21	Subtract line 20 from line 19. If zero or less, enter -0-	**21**			
22	Enter the loss, if any, from line 18 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 17 of Schedule D (Form 1041).) Enter as a positive number	**22**			
23	If line 21 is more than line 22, enter the difference; otherwise, enter -0-	**23**	-0-		
24	If line 22 is more than line 21, enter the difference; otherwise, enter -0-			**24**	
25	Subtract line 23 from line 18. If zero or less, enter -0-			**25**	1,000
26	Net operating loss deduction for losses from other years. Enter as a positive number			**26**	-0-
27	**Net operating loss.** Combine lines 3, 4, 12, 20, 24, 25, and 26. If the result is less than zero, enter it here and on page 1, line 1a. If the result is zero or more, you **do not** have a net operating loss			**27**	(1,775)

Proof as of October 26, 2000 (subject to change)

When To Use an NOL

Generally, you must carry back the entire amount of the NOL to the 2 tax years before the NOL year (the carryback period), and then carry forward any remaining NOL for up to 20 years after the NOL year (the carryforward period). You can, however, choose not to carry back an NOL and carry it forward only. See *Waiving the carryback period,* later. The "NOL year" is the year in which the NOL occurred. You cannot deduct any part of the NOL remaining after the 20-year carryforward period.

Exceptions to 2-year carryback rule. Eligible losses and farming losses qualify for longer carryback periods.

Eligible loss. The carryback period for an eligible loss is 3 years. An eligible loss is any part of an NOL that:

1) Is from a casualty or theft, or
2) Is attributable to a Presidentially declared disaster for a qualified small business or a farming business (defined later).

CAUTION *Only farming losses that are attributable to Presidentially declared disasters in tax years that began after August 5, 1997, and before January 1, 1998, are considered "eligible losses" subject to a 3-year carryback period. Otherwise,* **all** *farming losses are considered "farming losses" subject to a 5-year carryback period.*

Farming loss. The carryback period for a farming loss is 5 years. A farming loss is the ***smaller*** of:

1) The amount which would be the NOL for the tax year if only income and deductions attributable to farming businesses were taken into account, or
2) The NOL for the tax year.

You can choose to treat a farming loss as if it were not a farming loss. If you make this choice, the carryback period will be 2 years. To make this choice, attach a statement to your 2000 income tax return filed on or before the due date (including extensions) that you are choosing to treat any 2000 farming losses as if they were not farming losses under section 172(i)(3) of the Internal Revenue Code. Also, if you filed your return timely without making that choice, you may still make the choice by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach a statement to your amended return and write "Filed pursuant to section 301.9100-2" on the statement. File your amended return at the same address that you filed your original return. Once you make this choice, it is irrevocable.

Note. A waiver of the 5-year carryback for a farming loss would make the loss subject to the normal 2-year carryback rule. If, however, you choose not to carry back any of your farming loss, you need to attach a statement to your 2000 income tax return clearly identifying what carryback or carrybacks are being completely waived and stating that you are waiving them under sections 172(b)(3) and 172(i)(3) of the Internal Revenue Code.

Farming business. A farming business is a trade or business involving the cultivation of land, the raising or harvesting of any agricultural or horticultural commodity, operating a nursery or sod farm, the raising or harvesting of trees bearing fruit, nuts, or other crops, or ornamental trees. The raising, shearing, feeding, caring for, training, and management of animals is also considered a farming business.

A farming business does not include contract harvesting of an agricultural or horticultural commodity grown or raised by someone else. It also does not include a business in which you merely buy or sell plants or animals grown or raised by someone else.

Qualified small business. A qualified small business is a sole proprietorship or a partnership that has average annual gross receipts (reduced by returns and allowances) of $5 million or less during the 3-year period ending with the tax year of the NOL. If the business did not exist for this entire 3-year period, use the period the business was in existence.

Waiving the carryback period. You can choose not to carry back your NOL. If you make this choice, then you can use your NOL only in the 20-year carryforward period. (This choice means you also choose not to carry back any alternative tax NOL.)

To make this choice, attach a statement to your tax return filed by the due date (including extensions) for the NOL year or to an amended return for the NOL year filed within 6 months of the due date of your original return (excluding extensions). This statement ***must*** show that you are choosing to waive the carryback period under section 172(b)(3) of the Internal Revenue Code.

CAUTION *If you do not file this statement on time, you cannot waive the carryback period. If you filed your return timely but did not file the statement with it, you must file the statement with an amended return for the NOL year within 6 months of the due date of your original return (excluding extensions). Write "Filed pursuant to section 301.9100-2" on the statement.*

Once you make this choice, you cannot change it because it is irrevocable. If you choose to waive the carryback period for more than one NOL, you must make a separate choice and attach a separate statement for each NOL year.

How to use the NOL. If you choose to carry back the NOL, you must first carry the entire NOL to the earliest carryback year. If your NOL is not used up, you can carry the rest to the next earliest carryback year, and so on.

If you do not use up the NOL in the 2 carryback years, carry forward what remains of it to the 20 tax years following the NOL year. Start by carrying it to the first tax year after the NOL year. If you do not use it up, carry the unused part to the next year. Continue to carry any unused part of the NOL until you complete the 20-year carryforward period.

Example 1. You started your business as a sole proprietor in 2000 and had a $42,000 NOL for the year. No part of the NOL qualifies for the 3-year or 5-year carryback period. You begin using your NOL in 1998, the second year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
1998	$42,000	$40,000
1999	40,000	37,000
2000 (NOL year)		
2001	37,000	31,500
2002	31,500	22,500
2003	22,500	12,700
2004	12,700	4,000
2005	4,000	–0–

If your loss were larger, you could carry it forward until the year 2020. If you still had an unused 2000 carryforward after the year 2020, you could not deduct it.

Example 2. Assume the same facts as in Example 1, except that $4,000 of the NOL is attributable to a casualty loss and this loss qualifies for a 3-year carryback period. You begin using the $4,000 in 1997. As shown in the following chart, $3,000 of this NOL is used in 1997. The remaining $1,000 is carried to 1998 along with the $38,000 NOL that you must begin using in 1998.

Year	Carryback/ Carryover	Unused Loss
1997	$3,000	$1,000
1998	39,000	37,000
1999	37,000	34,000
2000 (NOL year)		
2001	34,000	28,500
2002	28,500	19,500
2003	19,500	9,700
2004	9,700	1,000
2005	1,000	–0–

How To Claim an NOL Deduction

If you have not already carried the NOL to an earlier year, your NOL deduction is the total NOL. If you carried the NOL to an earlier year, your NOL deduction is the NOL minus the amount you used in the earlier year or years.

If you carry more than one NOL to the same year, your NOL deduction is the total of these carrybacks and carryovers.

NOL more than taxable income. If your NOL is more than the taxable income of the year you carry it to (figured before deducting the NOL), you generally will have an NOL carryover to the next year. See *How To Figure an NOL Carryover,* later, to determine how much NOL you have used and how much you carry to the next year.

Deducting a Carryback

If you carry back your NOL, you can use either Form 1045 or Form 1040X. You can get your refund faster by using Form 1045, but you have a shorter time to file it. You can use Form 1045 to apply an NOL to all carryback years. If you use Form 1040X, you must use a separate Form 1040X for each carryback year to which you apply the NOL.

Estates and trusts not filing Form 1045 must file an amended Form 1041 (instead of Form 1040X) for each carryback year to which NOLs are applied. Use a copy of the appropriate year's Form 1041, check the "Amended return" box, and follow the Form 1041 instructions for amended returns. Include the NOL deduction with other deductions not subject to the 2% limit (line 15a for 1998 and 1999). Also, see the special procedures for filing an amended return due

to an NOL carryback, explained under *Form 1040X,* later.

Form 1045. You can apply for a quick refund by filing Form 1045. This form results in a tentative adjustment of tax in the carryback year. See the Form 1045 illustrated at the end of this discussion.

If the IRS refunds or credits an amount to you from Form 1045 and later determines that the refund or credit is too much, the IRS may assess and collect the excess immediately.

You must file Form 1045 on or after the date you file your tax return for the NOL year, but not later than one year after the NOL year. For example, if you are a calendar year taxpayer with a carryback from 2000 to 1998, you must file Form 1045 on or after the date you file your tax return for 2000, but no later than December 31, 2001.

Form 1040X. If you do not file Form 1045, you can file Form 1040X to get a refund of tax because of an NOL carryback. File Form 1040X within 3 years after the due date, including extensions, for filing the return for the NOL year. For example, if you are a calendar year taxpayer and filed your 1997 return by the April 15, 1998, due date, you must file a claim for refund of 1995 tax because of an NOL carryback from 1997 by April 16, 2001. (Since April 15, 2001, falls on a Sunday, the due date is extended to April 16, 2001).

Attach a computation of your NOL using Schedule A (Form 1045) and, if it applies, your NOL carryover using Schedule B (Form 1045), discussed later.

Refiguring your tax. To refigure your total tax liability for a carryback year, first refigure your adjusted gross income for that year. (On Form 1045, use lines 10 through 12 and the "After carryback" column for the applicable carryback year.) Use your adjusted gross income after applying the NOL deduction to refigure income or deduction items that are based on, or limited to, a percentage of your adjusted gross income. Refigure the following items.

1) The special allowance for passive activity losses from rental real estate activities.
2) Taxable social security and tier 1 railroad retirement benefits.
3) IRA deductions.
4) Excludable savings bond interest.
5) Excludable employer-provided adoption benefits.
6) Student loan interest deduction.

If more than one of these items apply, refigure them in the order listed above, using your adjusted gross income after applying the NOL deduction and any previous item. (On line 10 of Form 1045, using the "After carryback" column, enter your adjusted gross income after applying the above refigured items, but without the NOL deduction. Enter your NOL deduction on line 11.)

Next, refigure your taxable income. (On Form 1045, use lines 13 through 16 and the "After carryback" column.) Use your refigured adjusted gross income (line 12 of Form 1045, using the "After carryback" column) to refigure certain deductions and other items that are based on, or limited to, a percentage of your adjusted gross income. Refigure the following items.

1) The itemized deduction for medical expenses.
2) The itemized deduction for casualty losses.
3) Certain miscellaneous itemized deductions.
4) The overall limit on itemized deductions.
5) The phaseout of the deduction for exemptions.

Do not refigure the itemized deduction for charitable contributions.

Finally, use your refigured taxable income (line 16 of Form 1045, using the "After carryback" column) to refigure your total tax liability. Refigure your income tax, your alternative minimum tax, and any credits that are based on, or limited to, the amount of tax. (On Form 1045, use lines 17 through 26, and the "After carryback" column.) The earned income credit, for example, may be affected by changes to adjusted gross income or the amount of tax (or both) and, therefore, must be recomputed. If you become eligible for a credit because of the carryback, complete the form for that specific credit (such as Schedule EIC) for that year.

While it is necessary to refigure your income tax, alternative minimum tax, and credits, ***do not refigure your self-employment tax.***

Deducting a Carryforward

If you carry forward your NOL to a tax year after the NOL year, list your NOL deduction as a negative figure on the "Other income" line of Form 1040 (line 21 for 2000). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2000).

You must attach a statement that shows all the important facts about the NOL. Your statement should include a computation showing how you figured the NOL deduction. If you deduct more than one NOL in the same year, your statement must cover each of them.

Change in Marital Status

If you and your spouse were ***not*** married to each other in all years involved in figuring NOL carrybacks and carryovers, only the spouse who had the loss can take the NOL deduction. If you file a joint return, the NOL deduction is limited to the income of that spouse.

For example, if your marital status changes because of death or divorce, and in a later year you have an NOL, you can carry back that loss only to the part of the income reported on a joint return (filed with your former spouse) that was ***your*** taxable income. After you deduct the NOL in the carryback year, the joint rates apply to the resulting taxable income.

Refund limit. If you are not married in the NOL year (or are married to a different spouse), and in the carryback year you were married and filed a joint return, your refund for the overpaid joint tax may be limited. You can claim a refund for the difference between your share of the refigured tax and your contribution toward the tax paid on the joint return. The refund cannot be more than the joint overpayment. Attach a statement showing how you figured your refund.

Figuring your share of a joint tax liability. There are five steps for figuring your share of the refigured joint tax liability.

1) Figure your total tax as though you had filed as "married filing separately."
2) Figure your spouse's total tax as though your spouse had also filed as "married filing separately."
3) Add the amounts in (1) and (2).
4) Divide the amount in (1) by the amount in (3).
5) Multiply the refigured tax on your joint return by the amount figured in (4). This is your share of the joint tax liability.

Figuring your contribution toward tax paid. Unless you have an agreement or clear evidence of each spouse's contributions toward the payment of the joint tax liability, figure your contribution by adding the tax withheld on your wages and your share of joint estimated tax payments or tax paid with the return. If the original return for the carryback year resulted in an overpayment, reduce your contribution by your share of the tax refund. Figure your share of a joint payment or refund by the same method used in figuring your share of the joint tax liability. Use your taxable income as originally reported on the joint return in steps (1) and (2) (above), and substitute the joint payment or refund for the refigured joint tax in step (5).

Change in Filing Status

If you and your spouse were married and filed a joint return for each year involved in figuring NOL carrybacks and carryovers, figure the NOL deduction on a joint return as you would for an individual. However, treat the NOL deduction as a joint NOL. Figure it from the joint NOLs.

If you and your spouse were married and filed separate returns for each year involved in figuring NOL carrybacks and carryovers, the spouse who sustained the loss may take the NOL deduction on a separate return.

CAUTION *Special rules apply for figuring the NOL carrybacks and carryovers of married people whose filing status changes for any tax year involved in figuring an NOL carryback or carryover.*

Separate to joint return. If you and your spouse file a joint return for a carryback or carryforward year, and were married but filed separate returns for any of the tax years involved in figuring the NOL carryback or carryover, treat the separate carryback or carryover as a joint carryback or carryover.

Joint to separate returns. If you and your spouse file separate returns for a carryback or carryforward year, but filed a joint return for any or all of the tax years involved in figuring the NOL carryover, figure each of your carryovers separately.

Joint return in NOL year. Figure each spouse's share of the joint NOL in the following steps:

1) Figure each spouse's NOL as if he or she filed a separate return. See *How To Figure an NOL,* earlier. If only one spouse has an NOL, ***stop here.*** All of the joint NOL is that spouse's NOL.

2) If both spouses have an NOL, multiply the joint NOL by a fraction, the numerator of which is spouse A's NOL figured in (1) and the denominator of which is the total of the spouses' NOLs figured in (1). The result is spouse A's share of the joint NOL. The rest of the joint NOL is spouse B's share.

Example 1. Mark and Nancy are married and file a joint return for 2000. They have an NOL of $5,000. They carry the NOL back to 1998, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 2000 deductions were more than her income, and Mark's income was more than his deductions. Mark does not have any NOL to carry back. Nancy can carry back the entire $5,000 NOL to her 1998 separate return.

Example 2. Assume the same facts as in Example 1, except that both Mark and Nancy had deductions in 2000 that were more than their income. Figured separately, his NOL is $1,800 and hers is $3,000. The sum of their separate NOLs ($4,800) is less than their $5,000 joint NOL because his deductions included a $200 net capital loss that is not allowed in figuring his separate NOL. The loss is allowed in figuring their joint NOL because it was offset by Nancy's capital gains. Mark's share of their $5,000 joint NOL is $1,875 ($5,000 × $1,800/$4,800) and Nancy's is $3,125 ($5,000 – $1,875).

Joint return in previous carryback or carryforward year. If only one spouse had an NOL deduction on the previous year's joint return, all of the joint carryover is that spouse's carryover. If both spouses had an NOL deduction (including separate carryovers of a joint NOL, figured as explained in the previous discussion), figure each spouse's share of the joint carryover in the following steps.

1) Figure each spouse's modified taxable income as if he or she filed a separate return. See *Modified taxable income* under *How To Figure an NOL Carryover,* later.

2) Multiply the joint modified taxable income you used to figure the joint carryover by a fraction, the numerator of which is spouse A's modified taxable income figured in (1) and the denominator of which is the total of the spouses' modified taxable incomes figured in (1). This is spouse A's share of the joint modified taxable income.

3) Subtract the amount figured in (2) from the joint modified taxable income. This is spouse B's share of the joint modified taxable income.

4) Reduce the amount figured in (3), but not below zero, by spouse B's NOL deduction.

5) Add the amounts figured in (2) and (4).

6) Subtract the amount figured in (5) from spouse A's NOL deduction. This is spouse A's share of the joint carryover. The rest of the joint carryover is spouse B's share.

Example. Sam and Wanda filed a joint return for 1998 and separate returns for 1999 and 2000. In 2000, Sam had an NOL of $18,000 and Wanda had an NOL of $2,000. They carry back both NOLs to their 1998 joint return and claim a $20,000 NOL deduction.

Their joint modified taxable income (MTI) for 1998 is $15,000, and their joint NOL carryover to 1999 is $5,000 ($20,000 – $15,000). They figure their shares of the $5,000 carryover as follows:

Step 1.	
Sam's separate MTI	$9,000
Wanda's separate MTI	+ 3,000
Total MTI	$12,000
Step 2.	
Joint MTI	$15,000
Sam's MTI ÷ total MTI ($9,000 ÷ $12,000)	× .75
Sam's share of joint MTI	$11,250
Step 3.	
Joint MTI	$15,000
Sam's share of joint MTI	– 11,250
Wanda's share of joint MTI	$3,750
Step 4.	
Wanda's share of joint MTI	$3,750
Wanda's NOL deduction	– 2,000
Wanda's remaining share	$1,750
Step 5.	
Sam's share of joint MTI	$11,250
Wanda's remaining share	+ 1,750
Joint MTI to be offset	$13,000
Step 6.	
Sam's NOL deduction	$18,000
Joint MTI to be offset	– 13,000
Sam's carryover to 1999	$5,000
Joint carryover to 1999	$5,000
Sam's carryover	– 5,000
Wanda's carryover to 1999	$–0–

Wanda's $2,000 NOL deduction offsets $2,000 of her $3,750 share of the joint modified taxable income and is completely used up. She has no carryover to 1999. Sam's $18,000 NOL deduction offsets all of his $11,250 share of joint modified taxable income and the remaining $1,750 of Wanda's share. His carryover to 1999 is $5,000.

Illustrated Form 1045

The following example illustrates how to use Form 1045 to claim an NOL deduction in a carryback year. It includes a filled in page 1 of Form 1045.

Example. Martha Sanders is a self-employed contractor. Martha's 2000 deductions are more than her 2000 income because of a business loss. She uses Form 1045 to carry back her NOL and claim an NOL deduction in 1998. (See the filled in Form 1045 included here.) Her filing status in both years was "single."

Martha figures her 2000 NOL on Schedule A, Form 1045 (not shown). (For an example using Schedule A, see *Illustrated Schedule A (Form 1045)* under *How To Figure an NOL,* earlier.) She enters the $10,000 NOL from line 27 of Schedule A on line 1a of page 1 of Form 1045.

Martha completes lines 10 through 26, using the "Before carryback" column under the column labeled, "2nd preceding tax year ended 12/31/98" on page 1 of Form 1045 using the following amounts from her 1998 return.

1998 Adjusted gross income		$50,000
Itemized deductions:		
Medical expenses [$6,000 – ($50,000 × 7.5%)]	$2,250	
State income tax	+ 2,000	
Real estate tax	+ 4,000	
Home mortgage interest	+ 5,000	
Total itemized deductions		$13,250
Exemption		$2,700
Income tax		$6,246
Self-employment tax		$6,120

Martha refigures her taxable income for 1998 after carrying back her 2000 NOL as follows:

1998 Adjusted gross income		$50,000
Less:		
NOL from 2000		–10,000
2000 Adjusted gross income after carryback		$40,000
Less:		
Itemized deductions:		
Medical expenses [$6,000 – ($40,000 × 7.5%)]	$3,000	
State income tax	+ 2,000	
Real estate tax	+ 4,000	
Home mortgage interest	+ 5,000	
Total itemized deductions		–14,000
Less:		
Exemption		– 2,700
1998 Taxable income after carryback		$23,300

Martha then completes lines 10 through 26, using the "After carryback" column under the column labeled, "2nd preceding tax year ended 12/31/98." On line 11, Martha enters her $10,000 NOL deduction. Her new adjusted gross income on line 12, is $40,000 ($50,000 – $10,000). To complete line 13, she must refigure her medical expense deduction using her new adjusted gross income. Her refigured medical expense deduction is $3,000 [$6,000 – ($40,000 × 7.5%)]. This increases her total deductions to $14,000 [$13,250 + ($3,000 – $2,250)].

Martha uses her refigured taxable income ($23,300) from line 16, and the tax tables in her 1998 Form 1040 instructions to find her income tax. She enters the new amount, $3,499, on line 17, and her new total tax liability, $9,619, on line 26.

Since Martha used up her $10,000 NOL in 1998, she does not complete a column for the first preceding tax year ended 12/31/99. The decrease in tax because of her NOL deduction (line 28) is $2,747.

Martha files Form 1045 after filing her 2000 return, but no later than December 31, 2001. She mails it to the Internal Revenue Service Center where she filed her 2000 return and attaches a copy of her 2000 return (including the applicable forms and schedules).

Form **1045**

Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

► **Before you fill in this form, read the separate instructions.**
► **Do not attach to your income tax return—mail in a separate envelope.**
► **For use by individuals, estates, or trusts.**

OMB No. 1545-0098

2000

Please type or print

Name (and name of spouse if filing jointly) Martha Sanders	**Social security or employer identification number** 123-00-4567
Number, street, and apt. or suite no. If you have a P.O. box, see page 2 of the instructions. 9876 Holly Street	**Spouse's social security number (SSN)**
City, town or post office, state, and ZIP code. If you have a foreign address, see page 2 of the instructions. Yardley, PA 19067	Telephone number (optional) (041) 123-4567

1 This application is filed to carry back: **a** Net operating loss (from Schedule A, page 2, line 27) $ $10,000 **b** Unused general business credit $

2a For the calendar year 2000, or other tax year beginning , 2000, ending , 20 **b** Date tax return was filed 3-5-2001

3 If this application is for an unused credit created by another carryback, enter year of the first carryback ►

4 If you filed a joint return (or separate return) for some, but not all, of the tax years involved in figuring the carryback, list the years and specify whether joint (J) or separate (S) return for each ►

5 If SSN for carryback year is different from above, enter **a** SSN ► and **b** Year(s) ►

6 If you changed your accounting period, give date permission to change was granted ►

7 Have you filed a petition in Tax Court for the year(s) to which the carryback is to be applied? . . . . ☐ Yes ☑ No

8 Is any part of the decrease in tax due to a loss or credit from a tax shelter required to be registered? . . ☐ Yes ☑ No

9 If you are carrying back a net operating loss, did this cause the release of foreign tax credits or the release of other credits due to the release of the foreign tax credit? See page 2 of the instructions . . . . . ☐ Yes ☑ No

Proof as of October 26, 2000 (subject to change)

Computation of Decrease in Tax

See page 2 of the instructions.
Note: *If **1a** is blank, skip lines 10 through 16.*

		preceding tax year ended ►		2nd preceding tax year ended ► 12-31-98		1st preceding tax year ended ► 12-31-99	
		Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10	Adjusted gross income			50,000	50,000		
11	Net operating loss deduction after carryback. See page 2 of the instructions				10,000		
12	Subtract line 11 from line 10 . . .			50,000	40,000		
13	Deductions. See page 3 of the instructions			13,250	14,000		
14	Subtract line 13 from line 12 . . .			36,750	26,000		
15	Exemptions. See page 3 of the instructions.			2,700	2,700		
16	Taxable income. Line 14 minus line 15			34,050	23,300		
17	Income tax. See page 3 of the instructions and attach an explanation			6,246	3,499		
18	General business credit. See page 3 of the instructions						
19	Other credits. Identify						
20	Total credits. Add lines 18 and 19 .						
21	Subtract line 20 from line 17 . . .			6,246	3,499		
22	Recapture taxes						
23	Alternative minimum tax						
24	Self-employment tax.			6,120	6,120		
25	Other taxes.						
26	Total tax. Add lines 21 through 25 .			12,366	9,619		
27	Enter the amount from the "After carryback" column on line 26 for each year			9,619			
28	Decrease in tax. Line 26 minus line 27			2,747			
29	Overpayment of tax due to a claim of right adjustment under section 1341(b)(1) (attach computation) .						
30	Suspended research credit allowed for current year (see page 3 of the instructions)						

Sign Here

Keep a copy of this application for your records.

Under penalties of perjury, I declare that I have examined this application and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Your signature: Martha Sanders — Date: 4-10-2001

Spouse's signature (if Form 1045 is filed jointly, **both** must sign) — Date

Preparer Other Than Taxpayer

Name ► — Date

Address ►

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 5 of the instructions. Cat. No. 10670A Form **1045** (2000)

How To Figure an NOL Carryover

If your NOL is more than your taxable income for the year to which you carry it (figured before deducting the NOL), you may have an NOL carryover. You must make certain modifications to your taxable income to determine how much NOL you will use up in that year and how much you can carry over to the next tax year. Your carryover is the excess of your NOL deduction over your modified taxable income for the carryback or carryforward year. If your NOL deduction includes more than one NOL, apply the NOLs against your modified taxable income in the same order in which you incurred them, starting with the earliest.

Modified taxable income. Your modified taxable income is your taxable income figured with the following changes.

1) You cannot claim an NOL deduction for the NOL whose carryover you are figuring or for any later NOL.
2) You cannot claim a deduction for capital losses in excess of your capital gains. Also, you must increase your taxable income by the amount of any section 1202 exclusion claimed on Schedule D (Form 1040).
3) You cannot claim your exemptions for yourself, your spouse, or dependents.
4) You must figure any item affected by the amount of your adjusted gross income after making the changes in (1) and (2), above, and certain other changes to your adjusted gross income that result from (1) and (2). This includes income and deduction items used to figure adjusted gross income (for example, IRA deductions), as well as certain itemized deductions. To figure a charitable contribution deduction, do not include deductions for NOL carrybacks in the change in (1) but do include deductions for NOL carryforwards from tax years before the NOL year.

Your taxable income as modified cannot be less than zero.

Schedule B (Form 1045). You can use Schedule B (Form 1045) to figure your modified taxable income for carryback years and your carryover from each of those years. Do ***not*** use Schedule B for a carryforward year. If your 2000 return includes an NOL deduction from an NOL year before 2000 that reduced your taxable income to zero (to less than zero, if an estate or trust), see *NOL Carryover From 2000 to 2001,* later.

Illustrated Schedule B (Form 1045)

The following example illustrates how to figure an NOL carryover from a carryback year. It includes a filled in Schedule B (Form 1045).

Example. Ida Brown runs a small clothing shop. In 2000, she has an NOL of $36,000 that she chooses to carry back to 1998. She has no other carrybacks or carryovers to 1998.

Ida's adjusted gross income in 1998 was $29,000, consisting of her salary of $30,000 minus a $1,000 capital loss deduction. She is single and claimed only one personal exemption of $2,700. During that year, she gave $1,450 in charitable contributions. Her medical expenses were $2,725. She also deducted $1,650 in taxes and $1,125 in home mortgage interest.

Her deduction for charitable contributions was not limited because her contributions, $1,450, were less than 50% of her adjusted gross income. The deduction for medical expenses was limited to expenses over 7.5% of adjusted gross income (.075 × $29,000 = $2,175; $2,725 – $2,175 = $550). The deductions for taxes and home mortgage interest were not subject to any limits. She was able to claim $4,775 ($1,450 + $550 + $1,650 + $1,125) in itemized deductions for 1998. She had no other deductions in 1998. Her taxable income for the year was $21,525.

Ida's $36,000 carryback will reduce her 1998 taxable income to zero. She completes the column labeled "2nd preceding tax year ended 12/31/98," of Schedule B (Form 1045) to figure how much of her NOL she uses up in 1998 and how much she can carry over to 1999. See the illustrated Schedule B shown here. Ida does not complete the column for the first preceding tax year ended 12/31/99 because the $10,700 carryover to 1999 is completely used up that year. (See the information for line 9, below.)

Line 1. Ida enters $36,000, her 2000 net operating loss, on line 1.

Line 2. She enters $21,525, her 1998 taxable income, on line 2.

Line 3. Ida enters on line 3 her net capital loss deduction of $1,000.

Line 5. Although Ida's entry on line 3 modifies her adjusted gross income, that does not affect any other items included in her adjusted gross income. Ida enters zero on line 5.

Line 6. Since Ida had itemized deductions and entered $1,000 on line 3, she completes lines 10 through 34 to figure her adjustment to itemized deductions. On line 6, she enters the total adjustment from line 34.

Line 10. Ida's adjusted gross income for 1998 was $29,000.

Line 11. She adds lines 3 through 5 and enters $1,000 on line 11. (This is her net capital loss deduction added back, which modifies her adjusted gross income.)

Line 12. Her modified adjusted gross income for 1998 is now $30,000.

Line 13. On her 1998 tax return, she deducted $550 as medical expenses.

Line 14. Her actual medical expenses were $2,725.

Line 15. She multiplies her modified adjusted gross income, $30,000, by .075. She enters $2,250 on line 15.

Line 16. The difference between her actual medical expenses and the amount she is allowed to deduct is $475.

Line 17. The difference between her medical deduction and her modified medical deduction is $75. She enters this on line 17.

Line 18. She enters her modified adjusted gross income of $30,000 on line 18.

Line 19. She had no other carrybacks to 1998 and enters zero on line 19.

Line 20. Her modified adjusted gross income remains $30,000.

Line 21. Her actual contributions for 1998 were $1,450, which she enters on line 21.

Line 22. She now refigures her charitable contributions based on her modified adjusted gross income. Since she is well below the 50% limit, she enters $1,450 on line 22.

Line 23. The difference is zero.

Lines 24 through 33. Since Ida had no casualty losses or deductions for miscellaneous items in 1998, she leaves these lines blank.

Line 34. She combines lines 17, 23, 28, and 33 and enters $75 on line 34. She carries this figure to ***line 6.***

Line 7. Ida enters her personal exemption of $2,700 for 1998.

Line 8. After combining lines 2 through 7, Ida's modified taxable income is $25,300.

Line 9. Ida figures her carryover to 1999 by subtracting her modified taxable income (line 8) from her NOL deduction (line 1). She enters the $10,700 carryover on line 9. She also enters this $10,700 as her NOL deduction for 1999 on line 11 of page 1, Form 1045, in the "After carryback" column under the column labeled "1st preceding tax year ended 12/31/99." (For an illustrated example of page 1 of Form 1045, see *Illustrated Form 1045* under *How To Claim an NOL Deduction,* earlier.)

Schedule B—Net Operating Loss Carryover. See the instructions beginning on page 4.

Complete one column before going to the next column. Start with the earliest carryback year.	____ preceding tax year ended ►		2nd preceding tax year ended ► 12-31-98		1st preceding tax year ended ► 12-31-99	
1 **Net operating loss deduction.** See page 4 of the instructions				36,000		
2 Taxable income before 2000 NOL carryback. Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction. See page 4 of the instructions			21,525			
3 Net capital loss deduction. See page 4 of the instructions			1,000			
4 Section 1202 exclusion. Enter as a positive number			-0-			
5 Adjustments to adjusted gross income. See page 4 of the instructions			-0-			
6 Adjustment to itemized deductions. See page 4 of the instructions . .			75			
7 Deduction for exemptions. Estates and trusts, enter exemption amount			2,700			
8 Modified taxable income. Combine lines 2 through 7. If zero or less, enter -0-				25,300		
9 **Net operating loss carryover.** Subtract line 8 from line 1. If zero or less, enter -0-. See page 5 of the instructions				10,700		
Adjustment to Itemized Deductions (Individuals Only) Complete lines 10 through 34 for the carryback year(s) for which you itemized deductions **only** if line 3 or line 4 above is more than zero.						
10 Adjusted gross income before 2000 NOL carryback			29,000			
11 Add lines 3 through 5 above . . .			1,000			
12 Modified adjusted gross income. Add lines 10 and 11			30,000			
13 Medical expenses from Sch. A (Form 1040), line 4 (or as previously adjusted)			550			
14 Medical expenses from Sch. A (Form 1040), line 1 (or as previously adjusted).			2,725			
15 Multiply line 12 by 7.5% (.075) . .			2,250			
16 Subtract line 15 from line 14. If zero or less, enter -0-			475			
17 Subtract line 16 from line 13 . . .				75		

Proof as of October 26, 2000 (subject to change)

Schedule B—Net Operating Loss Carryover *(Continued)*

Complete one column before going to the next column. Start with the earliest carryback year.	____ preceding tax year ended ►	2nd preceding tax year ended ► 12-31-97	1st preceding tax year ended ► 12-31-99
18 Modified adjusted gross income from line 12 on page 3		30,000	
19 Enter as a positive number any NOL carryback from a year before 2000 that was deducted in figuring line 10 on page 3		-0-	
20 Add lines 18 and 19		30,000	
21 Charitable contributions from Sch. A (Form 1040), line 18 (line 17 for 1990, line 16 for 1991-93) (or as previously adjusted)		1,450	
22 Refigured charitable contributions. See page 5 of the instructions		1,450	
23 Subtract line 22 from line 21			-0-
24 Casualty and theft losses from Form 4684, line 18 (or as previously adjusted)			
25 Casualty and theft losses from Form 4684, line 16 (or as previously adjusted)			
26 Multiply line 18 by 10% (.10)			
27 Subtract line 26 from line 25. If zero or less, enter -0-			
28 Subtract line 27 from line 24			
29 Miscellaneous itemized deductions from Sch. A (Form 1040), line 26 (line 25 for 1990, line 24 for 1991-93) (or as previously adjusted)			
30 Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (line 22 for 1990, line 21 for 1991-93) (or as previously adjusted)			
31 Multiply line 18 by 2% (.02)			
32 Subtract line 31 from line 30. If zero or less, enter -0-			
33 Subtract line 32 from line 29			
34 Complete the worksheet on page 6 of the instructions if line 18 is **more than** the applicable amount shown below (more than one-half that amount if married filing separately for that year). ● $100,000 for 1991. ● $105,250 for 1992. ● $108,450 for 1993. ● $111,800 for 1994. ● $114,700 for 1995. ● $117,950 for 1996. ● $121,200 for 1997. ● $124,500 for 1998. ● $126,600 for 1999. Otherwise, combine lines 17, 23, 28, and 33; enter the result here and on line 6 (page 3)			75

Proof as of October 26, 2000 (subject to change)

NOL Carryover From 2000 to 2001

If you had an NOL deduction that reduced your taxable income on your 2000 return to zero (to less than zero, if an estate or trust), complete Table 1, *Worksheet for NOL Carryover From 2000 to 2001.* It will help you figure your NOL to carry to 2001. Keep the worksheet for your records.

Worksheet Instructions

At the top of the worksheet, enter the NOL year for which you are figuring the carryover.

CAUTION ***More than one NOL.*** *If your 2000 NOL deduction includes amounts for more than one loss year, complete this worksheet only for one loss year. To determine which year, start with your earliest NOL and subtract each NOL separately from your taxable income figured without the NOL deduction. Complete this worksheet for the earliest NOL that reduces your taxable income below zero. Your earlier NOLs will be completely used up in 2000. Your NOL carryover to 2001 is the total of the amount on line 9 of the worksheet and all later NOL amounts.*

Example. Your taxable income for 2000 is $4,000 without your $9,000 NOL deduction. Your NOL deduction includes $2,000 for 1998 and $7,000 for 1999. Subtract your 1998 NOL of $2,000 from $4,000. This gives you taxable income of $2,000. Your 1998 NOL is now completely used up. Subtract your $7,000 1999 NOL from $2,000. This gives you taxable income of ($5,000). You now complete the worksheet for your 1999 NOL. Your NOL carryover to 2001 is the unused part of your 1999 NOL from line 9 of the worksheet.

Line 2. Treat your NOL deduction for the NOL year entered at the top of the worksheet and later years as a positive amount. Add it to your negative taxable income. Enter the result on line 2.

Line 5. You must refigure the following income and deductions based on adjusted gross income.

1) The special allowance for passive activity losses from rental real estate activities.
2) Taxable social security and tier 1 railroad retirement benefits.
3) IRA deduction.
4) Excludable savings bond interest.
5) Excludable employer-provided adoption benefits.
6) Student loan interest deduction.

If none of these items apply to you, enter zero on line 5. Otherwise, increase your adjusted gross income by the total of lines 3 and 4 and your NOL deduction for the NOL year entered at the top of the worksheet and later years. Using this increased adjusted gross income, refigure the items that apply, in the order listed above. Your adjustment for each item is the difference between the refigured amount and the amount included on your return. Add the adjustments for previous items to your adjusted gross income before refiguring the next item. Keep a record of your computations.

Enter your total adjustments for the above items on line 5.

Line 6. Enter zero if you claimed the standard deduction. Otherwise, use lines 10 through 41 of the worksheet to figure the amount to enter on this line. Complete only those sections that apply to you.

Estates and trusts. Enter zero on line 6 if you did not claim any miscellaneous deductions on line 15b (Form 1041) or a casualty or theft loss. Otherwise, refigure these deductions by substituting modified adjusted gross income (see below) for adjusted gross income. Subtract the recomputed deductions from those claimed on the return. Enter the result on line 6.

Modified adjusted gross income. To refigure miscellaneous itemized deductions of an estate or trust (Form 1041, line 15b), modified adjusted gross income is the total of the following amounts.

1) The adjusted gross income on the return.
2) The amounts from lines 3 and 4 of the worksheet.
3) The exemption amount from Form 1041, line 20.
4) The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

To refigure the casualty and theft loss deduction of an estate or trust, modified adjusted gross income is the total of the following amounts.

1) The adjusted gross income amount you used to figure the deduction claimed on the return.
2) The amounts from lines 3 and 4 of the worksheet.
3) The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

Line 10. Treat your NOL deduction for the NOL year entered at the top of the worksheet and for later years as a positive amount. Add it to your adjusted gross income. Enter the result on line 10.

Line 19. If you had a contributions carryover from 1999 to 2000 and your NOL deduction includes an amount from an NOL year before 1999, you may have to reduce your contributions carryover. This reduction is any adjustment you made to your 1999 charitable contributions deduction when figuring your NOL carryover to 2000. Use the reduced contributions carryover to figure the amount to enter on line 19.

Table 1. **Worksheet for NOL Carryover From 2000 to 2001 (For an NOL Year Before 2000)***

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under *NOL Carryover From 2000 to 2001.*

NOL YEAR: _____

USE YOUR 2000 FORM 1040 (OR FORM 1041) TO COMPLETE THIS WORKSHEET:

1. Enter as a positive number your NOL deduction for the NOL year entered above from line 21 (Form 1040) or line 15a (Form 1041)

2. Enter your taxable income without the NOL deduction for the NOL year entered above or later years. (See instructions.)

3. Enter as a positive number any net capital loss deduction

4. Enter as a positive number any gain excluded on the sale or exchange of qualified small business stock

5. Enter any adjustments to your adjusted gross income (see instructions)

6. Enter any adjustments to your itemized deductions from line 31 or line 41 (see instructions)

7. Enter your deduction for exemptions from line 38 (Form 1040) or line 20 (Form 1041)

8. **Modified taxable income.** Combine lines 2 through 7. Enter the result (but not less than zero)

9. **NOL carryover to 2001.** Subtract line 8 from line 1. Enter the result (but not less than zero) here and on the "other income" line of Form 1040 (or the line on Form 1041 for deductions NOT subject to the 2% floor) in 2001

ADJUSTMENTS TO ITEMIZED DEDUCTIONS (INDIVIDUALS ONLY):

10. Enter your adjusted gross income without the NOL deduction for the NOL year entered above or later years. (See instructions.)

11. Combine lines 3, 4, and 5 above

12. **Modified adjusted gross income.** Combine lines 10 and 11 above

ADJUSTMENT TO MEDICAL EXPENSES:

13. Enter your medical expenses from Schedule A (Form 1040), line 4

14. Enter your medical expenses from Schedule A (Form 1040), line 1

15. Multiply line 12 above by 7.5% (.075)

16. Subtract line 15 from line 14. Enter the result (but not less than zero)

17. Subtract line 16 from line 13

ADJUSTMENT TO CHARITABLE CONTRIBUTIONS:

18. Enter your charitable contributions deduction from Schedule A (Form 1040), line 18

19. Refigure your charitable contributions deduction using line 12 above as your adjusted gross income. (See instructions)

20. Subtract line 19 from line 18

ADJUSTMENT TO CASUALTY AND THEFT LOSSES:

21. Enter your casualty and theft losses from Form 4684, line 18

22. Enter your casualty and theft losses from Form 4684, line 16

23. Multiply line 12 above by 10% (.10)

24. Subtract line 23 from line 22. Enter the result (but not less than zero)

25. Subtract line 24 from line 21

ADJUSTMENT TO MISCELLANEOUS DEDUCTIONS:

26. Enter your miscellaneous deductions from Schedule A (Form 1040), line 26

27. Enter your miscellaneous deductions from Schedule A (Form 1040), line 23

28. Multiply line 12 above by 2% (.02)

29. Subtract line 28 from line 27. Enter the result (but not less than zero)

30. Subtract line 29 from line 26

TENTATIVE TOTAL ADJUSTMENT:

31. Combine lines 17, 20, 25, and 30, and enter the result here. If line 12 above is $128,950 or less ($64,475 or less if married filing separately), also enter the result on line 6 above and **stop here.** Otherwise, go to line 32

***Note:** *If you choose to waive the carryback period, and instead you choose to only carry your 2000 NOL forward, use Schedule A, Form 1045 to compute your 2000 NOL that will be carried over to 2001. Report your 2000 NOL from line 27, Schedule A, Form 1045 on the "other income" line of Form 1040 or the line on Form 1041 for deductions NOT subject to the 2% floor in 2001.*

Table 1. **(Continued)**

ADJUSTMENT TO OVERALL ITEMIZED LIMIT:	
32. Enter the amount on Schedule A (Form 1040), line 28	
33. Add lines 16, 19, 24, and 29, and the amounts on Schedule A (Form 1040), lines 9, 14, and 27	
34. Add lines 16 and 24, the amount on Schedule A (Form 1040), line 13, and any gambling losses included on Schedule A (Form 1040), line 27	
35. Subtract line 34 from line 33. If the result is zero, enter the amount from line 31 on line 6 above and **stop here.** Otherwise, go to line 36	
36. Multiply line 35 by 80% (.80)	
37. Subtract $128,950 ($64,475 if married filing separately) from the amount on line 12	
38. Multiply line 37 by 3% (.03)	
39. Enter the smaller of line 36 or line 38	
40. Subtract line 39 from line 33. Enter the result (but not less than your standard deduction amount)	
41. Subtract line 40 from line 32. Enter the result here and on line 6	

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed)* to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs)* to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)).*
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business)* to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business)* to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov**.

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**
  Western Area Distribution Center
  Rancho Cordova, CA 95743–0001
- **Central part of U.S.:**
  Central Area Distribution Center
  P.O. Box 8903
  Bloomington, IL 61702–8903
- **Eastern part of U.S. and foreign addresses:**
  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261–5074

CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1–877–233–6767** or on the Internet at **www.irs.gov/cdorders.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *The Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676.**

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Form **1040X** (Rev. November 2000)

Department of the Treasury—Internal Revenue Service

Amended U.S. Individual Income Tax Return

▶ **See separate instructions.**

OMB No. 1545-0091

This return is for calendar year ▶ , or fiscal year ended ▶ , .

Please print or type

Your first name and initial	Last name	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (no. and street) or P.O. box if mail is not delivered to your home	Apt. no.	Phone number ( )
City, town or post office, state, and ZIP code. If you have a foreign address, see page 2 of the instructions.		**For Paperwork Reduction Act Notice, see page 6.**

A If the name or address shown above is different from that shown on the original return, check here . . . . . ▶ ☐

B Has the original return been changed or audited by the IRS or have you been notified that it will be? . . ☐ **Yes** ☐ **No**

C Filing status. Be sure to complete this line. **Note.** You cannot change from joint to separate returns after the due date.

On original return ▶ ☐ Single ☐ Married filing joint return ☐ Married filing separate return ☐ Head of household ☐ Qualifying widow(er)

On this return ▶ ☐ Single ☐ Married filing joint return ☐ Married filing separate return ☐ Head of household* ☐ Qualifying widow(er)

* If the qualifying person is a child but not your dependent, see page 2.

Use Part II on the Back to Explain any Changes		A. **Original amount** or as previously adjusted (see page 2)	B. **Net change**—amount of increase or (decrease)—explain in Part II	C. **Correct amount**
Income and Deductions (see pages 2-6)				
1 Adjusted gross income (see page 3)	1			
2 Itemized deductions or standard deduction (see page 3)	2			
3 Subtract line 2 from line 1	3			
4 Exemptions. If changing, fill in Parts I and II on the back	4			
5 Taxable income. Subtract line 4 from line 3	5			
Tax Liability				
6 Tax (see page 4). Method used in col. C	6			
7 Credits (see page 4)	7			
8 Subtract line 7 from line 6. Enter the result but not less than zero	8			
9 Other taxes (see page 4)	9			
10 Total tax. Add lines 8 and 9	10			
Payments				
11 Federal income tax withheld and excess social security and RRTA tax withheld. If changing, see page 5	11			
12 Estimated tax payments, including amount applied from prior year's return	12			
13 Earned income credit (EIC)	13			
14 Additional child tax credit from Form 8812	14			
15 Credits from Form 2439 or Form 4136	15			
16 Amount paid with request for extension of time to file (see page 5)	16			
17 Amount of tax paid with original return plus additional tax paid after it was filed	17			
18 Total payments. Add lines 11 through 17 in column C	18			
Refund or Amount You Owe				
19 Overpayment, if any, as shown on original return or as previously adjusted by the IRS	19			
20 Subtract line 19 from line 18 (see page 5)	20			
21 **Amount you owe.** If line 10, column C, is more than line 20, enter the difference and see page 5	21			
22 If line 10, column C, is less than line 20, enter the difference	22			
23 Amount of line 22 you want **refunded to you**	23			
24 Amount of line 22 you want **applied to your estimated tax**	24			

Sign Here

Joint return? See page 2. Keep a copy for your records.

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

▶ Your signature Date ▶ Spouse's signature. If a joint return, **both** must sign. Date

Paid Preparer's Use Only

Preparer's signature ▶ Date Check if self-employed ☐ Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ EIN

Phone no. ( )

Part I **Exemptions.** See Form 1040 or 1040A instructions.

If you are **not changing your exemptions,** do not complete this part.
If claiming **more exemptions,** complete lines 25–31.
If claiming **fewer exemptions,** complete lines 25–30.

			A. Original number of exemptions reported or as previously adjusted	B. Net change	C. Correct number of exemptions
25	Yourself and spouse	**25**			
	Caution. If your parents (or someone else) can claim you as a dependent (even if they chose not to), you cannot claim an exemption for yourself.				
26	Your dependent children who lived with you	**26**			
27	Your dependent children who did not live with you due to divorce or separation	**27**			
28	Other dependents	**28**			
29	Total number of exemptions. Add lines 25 through 28	**29**			
30	Multiply the number of exemptions claimed on line 29 by the amount listed below for the tax year you are amending. Enter the result here and on line 4.	**30**			

Tax year	Exemption amount	But see the instructions for line 4 on page 3 if the amount on line 1 is over:
2000	$2,800	$96,700
1999	2,750	94,975
1998	2,700	93,400
1997	2,650	90,900

31 Dependents (children and other) not claimed on original (or adjusted) return:
Note. For tax years after 1997, do not complete column (e) below. For tax year 1997, do not complete column (d) below.

(a) First name Last name	(b) Dependent's social security number	(c) Dependent's relationship to you	(d) ✓ if qualifying child for child tax credit (see page 5)	(e) No. of months lived in your home
			☐	
			☐	
			☐	
			☐	
			☐	
			☐	

No. of your children on line 31 who:
- lived with you . . ► ☐
- **did not** live with you due to divorce or separation (see page 5) . . ► ☐

Dependents on line 31 not entered above ► ☐

Part II **Explanation of Changes to Income, Deductions, and Credits**

Enter the line number from the front of the form for each item you are changing and give the reason for each change. Attach only the supporting forms and schedules for the items changed. If you do not attach the required information, your Form 1040X may be returned. Be sure to include your name and social security number on any attachments.

If the change relates to a net operating loss carryback or a general business credit carryback, attach the schedule or form that shows the year in which the loss or credit occurred. See page 2 of the instructions. Also, check here . . . . . ► ☐

Part III **Presidential Election Campaign Fund.** Checking below will not increase your tax or reduce your refund.

If you did not previously want $3 to go to the fund but now want to, check here . . . . . ► ☐
If a joint return and your spouse did not previously want $3 to go to the fund but now wants to, check here . . . . ► ☐

Instructions for Form 1040X

Department of the Treasury
Internal Revenue Service

(Revised November 2000)

Amended U.S. Individual Income Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1040X to correct **Forms 1040, 1040A, 1040EZ, 1040NR, 1040NR-EZ,** or **1040PC.** If you used TeleFile to file your original return and these instructions do not give you all the information you need to complete Form 1040X, you can call 1-800-829-1040 for help.

You may also use Form 1040X to:

- Make certain elections after the prescribed deadline (see Regulations sections 301.9100-1 through -3 for details) or
- Change amounts previously adjusted by the IRS. **Do not** include any interest or penalties on Form 1040X; they will be adjusted accordingly.

File a separate Form 1040X for each year you are amending. If you are changing your Federal return, you may also have to change your state return. Please note that it often takes 2 to 3 months to process Form 1040X.

Filing Form 1045. You may use **Form 1045,** Application for Tentative Refund, instead of Form 1040X to apply for a refund based on a net operating loss or general business credit carryback **or** a claim of right adjustment under section 1341(b)(1). But Form 1045 must be filed within 1 year after the end of the year in which the loss, credit, or claim of right adjustment arose. For more details, see the Instructions for Form 1045.

Information on Income, Deductions, etc.

If you have questions such as what income is taxable or what expenses are deductible, the instructions for the return you are amending may help. Be sure to use the Tax Table or Tax Rate Schedules for the right year to figure the corrected tax. The related schedules and forms may also help. To get prior year forms, schedules, and instructions, call 1-800-TAX-FORM (1-800-829-3676) or download them from the IRS Web Site at **www.irs.gov**.

When To File

TIP *The time during which Form 1040X may be filed is extended for certain people who are physically or mentally unable to manage their financial affairs. For details, see **Pub. 556**, Examination of Returns, Appeal Rights, and Claims for Refund.*

File Form 1040X only after you have filed your original return. Generally, Form 1040X must be filed within 3 years after the date you filed the original return or within 2 years after the date you paid the tax, whichever is later. A return filed early is considered filed on the due date.

A Form 1040X based on a bad debt or worthless security generally must be filed within 7 years after the due date of the return for the tax year in which the debt or security became worthless. For more details, see section 6511.

A Form 1040X based on a net operating loss carryback or a general business credit carryback generally must be filed within 3 years after the due date of the return (including extensions) for the tax year of the net operating loss or unused credit.

Where To File

Mail your return to the **Internal Revenue Service Center** for the place where you live.*

If you live in:	Use this address:
Florida, Georgia, South Carolina, West Virginia	Atlanta, GA 39901
Arizona, California *(counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba),* Nevada, North Dakota, South Dakota, Utah, Washington	Ogden, UT 84201
California *(all other counties),* Alaska, Hawaii	Fresno, CA 93888
Delaware, New Jersey, New York *(New York City and counties of Nassau, Rockland, Suffolk, and Westchester)*	Holtsville, NY 00501
New York *(all other counties),* Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Kansas, Minnesota, Missouri, Oregon, Wisconsin	Kansas City, MO 64999
District of Columbia, Indiana, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255
Michigan, Ohio	Cincinnati, OH 45999
Colorado, Idaho, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301
Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Nebraska, North Carolina, Tennessee	Memphis, TN 37501
Guam: Permanent residents—*Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921*	
Virgin Islands: Permanent residents—*V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802*	
If you live in American Samoa or Puerto Rico *(or exclude income under section 933);* are a nonpermanent resident of Guam or the Virgin Islands; have an APO or FPO or foreign address; are a dual-status alien; or file Form 2555, 2555-EZ, or 4563, use this address: *Internal Revenue Service Center, Philadelphia, PA 19255*	

* If Form 1040X includes a Form 1040NR or 1040NR-EZ, mail it to the Internal Revenue Service Center, Philadelphia, PA 19255, USA.

Special Situations

Note. *If amending your return to include any item relating to a tax shelter required to be registered, attach **Form 8271,** Investor Reporting of Tax Shelter Registration Number.*

Injured spouse claim. Do not use Form 1040X to file an injured spouse claim. Instead, file only **Form 8379,** Injured Spouse Claim and Allocation.

Net operating loss (NOL). Attach a computation of your NOL using **Schedule A (Form 1045)** and any carryover using **Schedule B (Form 1045).** A refund based on an NOL should not include a refund of self-employment tax reported on Form 1040X, line 9. See **Pub. 536,** Net Operating Losses, for details.

(Continued)

Carryback claims. You must attach copies of the following if Form 1040X is used as a carryback claim.

- Both pages of Form 1040 and Schedules A and D, if applicable, for the year in which the loss or credit originated. Enter "Attachment to Form 1040X–Copy Only–Do Not Process" at the top of these forms.
- Any Schedules K-1 you received from any partnership, S corporation, estate, or trust for the year of the loss or credit that contributed to the loss or credit carryback.
- Any form or schedule from which the carryback results, such as Form 3800 or Schedule C or F.
- Forms or schedules for items refigured in the carryback year such as Form 6251, Form 3468, or Schedule A.

Your Form 1040X must have the appropriate forms and schedules attached or it will be returned for them.

Note. *If you filed a joint or separate return for some, but not all, of the years involved in figuring the loss or credit carryback, you may have to allocate income, deductions, and credits. For details, see the publication for the type of carryback you are claiming. For example, see* ***Pub. 536,*** *Net Operating Losses, or* ***Pub. 514,*** *Foreign Tax Credit for Individuals.*

Resident and nonresident aliens. Use Form 1040X to amend **Form 1040NR** or **Form 1040NR-EZ.** Also, use Form 1040X if you should have filed Form 1040, 1040A, or 1040EZ instead of Form 1040NR or 1040NR-EZ, or vice versa. For details, see **Pub. 519,** U.S. Tax Guide for Aliens.

To amend Form 1040NR or 1040NR-EZ or to file the correct return, you must **(a)** fill in your name, address, and IRS individual taxpayer identification number (ITIN) or social security number (SSN) on Form 1040X; and **(b)** attach the corrected return (Form 1040, Form 1040NR, etc.) to Form 1040X.

Across the top of the return, enter "Amended." Also, complete line B and Part II of Form 1040X. Include in Part II an explanation of the changes or corrections made.

Death of a taxpayer. If filing Form 1040X for a deceased taxpayer, enter "Deceased," the deceased taxpayer's name, and the date of death across the top of Form 1040X.

If you are filing a joint return as a surviving spouse, enter "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

Claiming a refund for a deceased taxpayer. If you are filing a joint return as a surviving spouse, you only need to file Form 1040X to claim the refund. If you are a court-appointed representative or any other person claiming the refund, file Form 1040X and attach **Form 1310,** Statement of Person Claiming Refund Due a Deceased Taxpayer, and any other information required by its instructions. For more details, see **Pub. 559,** Survivors, Executors, and Administrators.

Line Instructions

Above your name, enter the calendar or fiscal year of the return you are amending.

Name, Address, and SSN

If you and your spouse are amending a joint return, list your names and SSNs in the same order as shown on the original return. If you are changing from a separate to a joint return and your spouse did not file an original return, enter your name and SSN first.

Foreign address. Enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. Please **do not** abbreviate the country name.

Line C

Changing from separate to a joint return. If you and your spouse are changing from separate returns to a joint return, follow these steps.

1. Enter in column A the amounts from your return as originally filed or as previously adjusted (either by you or the IRS).

2. Combine the amounts from your spouse's return as originally filed or as previously adjusted with any other changes you or your spouse are making to determine the amounts to enter in column B. If your spouse did not file an original return, include your spouse's income, deductions, credits, other taxes, etc., to determine the amounts to enter in column B.

3. Read the instructions for column C that begin below to figure the amounts to enter in that column.

Both of you must sign Form 1040X.

Joint and several tax liability. If you file a joint return, both you and your spouse are generally responsible for the tax and any interest or penalties due on the return. This means that if one spouse does not pay the tax due, the other may have to. However, you may qualify for innocent spouse relief. For details, see **Form 8857** or **Pub. 971** (both relating to innocent spouse relief).

Head of household. If you are changing to the head of household filing status and the qualifying person is a child but not your dependent, enter the child's name and "QND" in Part II of Form 1040X.

CAUTION *Generally, married people cannot file as head of household. But see* ***Pub. 501****, Exemptions, Standard Deduction, and Filing Information, for an exception.*

Lines 1 Through 31

TIP *If you are only providing additional information and not changing amounts you originally reported, skip lines 1–31 and complete Part II and, if applicable, Part III.*

To help you complete Form 1040X, start with:

- Line 1 if you are changing income or deductions.
- Line 6 if you are changing only credits or other taxes.
- Line 10 if you are changing only payments.

Columns A Through C

Column A. Enter the amounts from your original return. However, if you previously amended that return or it was changed by the IRS, enter the adjusted amounts.

Column B. Enter the net increase or decrease for each line you are changing. Show decreases in parentheses.

Explain each change in Part II. If you need more space, attach a statement. Also, attach any schedule or form relating to the change. For example, attach **Schedule A (Form 1040)** if you are amending Form 1040 to itemize deductions. **Do not** attach items unless required to do so.

Column C. To figure the amounts to enter in this column:

- Add the increase in column B to column A **or**
- Subtract the decrease in column B from column A.

For any item you **do not** change, enter the amount from column A in column C.

Example. Anna Arbor originally reported $11,000 as her adjusted gross income on her 1999 Form 1040A. She received another Form W-2 for $500 after she filed her return. She completes line 1 of Form 1040X as follows.

	Col. A	Col. B	Col. C
Line 1	$11,000	$500	$11,500

She would also report any additional Federal income tax withheld on line 11 in column B.

Income and Deductions

Line 1

Enter your adjusted gross income (AGI). To find the corresponding line on the return you are amending, use the chart on page 6 for the appropriate year. A change you make to your AGI can cause other amounts to increase or decrease. For example, increasing your AGI may:

- Decrease your miscellaneous itemized deductions, the credit for child and dependent care expenses, or (for tax years after 1997) the child tax credit or education credits or
- Increase your allowable charitable contributions deduction or the taxable amount of social security benefits.

Note. *If you converted part or all of your IRA to a Roth IRA in 1998 and you elected to include the total taxable amount in your 1998 income, you* ***cannot*** *change that election after the due date of your return (including extensions).*

Changing your AGI may also affect your total itemized deductions or your deduction for exemptions (see the instructions for line 4). Refigure these items and those listed above whenever you change your AGI.

Correcting your wages or other employee compensation? Attach a copy of all additional or corrected Forms W-2 you received after you filed your original return.

Changing your IRA deduction? In Part II of Form 1040X, enter "IRA deduction" and the amount of the increase or decrease. If changing from a deductible to a nondeductible IRA contribution, also complete and attach **Form 8606,** Nondeductible IRAs.

Line 2

Did you originally file using TeleFile or Form 1040EZ?

☐ **Yes.** See **TeleFile and Form 1040EZ Filers—Lines 2 and 4** on page 4 for the amount to enter on line 2.

☐ **No.** Use the following chart to find the amount to enter on line 2.

IF you . . .	THEN enter on line 2 your . . .
Itemize your deductions	Total itemized deductions from **Schedule A (Form 1040),** line 28
Do not itemize	Standard deduction from Form: • 1040, line 36 for tax years after 1997; line 35 for 1997, or • 1040A, line 22 for 2000; line 21 for 1999 and 1998; line 19 for 1997.

Line 4

Did you originally file using TeleFile or Form 1040EZ?

☐ **Yes.** See **TeleFile and Form 1040EZ Filers—Lines 2 and 4** on page 4 for the amount to enter on line 4.

☐ **No.** Use the following chart to find the amount to enter on line 4.

IF you are . . .	THEN enter on line 4 the amount from Form . . .
Changing the number of exemptions claimed	1040X, line 30 (complete line 31 if applicable).
Not changing the number of exemptions claimed*	• 1040, line 38 for tax years after 1997; line 37 for 1997, or • 1040A, line 24 for 2000; line 23 for 1999 and 1998; line 21 for 1997.

* If the amount in column A or C of line 1 is over $90,900, see **Who must use Deduction for Exemptions Worksheet** below.

Who must use Deduction for Exemptions Worksheet. Use the chart on page 4 to find out if you must use that worksheet in the Form 1040 instructions for the year you are amending to figure the amount to enter on line 4 and, if applicable, line 30.

You must use the **Deduction for Exemptions Worksheet** if-

You are amending your:	And your filing status is:	And the amount in col. A or C of line 1 is over:
2000 return	Married filing separately	$96,700
	Married filing jointly or Qualifying widow(er)	193,400
	Single	128,950
	Head of household	161,150
1999 return	Married filing separately	$94,975
	Married filing jointly or Qualifying widow(er)	189,950
	Single	126,600
	Head of household	158,300
1998 return	Married filing separately	$93,400
	Married filing jointly or Qualifying widow(er)	186,800
	Single	124,500
	Head of household	155,650
1997 return	Married filing separately	$90,900
	Married filing jointly or Qualifying widow(er)	181,800
	Single	121,200
	Head of household	151,500

TeleFile and Form 1040EZ Filers—Lines 2 and 4

TeleFile filers. The amounts to enter on lines 2 and 4 of Form 1040X depend on whether you (or your spouse) could be claimed as a dependent on someone's return. **First,** get Form 1040EZ for the year you are amending. **Next,** complete line 5 of Form 1040EZ and, if applicable, the worksheet on the back of the form. **Then,** see **Form 1040EZ filers** next to determine the amounts to enter on lines 2 and 4 of Form 1040X.

Form 1040EZ filers. Did you check the "Yes" box on Form 1040EZ, line 5?

☐ **Yes.** On Form 1040X, line 2, enter the amount from line E of the worksheet on the back of Form 1040EZ. On Form 1040X, line 4, enter zero (or the amount from line F of the 1040EZ worksheet if married filing jointly).

☐ **No.** Use the following chart to find the amounts to enter on lines 2 and 4.

IF you are amending your . . .	AND your filing status is . . .	THEN enter on Form 1040X,	
		line 2 . . .	line 4 . . .
2000 return	Single	$4,400	$2,800
	Married filing jointly	7,350	5,600
1999 return	Single	$4,300	$2,750
	Married filing jointly	7,200	5,500
1998 return	Single	$4,250	$2,700
	Married filing jointly	7,100	5,400
1997 return	Single	$4,150	$2,650
	Married filing jointly	6,900	5,300

Tax Liability

Line 6

Enter your income tax before subtracting any credits. Figure the tax on the taxable income reported on line 5, column C. Attach the appropriate schedule or form(s). Include on line 6 any additional taxes from **Form 4972,** Tax on Lump-Sum Distributions, and, for 2000 and 1999, recapture of education credits. For 2000, also include on line 6 any alternative minimum tax.

Indicate the method you used to figure the tax shown in column C. For example, if you used the Tax Tables, enter "Tables." If you used the Tax Rate Schedules, enter "TRS." If you used **Schedule D (Form 1040),** enter "Sch. D." If, for 2000 or 1999, you used the Capital Gain Tax Worksheet, enter "CGTW."

Line 7

Enter your total credits, such as the credit for the elderly or the disabled, credit for child and dependent care expenses, adoption credit, or credit for prior year minimum tax. For tax years after 1997, include the child tax credit and education credits. **Do not** include credits from **Forms 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains, and **4136,** Credit for Federal Tax Paid on Fuels. Instead, use line 15 for these credits.

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Line 9

Include other taxes such as:

- Alternative minimum tax (for 1999, 1998, and 1997).
- Self-employment tax.
- Tax on early distributions from qualified retirement plans and medical savings accounts.
- Advance earned income credit payments.
- Recapture taxes (for example, recapture of investment credit or low-income housing credit).
- Tax from **Form 4970.**
- Household employment taxes. If you are changing these taxes, attach **Schedule H (Form 1040)** and enter in Part II of Form 1040X the date the error was discovered. If you are changing the wages paid to an employee for whom you filed Form W-2, you must also file **Form W-2c,** Corrected Wage and Tax Statement, and **Form W-3c,** Transmittal of Corrected Wage and Tax Statements.

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Payments

Lines 11 Through 16

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Line 11. If you are changing these amounts, attach to the front of Form 1040X a copy of all additional or corrected Forms W-2 or 1099-R you received after you filed your original return. Enter in column B any additional amounts shown on these forms as "Federal income tax withheld".

Line 12. Enter the estimated tax payments you claimed on your original return. If you filed **Form 1040-C,** U.S. Departing Alien Income Tax Return, include the amount you paid as the balance due with that return.

Line 13. If you are amending your return to claim the earned income credit (EIC), enter the type and amount of any nontaxable earned income in Part II of Form 1040X. Also, attach **Schedule EIC (Form 1040A or 1040)** if you have a qualifying child.

CAUTION *If your EIC was reduced or disallowed for a tax year after 1996, see the Instructions for **Form 8862,** Information To Claim Earned Income Credit After Disallowance, to find out if you must also file that form to claim the credit.*

Line 14. If you are amending your 2000, 1999, or 1998 return to claim the additional child tax credit, attach **Form 8812**.

Line 15. If you are amending your return to claim a credit on this line, attach Copy B of **Form 2439** and/or **Form 4136.**

Line 16. Enter any amount paid with **Form 4868, 2688,** or **2350.** For 2000 and 1999, also include any amount paid with a credit card used to get an extension of time to file. But **do not** include the convenience fee you were charged. For 2000, also include any amount paid by direct debit.

Line 17

Enter the amount of tax you paid from the "Amount You Owe" line on your **original** return. Also, include any additional tax that may have resulted if your original return was changed or examined. **Do not** include payments of interest or penalties.

Refund or Amount You Owe

Line 19

Enter the overpayment from your original return. You must enter that amount because any additional refund you claim on Form 1040X will be sent separately from any refund you have not yet received from your original return.

If your original return was changed by the IRS and the result was an additional overpayment of tax, also include that amount on line 19. **Do not** include interest you received on any refund.

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Lines 20 and 21

If line 20 is negative, treat it as a positive amount and add it to the amount on line 10, column C. Enter the result on line 21. This is the amount you owe.

Send Form 1040X with a check or money order for the full amount payable to the **"United States Treasury." Do not** send cash. On your payment, put your name, address, daytime phone number, and SSN. Also, enter the tax year and type of return you are amending (for example, "1999 Form 1040"). We will figure any interest due and send you a bill.

To help us process your payment, enter the amount on the right side of the check like this: $ XXX.XX. Do not use dashes or lines (for example, do not enter "$ XXX—" or "$ XXX 00/100").

What if you cannot pay? If you cannot pay the full amount shown on line 21, you may ask to make monthly installment payments. You may have up to 60 months to pay. See **Form 9465,** Installment Agreement Request, for more information.

Lines 23 and 24

The refund amount on line 23 will be sent separately from any refund you claimed on your original return (see the instructions for line 19). We will figure the interest and include it in your refund.

Enter on line 24 the amount, if any, from line 22 you want applied to your estimated tax for next year. Also, enter that tax year. No interest will be paid on this amount. You cannot change the election to apply part or all of the overpayment on line 22 to next year's estimated tax.

Paid Preparer

Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign.

Exemptions (Part I)

Line 30

You may have to use the **Deduction for Exemptions Worksheet** in the Form 1040 instructions to figure the amount to enter on line 30. To find out if you do, see the instructions for line 4. If you do not have to use that worksheet, multiply the applicable dollar amount on line 30 by the number of exemptions on line 29.

Line 31

If you are adding more than six dependents, attach a statement with the required information.

Column (b). You must enter each dependent's social security number (SSN). If your dependent child was born and died in the tax year you are amending and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead and enter "Died" in column (b).

Be sure the name and SSN entered agree with the dependent's social security card. Otherwise, at the time we process your return, we may disallow the exemption claimed for the dependent and reduce or disallow any other tax benefits (such as the child tax credit and earned income credit) based on that dependent.

Note. *For details on how to get an SSN or correct a name or number, see the 2000 Form 1040 or Form 1040A instructions.*

Column (d). For tax years after 1997, check the box in column (d) if your dependent is also a qualifying child for the child tax credit. See the Form 1040 or 1040A instructions for the year you are amending to find out who is a qualifying child.

Children who did not live with you due to divorce or separation. If you are claiming a child who did not live with you under the rules for children of divorced or separated parents, attach **Form 8332,** Release of Claim

to Exemption for Child of Divorced or Separated Parents, or similar statement. But see **Exception** below. If your divorce decree or separation agreement went into effect after 1984 and it states you can claim the child as your dependent without regard to any condition, such as payment of support, you may attach a copy of the following pages from the decree or agreement instead.

1. Cover page (put the other parent's SSN on that page),

2. The page that states you can claim the child as your dependent, and

3. Signature page with the other parent's signature and date of agreement.

For more details, see **Pub. 501.**

Exception. You do not have to attach Form 8332 or similar statement if your divorce decree or written separation agreement went into effect before 1985 and it states that you can claim the child as your dependent.

Presidential Election Campaign Fund (Part III)

You may use Form 1040X to have $3 go to the fund if you (or your spouse on a joint return) did not do so on your original return. This must be done within 20½ months after the original due date for filing the return. For calendar year 2000, this period ends on December 31, 2002. A **"Yes"** designation cannot be changed.

Charts

Use the chart for the year you are amending to find the corresponding lines on your return.

CAUTION *Be sure to include write-in amounts from the return you are amending.*

2000

IF you are completing Form 1040X . . .	THEN the corresponding line(s) on the 2000 Form . . .		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	33	19	4
Line 7	43–49	27–31	N/A
Line 9	52–56	34	N/A
Lines 11-16	58-60a and 61-64	36–38a and 39	7 and 8a
Line 19	66	41	11a

1999 and 1998

IF you are completing Form 1040X . . .	THEN the corresponding line(s) on the 1999 and 1998 Form . . .		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	33	18	4
Line 7	41–47	26–30	N/A
Line 9	50–55	33	N/A
Lines 11-16	57-59a and 60-63	35–37a and 38	7 and 8a
Line 19	65	40	11a

1997

IF you are completing Form 1040X . . .	THEN the corresponding line(s) on the 1997 Form . . .		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	32	16	4
Line 7	40–44	24a–24c	N/A
Line 9	47–52	26 and 27	N/A
Lines 11-16	54–56a and 57–59	29a–29c	7 and 8a
Line 19	61	30	11a

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 1 hr., 19 min.; **Learning about the law or the form,** 28 min.; **Preparing the form,** 1 hr., 11 min.; and **Copying, assembling, and sending the form to the IRS,** 35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the form to this address. Instead, see **Where To File** on page 1.

Form **8822**
(Rev. Oct. 2000)
Department of the Treasury
Internal Revenue Service

Change of Address

► **Please type or print.**

► **See instructions on back.** ► **Do not attach this form to your return.**

OMB No. 1545-1163

Part I Complete This Part To Change Your Home Mailing Address

Check **all** boxes this change affects:

1 ☐ Individual income tax returns (Forms 1040, 1040A, 1040EZ, TeleFile, 1040NR, etc.)

► If your last return was a joint return and you are now establishing a residence separate from the spouse with whom you filed that return, check here . . . . . ► ☐

2 ☐ Gift, estate, or generation-skipping transfer tax returns (Forms 706, 709, etc.)

► For Forms 706 and 706-NA, enter the decedent's name and social security number below.

► Decedent's name ► Social security number

3a **Your name** (first name, initial, and last name)	**3b** **Your social security number**
4a **Spouse's name** (first name, initial, and last name)	**4b** **Spouse's social security number**

5 **Prior name(s).** See instructions.

6a **Old address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Apt. no.
6b **Spouse's old address,** if different from line 6a (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Apt. no.
7 **New address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Apt. no.

Part II Complete This Part To Change Your Business Mailing Address or Business Location

Check **all** boxes this change affects:

8 ☐ Employment, excise, and other business returns (Forms 720, 940, 940-EZ, 941, 990, 1041, 1065, 1120, etc.)

9 ☐ Employee plan returns (Forms 5500 and 5500-EZ).

10 ☐ Business location

11a **Business name**	**11b** **Employer identification number**
12 **Old mailing address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Room or suite no.
13 **New mailing address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Room or suite no.
14 **New business location** (no., street, city or town, state, and ZIP code). If a foreign address, see instructions.	Room or suite no.

Part III Signature

Daytime telephone number of person to contact (optional) ► ( )

Sign Here

► Your signature — Date	► If Part II completed, signature of owner, officer, or representative — Date
► If joint return, spouse's signature — Date	► Title

For Privacy Act and Paperwork Reduction Act Notice, see back of form.

Purpose of Form

You may use Form 8822 to notify the Internal Revenue Service if you changed your home or business mailing address or your business location. If this change also affects the mailing address for your children who filed income tax returns, complete and file a separate Form 8822 for each child. If you are a representative signing for the taxpayer, attach to Form 8822 a copy of your power of attorney.

Changing Both Home and Business Addresses? If you are, use a separate Form 8822 to show each change unless the service center under **Where To File** is the same for both home and business.

Prior Name(s)

If you or your spouse changed your name because of marriage, divorce, etc., complete line 5. Also, be sure to notify the **Social Security Administration** of your new name so that it has the same name in its records that you have on your tax return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits.

Addresses

Be sure to include any apartment, room, or suite number in the space provided.

P.O. Box

Enter your box number instead of your street address **only** if your post office does not deliver mail to your street address.

Foreign Address

Enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. Please **do not** abbreviate the country name.

Signature

If you are completing Part II, the owner, an officer, or a representative must sign. An officer is the president, vice president, treasurer, chief accounting officer, etc. A representative is a person who has a valid power of attorney to handle tax matters.

Where To File

Send this form to the **Internal Revenue Service Center** shown below that applies to you.

Filers Who Completed Part I

IF your old home mailing address was in. . .	THEN use this address. . .
Florida, Georgia, South Carolina, West Virginia	Atlanta, GA 39901
Colorado, Idaho, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301
Delaware, New Jersey, New York *(New York City and counties of Nassau, Rockland, Suffolk, and Westchester)*	Holtsville, NY 00501
New York *(all other counties)*, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Arizona, California *(counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba)*, Nevada, North Dakota, South Dakota, Utah, Washington	Ogden, UT 84201
Alaska, California *(all other counties)*, Hawaii	Fresno, CA 93888
Michigan, Ohio	Cincinnati, OH 45999
District of Columbia, Indiana, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255
Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Nebraska, North Carolina, Tennessee	Memphis, TN 37501
Illinois, Iowa, Kansas, Minnesota, Missouri, Oregon, Wisconsin	Kansas City, MO 64999
American Samoa	Philadelphia, PA 19255
Guam: Permanent residents	Department of Revenue and Taxation Government of Guam P.O. Box 23607 GMF, GU 96921
Guam: Nonpermanent residents Puerto Rico (or if excluding income under Internal Revenue Code section 933) Virgin Islands: Nonpermanent residents	Philadelphia, PA 19255
Virgin Islands: Permanent residents	V. I. Bureau of Internal Revenue 9601 Estate Thomas Charlotte Amalie St. Thomas, VI 00802
Foreign country: U.S. citizens and those filing Form 2555, Form 2555-EZ, or Form 4563	Philadelphia, PA 19255
All APO and FPO addresses	

Filers Who Completed Part II

IF your old business address was in. . .	THEN use this address. . .
Virginia or Outside the United States	Philadelphia, PA 19255
Delaware, District of Columbia, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, West Virginia, Wisconsin	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma	Austin, TX 73301
Alabama, Tennessee	Memphis, TN 37501
Illinois	Kansas City, MO 64999
Alaska, Arizona, Arkansas, California *(counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba)*, Colorado, Hawaii, Idaho, Iowa, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Ogden, UT 84201
California *(all other counties)*	Fresno, CA 93888
Florida, Georgia	Atlanta, GA 39901
New York *(New York City and counties of Nassau, Rockland, Suffolk, and Westchester)*	Holtsville, NY 00501
New York *(all other counties)*, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. And we may give it to foreign governments because of tax treaties they have with the United States.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The use of this form is voluntary. However, if you fail to provide the Internal Revenue Service with your current mailing address, you may not receive a notice of deficiency or a notice and demand for tax. Despite the failure to receive such notices, penalties and interest will continue to accrue on the tax deficiencies.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is 16 minutes.

If you have comments concerning the accuracy of this time estimate or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the form to this address. Instead, see **Where To File** on this page.

Casualty Losses - Document List

If you need assistance in preparing your returns, the IRS will help you.

If you are able to provide any of the following information, it will assist the IRS in calculating your casualty loss:

- Complete list of personal and non-real estate items lost in the disaster. Publication 584, Casualty, Disaster, and Theft Loss Workbook, will assist you in compiling these items. You may also use the lists prepared by FEMA and add the additional Fair Market Value information.

- If available, bring copies of your federal tax returns for the last three years.

- If you claimed a casualty loss on your last year's return or any prior year return, please bring a copy of the amended returns or any other documentation, if available.

- Insurance reimbursement documentation, if applicable.

- All types of Federal Emergency Management Agency's reimbursement documentation, if applicable.

- All Small Business Administration appraisals, if applicable

- The fair market value of your home and real estate before the casualty

- Any contractor estimates on repairs or replacement costs to damaged property

- If you previously elected the standard deduction, bring copies of your prior state tax withholdings, real property taxes, personal property, home mortgage interest and charitable contributions paid in the prior year

Securing copies of previously filed returns, providing W-2 or Form 1099 data, expediting current year return processing, expediting issuance of replacement checks, delaying notices, and waiving penalties are also helpful services IRS can provide, if needed.

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Internal Revenue Service
WADC-9999
Rancho Cordova, CA 95743-9999

OFFICIAL BUSINESS
Penalty for Private Use, $300

PRSRT STD
Postage & Fees Paid
IRS
Permit No. G-48