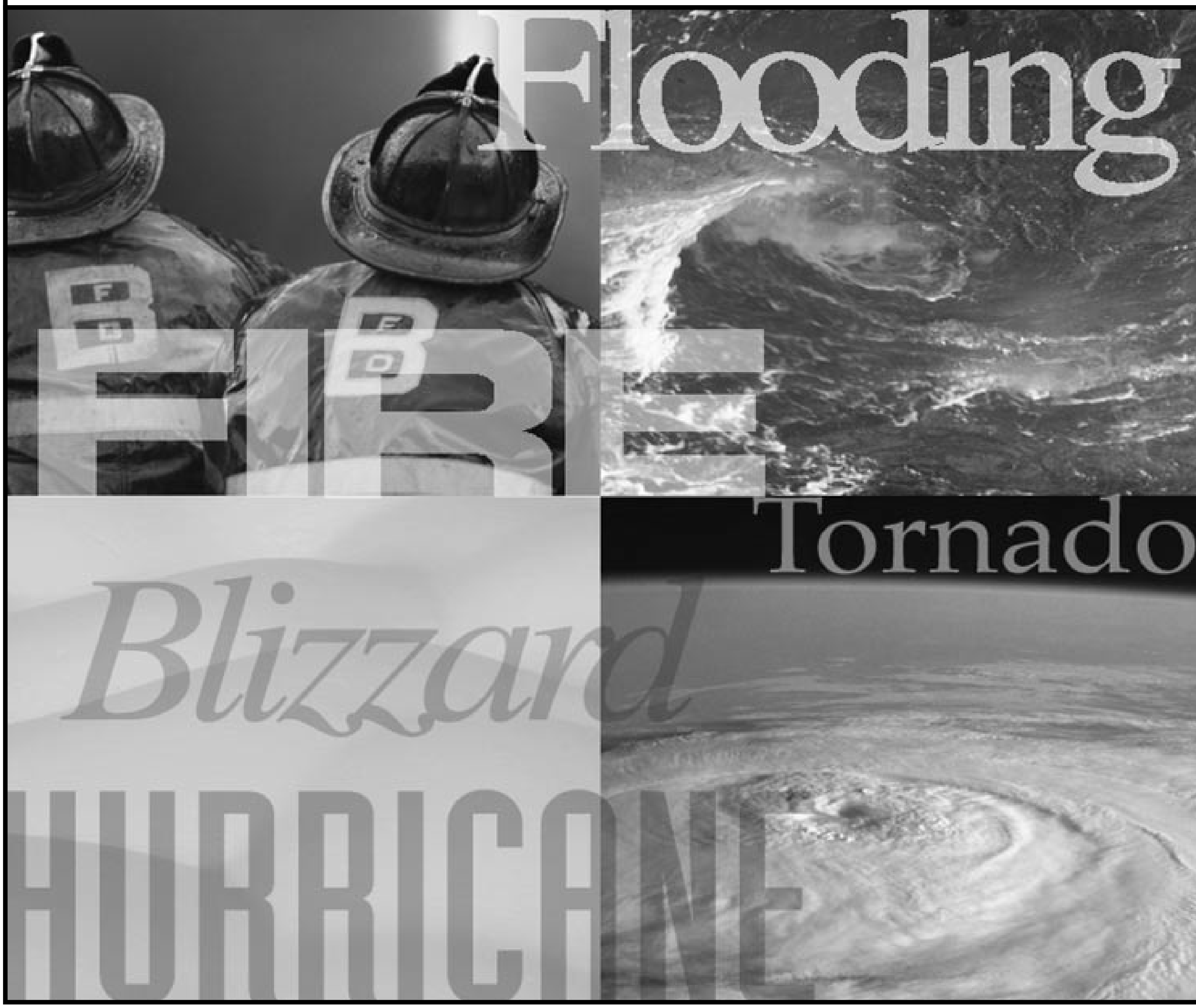
2002 DISASTER LOSSES KIT

FOR BUSINESSES



HELP FROM THE IRS

IRS Department of the Treasury
Internal Revenue Service
Publication 2194B (Rev. 8-02)
Catalog Number 31161M
www.irs.gov

Table of Contents

This Page Left Intentionally Blank

Disaster Losses Kit for Businesses

Introduction

If your business was affected this year by a major disaster or emergency in your area, this Disaster Losses Kit can help you claim unreimbursed casualty losses on property that was destroyed by a natural disaster. The Kit contains tax forms needed to claim a casualty loss.

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 copies or 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) 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.

Note: If you in the business of farming, call 1-800-829-3676 to order the Farmer's Tax Guide (Publication 225). In addition to general information, the Farmer's Tax Guide explains how to report sales impacted by weather-related conditions and how to report income from crop insurance payments or other types of disaster-related payments.

This Page Left Intentionally Blank

CASUALTY LOSSES - DOCUMENT LIST

Make Disaster Tax Relief Filing Easy

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 (Personal-Use Property) and **Publication 584B,** Business 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 and 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.

IRS
Department of the Treasury
Internal Revenue Service
Publication 3932
Catalog Number 32903Y
www.irs.gov

This Page Left Intentionally Blank

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.)

11 Tax period(s) (year or period ended date). If more than four, see instructions.

12 Complete only if **line 8d** is checked. Amount due:

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

Title (if line 1a above is a corporation, partnership, estate, or trust)

Spouse's signature Date

Telephone number of requester
( )

Best time to call

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.

Printed on recycled paper

Department
of the
Treasury

**Internal
Revenue
Service**

Publication 584-B
(March 2001)
Cat. No. 31749K

Business Casualty, Disaster, and Theft Loss Workbook

Get forms and other information faster and easier by:

Computer • www.irs.gov or **FTP** • ftp.irs.gov

FAX • 703-368-9694 (from your FAX machine)

Introduction

This workbook is designed to help you figure your loss on business and income-producing property in the event of a disaster, casualty, or theft. It contains schedules to help you figure the loss to your office furniture and fixtures, information systems, motor vehicles, office supplies, buildings, and equipment. These schedules, however, are for your information only. You must complete Form 4684, *Casualties and Thefts,* to report your loss.

How To Use This Workbook

You can use this workbook by following these five steps.

1) Read Publication 547 to learn about the tax rules for casualties, disasters, and thefts.
2) Know the definitions of ***adjusted basis*** and ***fair market value,*** discussed below.
3) Fill out Schedules 1 through 6.
4) Read the instructions for Form 4684.
5) Fill out Form 4684 using the information you entered in Schedules 1 through 6.

Use the following chart to find out how you use these schedules to fill out Form 4684.

Take what's in...	And enter it on Form 4684...
Column 1	Line 19
Column 2	Line 19
Column 3	Line 19
Column 4	Line 20
Column 5	Line 21
Column 6	Line 23
Column 7	Line 24
Column 8	Line 25
Column 9	Line 26
Column 10	Line 27

Adjusted basis. Adjusted basis usually means original cost plus improvements, minus depreciation allowed or allowable (including any section 179 expense deduction), amortization, depletion, etc. If you did not acquire the property by purchasing it, your basis is determined as discussed in Publication 551, *Basis of Assets.*

Fair market value.

Fair market value 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. When filling out Schedules 1 through 6, you need to know the fair market value of the property immediately before and immediately after the disaster or casualty.

Deduction limits. If your casualty or theft loss involved a home you used for business or rented out, your deductible loss may be limited. See the instructions for Section B of Form 4684. If the casualty or theft loss involved property used in a passive activity, see Form 8582, *Passive Activity Loss Limitations,* and its instructions.

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.

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, *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/sm bus-cd.html**.

Schedule 1. **Office Furniture and Fixtures**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or adjusted basis	(5) Insurance or other reimburse-ment and any salvage value[1]	(6) Fair market value before casualty or theft	(7) Fair market value after casualty or theft	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)[2]	(10) Casualty/ Theft Loss (Column (9) minus column (5))
Bookcases									
Books									
Chairs									
Desks									
File cabinets									
Lamps									
Partitions									
Sofas									
Tables									

[1] If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).
[2] If the property was completely destroyed or stolen, enter in column (9) the amount from column (4).

Schedule 2. **Information Systems**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or adjusted basis	(5) Insurance or other reimbursement and any salvage value[1]	(6) Fair market value before casualty or theft	(7) Fair market value after casualty or theft	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)[2]	(10) Casualty/Theft Loss (Column (9) minus column (5))
Card punches									
Card readers									
Card terminals									
Collators									
Computers									
Disc drives									
Disc files									
Fax machines									
Keyboards									
Magnetic tape feeds									
Modems									
Monitors									
Mouse									
Optical character readers									
Printers									
Surge protectors									
Tape cassettes									
Tape drives									

[1] If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).
[2] If the property was completely destroyed or stolen, enter in column (9) the amount from column (4).

Schedule 3. **Motor Vehicles**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or adjusted basis	(5) Insurance or other reimbursement and any salvage value[1]	(6) Fair market value before casualty or theft	(7) Fair market value after casualty or theft	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)[2]	(10) Casualty/ Theft Loss (Column (9) minus column (5))
Automobiles									
Tractor units (over the road)									
Trailers and trailer-mounted containers									
Trucks									
Vans									

[1]If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).
[2]If the property was completely destroyed or stolen, enter in column (9) the amount from column (4).

Schedule 4. **Office Supplies**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or adjusted basis	(5) Insurance or other reimbursement and any salvage value[1]	(6) Fair market value before casualty or theft	(7) Fair market value after casualty or theft	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)[2]	(10) Casualty/ Theft Loss (Column (9) minus column (5))
Calendars									
Correction fluid									
Envelopes									
File folders									
Glue									
Hole punchers									
Paper									
Paperclips									
Pencils									
Pens									
Rulers									
Scissors									
Stamp pads									
Staplers									
Staples									
Tape									

[1]If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).
[2]If the property was completely destroyed or stolen, enter in column (9) the amount from column (4).

Schedule 5. **Building, Components, and Land**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or adjusted basis	(5) Insurance or other reimbursement and any salvage value[1]	(6) Fair market value before casualty or theft	(7) Fair market value after casualty or theft	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)[2]	(10) Casualty/ Theft Loss (Column (9) minus column (5))
Air conditioning units									
Building									
Bushes									
Central air conditioning									
Fans									
Fence									
Generators									
Heating system									
Heating units									
Landscaping									
Lighting systems									
Plumbing systems									
Roof									
Wall-to-wall carpet									

[1]If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).
[2]If the property was completely destroyed or stolen, enter in column (9) the amount from column (4).

Schedule 6. **Equipment**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or adjusted basis	(5) Insurance or other reimbursement and any salvage value[1]	(6) Fair market value before casualty or theft	(7) Fair market value after casualty or theft	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)[2]	(10) Casualty/ Theft Loss (Column (9) minus column (5))
Accounting machines									
Calculators									
Clocks									
Copiers									
Duplicating equipment									
DVDs									
Microwave ovens									
Paper shredders									
Radios									
Safes									
Telephones									
Televisions									
Typewriters									

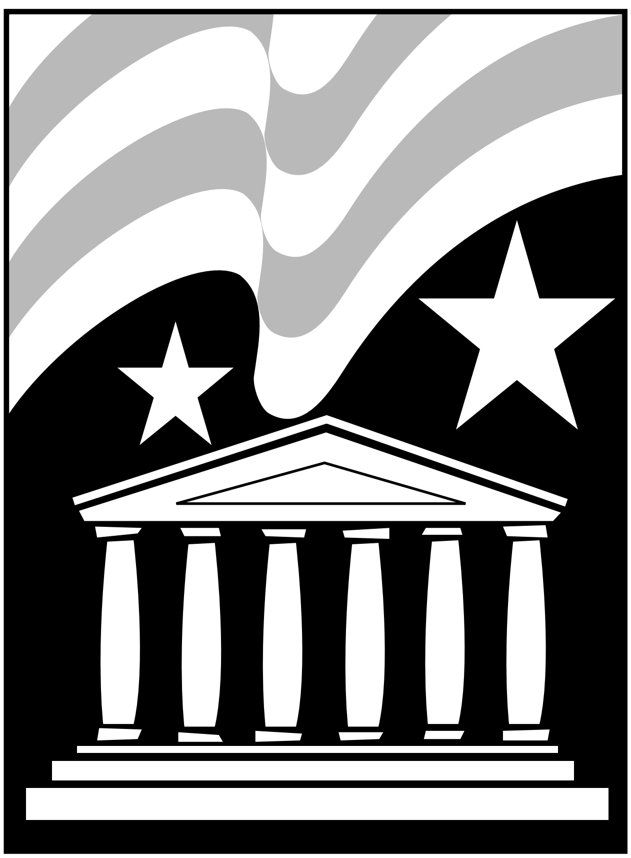
[1] If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).
[2] If the property was completely destroyed or stolen, enter in column (9) the amount from column (4).

Department of the Treasury
Internal Revenue Service

Publication 547
Cat. No. 15090K

Casualties, Disasters, and Thefts

For use in preparing
2002 Returns



Get forms and other information faster and easier by:

Computer • www.irs.gov or **FTP** • ftp.irs.gov

FAX • 703-368-9694 (from your FAX machine)

Contents

Important Changes

Postponed tax deadlines in disaster areas. The maximum period of time for which the IRS may postpone certain tax deadlines of taxpayers who are affected by a Presidentially declared disaster is increased from 120 days to 1 year. The tax deadlines the IRS may postpone include those for filing income and employment tax returns, paying income and employment taxes, and making contributions to a traditional IRA or Roth IRA. For more information, see *Postponed Tax Deadlines*, later, under *Disaster Area Losses.*

Replacement period. The replacement period for property in the New York Liberty Zone that was damaged or destroyed as a result of the terrorist attacks on September 11, 2001, is increased from 2 to 5 years. For more information, see *Property in the New York Liberty Zone*, later, under *Replacement Period*.

Qualified disaster relief payments. Qualified disaster relief payments received in tax years ending after September 10, 2001, by an individual for certain expenses incurred because of a Presidentially declared disaster are not included in income. For more information, see *Qualified disaster relief payments*, later, under *Disaster Area Losses*.

Important Reminder

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.

Introduction

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

This publication discusses the following topics.

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

Forms to file. 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.

Workbooks 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.

Publication 584B is available to help you make a list of your stolen or damaged business or income-producing property and figure your loss.

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

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

You can write to us at the following address:

Internal Revenue Service
Tax Forms and Publications
W:CAR:MP:FP
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)
- ❏ **584B** Business Casualty, Disaster, and Theft Loss Workbook

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.
- Mine cave-ins.
- Shipwrecks.
- Sonic booms.
- Storms, including hurricanes and tornadoes.
- Terrorist attacks.
- 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. ***However***, the rust and water damage to rugs and drapes caused by the bursting of a water heater ***does qualify*** as a casualty.
- Most losses of property caused by droughts. To be deductible, a drought-related loss generally must be incurred in a trade or business or in a transaction entered into for profit.
- Termite or moth damage.
- The damage or destruction of trees, shrubs, or other plants by a fungus, disease, insects, worms, or similar pests. ***However***, a sudden destruction due to an unexpected or unusual infestation of beetles or other insects may result in a casualty loss.

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.

Table 1. **Reporting Loss on Deposits**

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

- Robbery.

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

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. Sudden, unexpected, and unusual events were defined earlier.

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.

The loss you can deduct as an ordinary loss is limited to $20,000 ($10,000 if you are married filing separately) and applies only if the financial institution is not federally insured.

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. However, you can take a nonbusiness bad debt deduction for any amount of loss that is more than the estimated amount you deducted as a casualty or ordinary loss. Once you make the choice, you cannot change it without permission from the Internal Revenue Service.

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.

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

- The type of casualty (car accident, fire, storm, etc.) and when it occurred.
- That the loss was a direct result of the casualty.
- 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.
- Whether a claim for reimbursement exists for which there is a reasonable expectation of recovery.

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

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

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

One way is to deduct the loss through the increase in the cost of goods sold by properly reporting your opening and closing inventories. 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.

The other way is to deduct the loss separately. If you deduct it separately, eliminate the affected inventory items from the cost of goods sold by making a downward adjustment to opening inventory or purchases. Reduce the loss by the reimbursement you received. 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 *Real property* under *Figuring the Deduction,* later.

Decrease in Fair Market Value

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

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

FMV of stolen property. The FMV of property immediately after a theft is considered to be zero 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 just before they were stolen, and insurance did not cover them. Your theft loss is $150.

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

If your refigured loss is less than the loss you deducted, you generally have to report the difference as income in the recovery year. But report the difference only up to the amount of the loss that reduced your tax. For more information on the amount to report, see *Recoveries* in 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. However, other measures also can 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.*

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 meet all the following conditions.

- The repairs are actually made.
- The repairs are necessary to bring the property back to its condition before the casualty.
- The amount spent for repairs 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 FMV.

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.

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

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

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

Adjusted Basis

The measure of your investment in the property you own is its ***basis***. For property you buy, your basis is usually its cost to you. For property you acquire in some other way, such as inheriting it, receiving it as a gift, or getting it in a nontaxable exchange, you must figure your basis in another way, as explained in 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 must 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 before applying the deduction limits (discussed later) is $6,000.

Cash gifts. If you receive excludable cash gifts as a disaster victim and there are no limits on how you can use the money, you 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 used part of the cash gifts to pay for repairs to your home. There were no limits or restrictions on how you could use the cash gifts. It was an excludable gift, so the money you received and used to pay for repairs to your home 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 or the threat of one.

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

1) Insurance payment for living expenses		$1,100
2) Actual expenses during the month you are unable to use your home because of the fire	$1,600	
3) Normal living expenses	725	
4) Temporary increase in living expenses: Subtract line 3 from line 2		875
5) Amount of payment includible in income: Subtract line 4 from line 1		$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 2000. You regained use of your home in November 2001. The insurance payments you received in 2000 and 2001 were $1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 2001 Form 1040. If, in 2002, you receive further payments to cover the living expenses you had in 2000 and 2001, you must include those payments in income on your 2002 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.

TIP *Qualified disaster relief payments you receive in tax years ending after September 10, 2001, for expenses you incurred as a result of a Presidentially declared disaster, are not taxable income to you. For information on qualified disaster relief payments, see* Qualified disaster relief payments *under* Disaster Area Losses*, later.*

Reimbursement Received After Deducting Loss

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

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

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

		$100 Rule	**10% Rule**	**2% Rule**
General Application		You must reduce each casualty or theft loss by $100 when figuring your deduction. Apply this rule to personal-use property after you have figured the amount of your loss.	You must reduce your total casualty or theft loss by 10% of your adjusted gross income. Apply this rule to personal-use property after you reduce each loss by $100 (the $100 rule).	You must reduce your total casualty or theft loss by 2% of your adjusted gross income. Apply this rule to property you used in performing services as an employee after you have figured the amount of your loss and added it to your job expenses and most other miscellaneous itemized deductions.
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.	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.	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.	Apply separately to each person.
Married Couple— With Loss From the Same Event	Filing Joint Return	Apply as if you were one person.	Apply as if you were one person.	Apply as if you were one person.
	Filing Separate Return	Apply separately to each spouse.	Apply separately to each spouse.	Apply separately to each spouse.
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.	Apply separately to each owner of jointly owned property.

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 figured by applying the deduction limits (discussed later).

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. You did not itemize deductions on your return last year, so 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. Because you expected a 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 2%, $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. However, if your casualty or theft loss involved a home you used for business or rented out, your deductible loss may be limited. See the instructions for Section B of Form 4684. If the casualty or theft loss involved property used in a passive activity, see Form 8582, *Passive Activity Loss Limitations,* and its instructions.

2% Rule

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

$100 Rule

After you have figured your casualty or theft loss on personal-use property, as discussed earlier, you must reduce that loss by $100. This reduction applies to each total casualty or theft loss. It 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. The amount of the casualty loss is based solely on the deductible. The casualty loss 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 off your home. Flood waters caused by the hurricane further damaged your home and destroyed your furniture and personal car. This is considered a single casualty. The $100 rule is applied to your total loss from the flood waters and the wind.

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

Example. Your family car was damaged in an accident in January. Your loss after the insurance reimbursement was $75. In February, your car was damaged in another accident. This time your loss after the insurance reimbursement was $90. Apply the $100 rule to each separate casualty loss. Since neither accident resulted in a loss of over $100, you 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 for the year you discovered the theft is $29,500. Figure your theft loss as follows.

1. Loss after insurance	$2,000
2. Subtract $100	100
3. Loss after $100 rule	$1,900
4. Subtract 10% of $29,500 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 for the year that the accident and fire occurred is $25,000. You figure your casualty loss deduction as follows.

	Car	Basement
1. Loss	$1,200	$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.

CAUTION *Casualty or theft gains do not include gains you choose to postpone. See* Postponement of Gain*, later.*

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

Example. Your theft loss after reducing it by reimbursements and by $100 is $2,700. Your casualty gain is $700. Your loss is more than your gain, so you must reduce your $2,000 net loss ($2,700 – $700) by 10% of your adjusted gross income.

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

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

More information. For information on how to figure recognized gains, see *Figuring a Gain,* later.

Figuring the Deduction

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

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

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

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

Example 2. You bought your home a few years ago. You paid $150,000 ($10,000 for the land and $140,000 for the house). You also spent an additional $2,000 for landscaping. This year a fire destroyed your home. The fire also damaged the shrubbery and trees in your yard. The fire was your only casualty or theft loss this year. Competent appraisers valued the property as a whole at $175,000 before the fire, but only $50,000 after the fire. Shortly after the fire, the insurance company paid you $95,000 for the loss. Your adjusted gross income for this year is $70,000. You figure your casualty loss deduction as follows.

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

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 total loss. Reduce the total loss by $100 and 10% of your adjusted gross income to figure the loss deduction.

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

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

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

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

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

	Car	Watch
1. Adjusted basis (cost)	$30,000	$250
2. FMV before accident	$17,500	$500
3. FMV after accident	180	–0–
4. Decrease in FMV (line 2 – line 3)	$17,320	$500
5. Loss (smaller of line 1 or line 4)	$17,320	$250
6. Subtract insurance	16,000	–0–
7. Loss after reimbursement	$1,320	$250
8. Total loss		$1,570
9. Subtract $100		100
10. Loss after $100 rule		$1,470
11. Subtract 10% of $97,000 AGI		9,700
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. However, you apply a single $100 reduction to the total loss. Then, you apply the 10% rule to figure the casualty loss deduction.

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

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

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

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

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

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

You have a deductible business casualty loss of $10,000. You 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 $400,000)	$200,000	$200,000
2. Subtract depreciation	24,000	–0–
3. Adjusted basis	$176,000	$200,000
4. FMV before flood (total $380,000)	$190,000	$190,000
5. FMV after flood (total $320,000)	160,000	160,000
6. Decrease in FMV (line 4 – line 5)	$30,000	$30,000
7. Loss (smaller of line 3 or line 6)	$30,000	$30,000
8. Subtract insurance	20,000	20,000
9. Loss after reimbursement	$10,000	$10,000
10. Subtract $100 on personal-use property	–0–	100
11. Loss after $100 rule	$10,000	$9,900
12. Subtract 10% of $125,000 AGI on personal-use property	–0–	12,500
13. **Deductible business loss**	**$10,000**	
14. **Deductible personal loss**		**–0–**

Figuring a Gain

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

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

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

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

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

Main home destroyed. If you have a gain because your main home was destroyed, you generally can exclude the gain from your income as if you had sold or exchanged your home. You may be able to exclude up to $250,000 of the gain (up to $500,000 if married filing jointly). 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 reporting the excess gain. See *Postponement of Gain,* later.

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

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

CAUTION *If you have a casualty or theft gain on personal-use property that you choose to postpone reporting (as explained next) and you also have another casualty or theft loss on personal-use property, 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 generally the same as your adjusted basis in the property it replaces.

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

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

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

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

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

Buying replacement property from a related person. You 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 the following taxpayers.

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

For casualties and thefts described in (3) above, gains 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.

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 reporting the gain by buying replacement property.

Replacement Property

You must buy replacement property for the specific purpose of replacing your destroyed or stolen property. Property you acquire as a gift or inheritance 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 reporting the gain if you meet the other requirements.

Advance payment. If you pay a contractor in advance to replace your destroyed or stolen property, you are not considered to have bought replacement property unless it is finished before the end of the replacement period. See *Replacement Period,* later.

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

Timber loss. Standing timber 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.

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

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

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 or destruction of your main home (or its contents) if located in a federally declared disaster area. For more information, see *Gains Realized on Homes in Disaster Areas* in the instructions for Form 4684.

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

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

Example. You owned land and a building you rented to a manufacturing company. The building was destroyed by fire. During the replacement period, you had a new building constructed. You rented out the new building for use as a wholesale grocery warehouse. Because the replacement property is also rental property, the two properties are considered similar or related in service or use if there is a similarity in all 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 Presidentially declared disaster area. If your destroyed business or income-producing property was located in a Presidentially declared disaster area, any tangible replacement property you acquire for use in any business is treated as similar or related in service or use to the destroyed property. For more information, see *Disaster Area Losses,* later.

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

Basis adjustment to corporation's property. The basis of property held by the corporation at the time you acquired control must be reduced by the amount of your postponed gain, if any. You 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).
3) All other property.

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

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

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

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

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

Replacement Period

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

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

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

Example. You are a calendar year taxpayer. While you were on vacation, a valuable piece of antique furniture that cost $2,200 was stolen from your home. You discovered the theft when you return home on August 11, 2002. Your insurance company investigated the theft and did not settle your claim until January 3, 2003, when they paid you $3,000. You first realized a gain from the reimbursement for the theft during 2003, so you have until December 31, 2005, to replace the property.

Main home in disaster area. For your main home (or its contents) located in a Presidentially 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. You are a calendar year taxpayer. A hurricane destroyed your home in September 2002. In December 2002, 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 Presidentially declared disaster area. You first realized a gain from the reimbursement for the casualty in 2002, so you have until December 31, 2004, to replace the property. If your home had been in a Presidentially declared disaster area, you would have until December 31, 2006, to replace the property.

Property in the New York Liberty Zone. For property located in the New York Liberty Zone that was damaged or destroyed as a result of the September 11, 2001, terrorist attacks, the replacement period ends 5 years after the close of the first tax year in which any part of your gain is realized. This 5-year replacement period applies only if substantially all of the use of the replacement property is in the City of New York, New York.

Area defined. The New York Liberty Zone is the area located on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the Borough of Manhattan in the City of New York, New York.

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 construction cannot be completed within the replacement period, you may be granted an extension of the period.

How To Postpone a Gain

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

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

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

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

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

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

Replacement property acquired after return filed. If you intend to acquire replacement property after you file your return for the year in which you have the gain, your statement 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 in a statement attached to your tax return, you cannot later substitute other qualified replacement property. This is true even if you acquire the other property within the replacement period. However, if you discover that the original replacement property 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 plus extensions. On this amended return, you must report the gain and pay any additional tax due.
- You acquire replacement property within the required replacement period plus extensions, but at a cost less than the amount you receive for the casualty or theft. On this amended return, you must report the portion of the gain that 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 replacement period.

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

Example. Your property was stolen 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. Your replacement property cost $9,000. Since you reinvested all but $1,000 of your reimbursement, you can now postpone reporting $4,000 ($5,000 − $1,000) of your gain.

To postpone reporting your gain, file an amended return for 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 Gains and Losses

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

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. (However, see *Disaster Area Losses,* later, for an exception.)

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

Disaster Area Losses

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

A ***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.

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

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 considerable amount of property in your town. The President declared the area that includes your town 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. (See *How to deduct your loss in the preceding year*, later.)

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

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

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

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

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

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

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 filing the return for the preceding tax year.

Example. If you are a calendar year taxpayer, you ordinarily have until April 15, 2003, to amend your 2001 tax return to claim a casualty loss that occurred during 2002.

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 President later declared the area to be eligible for federal assistance. The cost of your home and land was $134,000. The FMV immediately before the disaster was $147,500 and the FMV immediately afterward was $100,000. You separately figured the loss on each item of furniture (see *Figuring the Deduction,* earlier) and arrived at a total loss for furniture of $3,000. Your insurance 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 on your previous year's return was $71,000. You figure your casualty loss as follows:

	House	Furnishings
1. Cost	$134,000	$10,000
2. FMV before disaster	$147,500	$8,000
3. FMV after disaster	100,000	5,000
4. Decrease in FMV (line 2 – line 3)	$47,500	$3,000
5. Smaller of line 1 or line 4	$47,500	$3,000
6. Subtract estimated insurance	–0–	–0–
7. Loss after reimbursement	$47,500	$3,000

8. Total loss	$50,500
9. Subtract $100	100
10. Loss after $100 rule	$50,400
11. Subtract 10% of $71,000 AGI	7,100
12. **Amount of casualty loss deduction**	**$43,300**

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 or employee 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) and 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.

Qualified disaster relief payments. Qualified disaster relief payments received in tax years ending after September 10, 2001, are not included in the income of individuals. These payments are not subject to income tax, self-employment tax, or employment taxes (social security, Medicare, and federal unemployment taxes). No withholding applies to these payments.

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

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

- Reasonable and necessary expenses incurred for the repair or replacement of the contents of a personal residence due to a Presidentially declared disaster.

Qualified disaster relief payments also include amounts paid to those affected by the disaster by a federal, state, or local government in connection with a Presidentially declared disaster.

CAUTION *Qualified disaster relief payments do not include:*

- *Insurance or other reimbursements for expenses, or*
- *Income replacement payments, such as payments of lost wages, lost business income, or unemployment compensation.*

Special rules for main home in a disaster area. Special rules regarding gains may apply to insurance proceeds you receive because of the damage 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.

Postponed Tax Deadlines

The IRS may postpone for up to 1 year certain tax deadlines of taxpayers who are affected by a presidentially declared disaster. The tax deadlines the IRS may postpone include those for filing income and employment tax returns, paying income and employment taxes, and making contributions to a traditional IRA or Roth IRA.

If any tax deadline is postponed, the IRS will publicize the postponement in your area and publish a news release, revenue ruling, revenue procedure, notice, announcement, or other guidance in the Internal Revenue Bulletin (IRB).

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

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

Covered disaster area. This is an area of a Presidentially declared disaster in which the IRS has decided to postpone tax deadlines for up to 1 year.

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

Contacting the Federal Emergency Management Agency (FEMA)

If you need to contact FEMA for general information, call **202–646–4600** (not a toll-free call) or visit its 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.

- **1–800–621–3362**.
- **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 your tax return on the line identified as from Form 4797. Next to that line, write "Form 4684." Partnerships and S corporations should see the Form 4684 instructions to find out where to report these gains and losses.

Property held more than 1 year. If your losses from business and income-producing property are ***more than*** gains from these types of property, combine your losses from business property (other than property used in performing services as an employee) with total gains from business and income-producing property. Report the net gain or loss as an ordinary gain or loss on Form 4797. If you are not otherwise required to file Form 4797, only enter the net gain or loss on your tax return on the line identified as from Form 4797. Next to that line, write "Form 4684." Individuals deduct any loss of income-producing property and property used in performing services as an employee on Schedule A (Form 1040). Partnerships and S corporations should see Form 4684 to find out where to report these gains and losses.

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

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

- See answers to frequently asked tax questions or request help by e-mail.
- Download forms and publications or search for forms and publications by topic or keyword.
- Order IRS products on-line.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Learn about the benefits of filing electronically (IRS e-file).
- 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.

For help with transmission problems, call the FedWorld Help Desk at **703–487–4608.**

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.**
- *Solving problems.* Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check your local directory assistance or **www.irs.gov** for the numbers.
- *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 use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience.

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 for tax products. You can 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 that 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 **http://www.irs.gov/cdorders.** The first release is available in early January and the final release is available in late February.

CD-ROM for small businesses. IRS Publication 3207, *Small Business Resource Guide,* is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in March. You can get a free copy by calling **1-800-829-3676** or by visiting the website at **www.irs.gov/smallbiz**.

Index

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

■

This Page Left Intentionally Blank

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ See separate instructions.
▶ Attach to your tax return.
▶ Use a separate Form 4684 for each casualty or theft.

OMB No. 1545-0177
2002
Attachment Sequence No. 26

Name(s) shown on tax return | Identifying number

SECTION A—Personal Use Property (Use this section to report casualties and thefts of property **not** used in a trade or business or for income-producing purposes.)

1 Description of properties (show type, location, and date acquired for each):
Property **A**
Property **B**
Property **C**
Property **D**

		Properties (Use a separate column for each property lost or damaged from the same casualty or theft.)			
		A	B	C	D
2 Cost or other basis of each property	2				
3 Insurance or other reimbursement (whether or not you filed a claim) (see instructions)	3				
Note: *If line 2 is **more** than line 3, skip line 4.*					
4 Gain from casualty or theft. If line 3 is **more** than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	4				
5 Fair market value **before** casualty or theft	5				
6 Fair market value **after** casualty or theft	6				
7 Subtract line 6 from line 5	7				
8 Enter the **smaller** of line 2 or line 7	8				
9 Subtract line 3 from line 8. If zero or less, enter -0-	9				

10 Casualty or theft loss. Add the amounts on line 9 in columns A through D	10	
11 Enter the **smaller** of line 10 or $100	11	
12 Subtract line 11 from line 10	12	
Caution: *Use only one Form 4684 for lines 13 through 18.*		
13 Add the amounts on line 12 of all Forms 4684	13	
14 Add the amounts from line 4 of all Forms 4684	14	
15 • If line 14 is **more** than line 13, enter the difference here and on Schedule D. **Do not** complete the rest of this section (see instructions). • If line 14 is **less** than line 13, enter -0- here and go to line 16. • If line 14 is **equal** to line 13, enter -0- here. **Do not** complete the rest of this section.	15	
16 If line 14 is **less** than line 13, enter the difference	16	
17 Enter 10% of your adjusted gross income from Form 1040, line 36. Estates and trusts, see instructions	17	
18 Subtract line 17 from line 16. If zero or less, enter -0-. Also enter the result on Schedule A (Form 1040), line 19. Estates and trusts, enter the result on the "Other deductions" line of your tax return	18	

Name(s) shown on tax return. Do not enter name and identifying number if shown on other side. | **Identifying number**

SECTION B—Business and Income-Producing Property

Part I Casualty or Theft Gain or Loss (Use a separate Part I for each casualty or theft.)

19 Description of properties (show type, location, and date acquired for each):

Property **A** ____________

Property **B** ____________

Property **C** ____________

Property **D** ____________

		Properties (Use a separate column for each property lost or damaged from the same casualty or theft.)			
		A	**B**	**C**	**D**
20 Cost or adjusted basis of each property	20				
21 Insurance or other reimbursement (whether or not you filed a claim). See the instructions for line 3	21				
Note: *If line 20 is* ***more*** *than line 21, skip line 22.*					
22 Gain from casualty or theft. If line 21 is **more** than line 20, enter the difference here and on line 29 or line 34, column (c), except as provided in the instructions for line 33. Also, skip lines 23 through 27 for that column. See the instructions for line 4 if line 21 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	22				
23 Fair market value **before** casualty or theft	23				
24 Fair market value **after** casualty or theft	24				
25 Subtract line 24 from line 23	25				
26 Enter the **smaller** of line 20 or line 25	26				
Note: *If the property was totally destroyed by casualty or lost from theft, enter on line 26 the amount from line 20.*					
27 Subtract line 21 from line 26. If zero or less, enter -0-	27				

28 Casualty or theft loss. Add the amounts on line 27. Enter the total here and on line 29 **or** line 34 (see instructions) | 28 |

Part II Summary of Gains and Losses (from separate Parts I)

(a) Identify casualty or theft		(b) Losses from casualties or thefts: (i) Trade, business, rental or royalty property	(b) Losses from casualties or thefts: (ii) Income-producing and employee property	(c) Gains from casualties or thefts includible in income
Casualty or Theft of Property Held One Year or Less				
29		( )	( )	
		( )	( )	
30 Totals. Add the amounts on line 29	30	( )	( )	
31 Combine line 30, columns (b)(i) and (c). Enter the net gain or (loss) here and on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions			31	
32 Enter the amount from line 30, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 27, and enter the amount from property used as an employee on Schedule A (Form 1040), line 22. Estates and trusts, partnerships, and S corporations, see instructions			32	
Casualty or Theft of Property Held More Than One Year				
33 Casualty or theft gains from Form 4797, line 32			33	
34		( )	( )	
		( )	( )	
35 Total losses. Add amounts on line 34, columns (b)(i) and (b)(ii)	35	( )	( )	
36 Total gains. Add lines 33 and 34, column (c)			36	
37 Add amounts on line 35, columns (b)(i) and (b)(ii)			37	
38 If the loss on line 37 is **more** than the gain on line 36:				
a Combine line 35, column (b)(i) and line 36, and enter the net gain or (loss) here. Partnerships (except electing large partnerships) and S corporations, see the note below. All others, enter this amount on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions			38a	
b Enter the amount from line 35, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 27, and enter the amount from property used as an employee on Schedule A (Form 1040), line 22. Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships (except electing large partnerships) and S corporations, see the note below. Electing large partnerships, enter on Form 1065-B, Part II, line 11			38b	
39 If the loss on line 37 is **less** than or **equal** to the gain on line 36, combine lines 36 and 37 and enter here. Partnerships (except electing large partnerships), see the note below. All others, enter this amount on Form 4797, line 3			39	

Note: *Partnerships, enter the amount from line 38a, 38b, or line 39 on Form 1065, Schedule K, line 7. S corporations, enter the amount from line 38a or 38b on Form 1120S, Schedule K, line 6.*

2002

Department of the Treasury
Internal Revenue Service

Instructions for Form 4684

Casualties and Thefts

Section references are to the Internal Revenue Code.

General Instructions

A Change To Note

An extended replacement period of 5 years may apply for postponing gain on property in the New York Liberty Zone (as defined in section 1400L(h)) that was converted because of the September 11, 2001, terrorist attacks. See **Gains Realized on Property in the New York Liberty Zone** on page 2.

Purpose of Form

Use Form 4684 to report gains and losses from casualties and thefts. Attach Form 4684 to your tax return.

Losses You May Deduct

You may deduct losses from fire, storm, shipwreck, or other casualty, or theft (for example, larceny, embezzlement, and robbery).

If your property is covered by insurance, you must file a timely insurance claim for reimbursement of your loss. Otherwise, you cannot deduct the loss as a casualty or theft loss. However, the part of the loss that is not covered by insurance is still deductible.

Related expenses. The related expenses you have due to a casualty or theft, such as expenses for the treatment of personal injuries or for the rental of a car, are not deductible as casualty or theft losses.

Costs for protection against future casualties are not deductible but should be capitalized as permanent improvements. An example would be the cost of a levee to stop flooding.

Losses You May Not Deduct

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.

Gain on Reimbursement

If the amount you receive in insurance or other reimbursement is more than the cost or other basis of the property, you have a gain. If you have a gain, you may have to pay tax on it, or you may be able to postpone the gain.

Do not report the gain on damaged, destroyed, or stolen property if you receive property that is similar or related to it in service or use. Your basis in the new property is the same as your basis in the old property.

Any tangible replacement property held for use in a trade or business is treated as similar or related in service or use to property held for use in a trade or business or for investment if:

- The property you are replacing was damaged or destroyed in a disaster and
- The area in which the property was damaged or destroyed was declared by the President of the United States to warrant Federal assistance because of that disaster.

Generally, you must recognize the gain if you receive unlike property or money as reimbursement. But you generally can choose to postpone all or part of the gain if, within 2 years of the end of the first tax year in which any part of the gain is realized, you purchase:

- Property similar or related in service or use to the damaged, destroyed, or stolen property or
- A controlling interest (at least 80%) in a corporation owning such property.

To postpone all of the gain, the cost of the replacement property must be equal to or more than the reimbursement you received for your property. If the cost of the replacement property is less than the reimbursement received, you must recognize the gain to the extent the reimbursement exceeds the cost of the replacement property.

If the replacement property or stock is acquired from a related person, gain generally cannot be postponed by:

- Corporations (other than S corporations);
- Partnerships more than 50% owned by one or more corporations (other than S corporations); or
- All other taxpayers, unless the aggregate realized gains on the involuntarily converted property are $100,000 or less for the tax year. (This rule applies to partnerships and S corporations at both the entity and partner or shareholder level.)

For details, see section 1033(i).

For details on how to postpone the gain, see **Pub. 547,** Casualties, Disasters, and Thefts.

If your main home was located in a Presidentially declared disaster area, and that home or any of its contents were damaged or destroyed due to the disaster, special rules apply. See **Gains Realized on Homes in Disaster Areas** on page 2.

If you had property in the New York Liberty Zone (as defined in section 1400L(h)) that was converted because of the September 11, 2001, terrorist attacks, special rules may apply. See **Gains Realized on Property in the New York Liberty Zone** on page 2.

When To Deduct a Loss

Deduct the part of your casualty or theft loss that is not reimbursable in the tax year the casualty occurred or the theft was discovered. However, a disaster loss and a loss from deposits in insolvent or bankrupt financial institutions may be treated differently. See **Disaster Losses** below and **Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions** on page 2.

If you are not sure whether part of your casualty or theft loss will be reimbursed, do not deduct that part until the tax year when you become reasonably certain that it will not be reimbursed.

If you are reimbursed for a loss you deducted in an earlier year, include the reimbursement in your income in the year you received it, but only to the extent the deduction reduced your tax in an earlier year.

See Pub. 547 for special rules on when to deduct losses from casualties and thefts to leased property.

Disaster Losses

A disaster loss is a loss that occurred in an area determined by the President of the United States to warrant Federal disaster assistance.

You may elect to deduct a disaster loss in the tax year immediately prior to the tax year in which the disaster occurred as long as the loss would otherwise be allowed as a deduction in the tax year it occurred.

This election must be made by filing your return or amended return for the prior year, and claiming your disaster loss on it, by the later of:

- The due date for filing your original return (without extensions) for the tax year in which the disaster actually occurred or
- The due date for filing your original return (including extensions) for the tax year immediately prior to the tax year in which the disaster actually occurred.

You may revoke your election within 90 days after making it by returning to the IRS any refund or credit you received from the election. If you revoke your election before receiving a refund, you must repay the refund within 30 days after receiving it.

On the return on which you claim the disaster loss, specify the date(s) of the disaster and the city, town, county, and state in which the damaged or destroyed property was located.

Note: *To determine the amount to deduct for a disaster loss, you must take into account as reimbursements any benefits you received from Federal or state programs to restore your property.*

If your home was located in a disaster area and your state or local government ordered you to tear it down or move it because it was no longer safe to use as a home, the loss in value because it is no longer safe is treated as a disaster loss. The order for you to tear down or move the home must have been issued within 120 days after the area was officially declared a disaster area.

For purposes of figuring the disaster loss, use the value of your home before you moved it or tore it down as its fair market value (FMV) after the casualty.

Gains Realized on Homes in Disaster Areas

The following rules apply if your main home was located in an area declared by the President of the United States to warrant Federal assistance as the result of a disaster, and the home or any of its contents were damaged or destroyed due to the disaster. These rules also apply to renters who receive insurance proceeds for damaged or destroyed property in a rented home that is their main home.

- No gain is recognized on any insurance proceeds received for unscheduled personal property that was part of the contents of the home.
- Any other insurance proceeds you receive for the home or its contents is treated as received for a single item of property, and any replacement property you purchase that is similar or related in service or use to the home or its contents is treated as similar or related in service or use to that single item of property. Therefore, you can choose to recognize gain only to the extent the insurance proceeds treated as received for that single item of property exceed the cost of the replacement property.
- If you choose to postpone any gain from the receipt of insurance or other reimbursement for your main home or any of its contents, the period in which you must purchase replacement property is extended until 4 years after the end of the first tax year in which any part of the gain is realized. However, the 4-year period is extended to 5 years if your main home or any of its contents were located in the New York Liberty Zone (as defined in section 1400L(h)) and substantially all of the use of the replacement property is in the city of New York, New York.

Example. Your main home and its contents were completely destroyed in 2002 by a fire in a Presidentially declared disaster area. In 2002, you received insurance proceeds of $200,000 for the home, $25,000 for unscheduled personal property in your home, $5,000 for jewelry, and $10,000 for a stamp collection. The jewelry and stamp collection were kept in your home and were scheduled property on your insurance policy. No gain is recognized on the $25,000 you received for the unscheduled personal property. If you reinvest the remaining proceeds of $215,000 in a replacement home, any type of replacement contents (whether scheduled or unscheduled), or both, you can elect to postpone any gain on your home, jewelry, or stamp collection. If you reinvest less than $215,000, any gain is recognized only to the extent $215,000 exceeds the amount you reinvest in a replacement home, any type of replacement contents (whether scheduled or unscheduled), or both. To postpone gain, you must purchase the replacement property before 2007. Your basis in the replacement property equals its cost decreased by the amount of any postponed gain.

For details on how to postpone gain, see Pub. 547.

Gains Realized on Property in the New York Liberty Zone

If you choose to postpone any gain on property located in the New York Liberty Zone (as defined in section 1400L(h)) that was converted because of the terrorist attacks on September 11, 2001, the period in which you must purchase replacement property may be extended until 5 years after the end of the first tax year in which any part of the gain is realized. However, the 5-year period applies only if substantially all of the use of the replacement property is in the city of New York, New York. In all other cases, the normal replacement period rules apply.

For details on how to postpone gain, see Pub. 547.

Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions

If you are an individual who incurred a loss from a deposit in a bank, credit union, or other financial institution because it became insolvent or bankrupt and you can reasonably estimate your loss, you can elect to deduct the loss as:

- A casualty loss to personal use property on Form 4684 or
- An ordinary loss (miscellaneous itemized deduction) on **Schedule A (Form 1040)**, line 22. The maximum amount you can claim is $20,000 ($10,000 if you are married filing separately). Your deduction is reduced by any expected state insurance proceeds and is subject to the 2% limit.

If you elect, you can wait until the year of final determination of the actual loss and treat that amount as a nonbusiness bad debt. A nonbusiness bad debt is deducted on **Schedule D (Form 1040)** as a short-term capital loss.

If you are a 1% or more owner or an officer of the financial institution, or are related to any such owner or officer, you cannot deduct the loss as a casualty loss or as an ordinary loss. See **Pub. 550,** Investment Income and Expenses, for the definition of “related.”

You cannot elect the ordinary loss deduction if any part of the deposits related to the loss is federally insured.

If you elect to deduct the loss as a casualty loss or as an ordinary loss and you have more than one account in the same financial institution, you must include all your accounts. Once you make the election, you cannot change it without permission from the IRS.

To elect to deduct the loss as a casualty loss, complete Form 4684 as follows: On line 1, enter the name of the financial institution and write “Insolvent Financial Institution.” Skip lines 2 through 9. Enter the amount of the loss on line 10, and complete the rest of Section A.

If, in a later year, you recover an amount you deducted as a loss, you may have to include in your income the amount recovered for that year. For details, see **Recoveries** in **Pub. 525,** Taxable and Nontaxable Income.

Specific Instructions

Which Sections To Complete

Use **Section A** to figure casualty or theft gains and losses for property that is not used in a trade or business or for income-producing purposes.

Nonbusiness casualty or theft losses are deductible only to the extent that the amount of **each** separate casualty loss is more than $100 and the total amount of **all** losses during the year is more than 10% of adjusted gross income (line 36 of Form 1040).

Use **Section B** to figure casualty or theft gains and losses for property that is used in a trade or business or for income-producing purposes.

If property is used partly in a trade or business and partly for personal purposes, such as a personal home with a rental unit, figure the personal part in Section A and the business part in Section B.

Section A—Personal Use Property

Use a separate column for lines 1 through 9 to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of lines 1 through 9.

Use a separate Form 4684 through line 12 for each casualty or theft involving property not used in a trade or business or for income-producing purposes.

Do not include any loss previously deducted on an estate tax return.

If you are liable for casualty or theft losses to property you **lease** from someone else, see Pub. 547.

Line 2

Cost or other basis usually means original cost plus improvements. Subtract any postponed gain from the sale of a previous main home. Special rules apply to property received as a gift or inheritance. See **Pub. 551,** Basis of Assets, for details.

Line 3

Enter on this line the amount of insurance or other reimbursement you received or expect to receive for each property. Include your insurance coverage whether or not you are filing a claim for reimbursement. For example, your car worth $2,000 is totally destroyed in a collision. You are insured with a $500 deductible, but decide not to report it to your insurance company because you are afraid the insurance company will cancel your policy. In this case, enter $1,500 on this line.

If you expect to be reimbursed but have not yet received payment, you must still enter the expected reimbursement from the loss. If, in a later tax year, you determine with reasonable certainty that you will not be reimbursed for all or part of the loss, you can deduct for that year the amount of the loss that is not reimbursed.

Types of reimbursements. Insurance is the most common way to be reimbursed for a casualty or theft loss, but if:

- Part of a Federal disaster loan under the Disaster Relief Act is forgiven, the part you do not have to pay back is considered a reimbursement.
- The person who leases your property must make repairs or must repay you for any part of a loss, the repayment and the cost of the repairs are considered reimbursements.
- A court awards you damages for a casualty or theft loss, the amount you are able to collect, minus lawyers' fees and other necessary expenses, is a reimbursement.
- You accept repairs, restoration, or cleanup services provided by relief agencies, it is considered a reimbursement.
- A bonding company pays you for a theft loss, the payment is also considered a reimbursement.

Lump-sum reimbursement. If you have a casualty or theft loss of several assets at the same time and you receive a lump-sum reimbursement, you must divide the amount you receive among the assets according to the FMV of each asset at the time of the loss.

Grants, gifts, and other payments. Grants and other payments you receive to help you after a casualty are considered reimbursements only if they must be used specifically to repair or replace your property. Such payments will reduce your casualty loss deduction. If there are no conditions on how you have to use the money you receive, it is not a reimbursement.

Use and occupancy insurance. If insurance reimburses you for your loss of business income, it does not reduce your casualty or theft loss. The reimbursement is income, and is taxed in the same manner as your business income.

Line 4

If you are entitled to an insurance payment or other reimbursement for any part of a casualty or theft loss but you choose not to file a claim for the loss, you cannot realize a gain from that payment or reimbursement. Therefore, figure the gain on line 4 by subtracting your cost or other basis in the property (line 2) **only** from the amount of reimbursement you actually received. Enter the result on line 4, but do not enter less than zero.

If you filed a claim for reimbursement but did not receive it until after the year of the casualty or theft, include the gain in your income in the year you received the reimbursement.

Lines 5 and 6

Fair market value (FMV) is the price at which the property would be sold between a willing buyer and a willing seller, each having knowledge of the relevant facts. The difference between the FMV immediately before the casualty or theft and the FMV immediately after represents the decrease in FMV because of the casualty or theft.

The FMV of property after a theft is zero if the property is not recovered.

FMV is generally determined by a competent appraisal. The appraiser's knowledge of sales of comparable property about the same time as the casualty or theft, knowledge of your property before and after the occurrence, and the methods of determining FMV are important elements in proving your loss.

The appraised value of property immediately after the casualty must be adjusted (increased) for the effects of any general market decline that may occur at the same time as the casualty or theft. For example, the value of all nearby property may become depressed because it is in an area where such occurrences are commonplace. This general decline in market value is not part of the property's decrease in FMV as a result of the casualty or theft.

Replacement cost or the cost of repairs is not necessarily FMV. However, you may be able to use the cost of repairs to the damaged property as evidence of loss in value if:

- The repairs are necessary to restore the property to the condition it was in immediately before the casualty;
- The amount spent for repairs is not excessive;
- The repairs only correct the damage caused by the casualty; and
- The value of the property after the repairs is not, as a result of the repairs, more than the value of the property immediately before the casualty.

To figure a casualty loss to real estate not used in a trade, business, or for income-producing purposes, measure the decrease in value of the property as a whole. All improvements, such as buildings, trees, and shrubs, are considered together as one item. Figure the loss separately for other items. For example, figure the loss separately for each piece of furniture.

Line 15

If line 14 is **more** than line 13:

- Combine your short-term gains with your short-term losses, and enter the net short-term gain or loss on Schedule D (Form 1040), line 4. Estates and trusts enter this amount on Schedule D (Form 1041), line 2.
- Combine your long-term gains with your long-term losses and enter the net long-term gain or loss on Schedule D (Form 1040), line 11, column (f). Estates and trusts enter this amount on Schedule D (Form 1041), line 7, column (f).

The holding period for long-term gains and losses is more than 1 year. For short-term gains and losses, it is 1 year or less. To figure the holding period, begin counting on the day after you received the property and include the day the casualty or theft occurred.

Line 17

Estates and trusts figure adjusted gross income in the same way as individuals, except that the costs of administration are allowed in figuring adjusted gross income.

Section B—Business and Income-Producing Property

Use a separate column of Part I, lines 19 through 27, to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of Part I, lines 19 through 27.

Use a separate Section B, Part I, of Form 4684 for each casualty or theft involving property used in a trade or business or for income-producing purposes. Use one Section B, Part II, to combine all Sections B, Part I.

For details on the treatment of casualties or thefts to business or income-producing property, including rules on the loss of inventory through casualty or theft, see Pub. 547.

If you had a casualty or theft loss involving a home you used for business or rented out, your deductible loss may be limited. First, complete Form 4684, Section B, lines 19 through 26. If the loss involved a home used for a business for which you are filing **Schedule C (Form 1040),** Profit or Loss From Business, figure your deductible casualty or theft loss on **Form 8829,** Expenses for Business Use of Your Home. Enter on line 27 of Form 4684 the deductible loss from line 33 of Form 8829, and write "See Form 8829" above line 27. For a home you rented out or used for a business for which you are not filing Schedule C (Form 1040), see section 280A(c)(5) to figure your deductible loss. Attach a statement showing your computation of the deductible loss, enter that amount on line 27, and write "See attached statement" above line 27.

Note: *A gain or loss from a casualty or theft of property used in a passive activity is not taken into account in determining the loss from a passive activity unless losses similar in cause and severity recur regularly in the activity. See* ***Form 8582,*** *Passive Activity Loss Limitations, and its instructions for details.*

Line 20

Cost or adjusted basis usually means original cost plus improvements, minus depreciation allowed or allowable (including any section 179 expense deduction), amortization, depletion, etc. Special rules apply to property received as a gift or inheritance. See Pub. 551 for details.

Line 21

See the instructions for line 3.

Line 22

See the instructions for line 4.

Lines 23 and 24

See the instructions for lines 5 and 6 for details on determining FMV.

Loss on each item figured separately. Unlike a casualty loss to personal use real estate, in which all improvements are considered one item, a casualty loss to business or income-producing property must be figured separately for each item. For example, if casualty damage occurs to both a building and to trees on the same piece of real estate, measure the loss separately for the building and for the trees.

Line 28

If the amount on line 28 includes losses on property held 1 year or less, and losses on property held for more than 1 year, you must allocate the amount between lines 29 and 34 according to how long you held each property. Enter on line 29 all gains and losses on property held 1 year or less. Enter on line 34 all gains and losses on property held more than 1 year, except as provided in the instructions for line 33.

Part II, Column (a)

Use a separate line for each casualty or theft.

Part II, Column (b)(i)

Enter the part of line 28 from trade, business, rental, or royalty property (other than property you used in performing services as an employee).

Part II, Column (b)(ii)

Enter the part of line 28 from income-producing property and from property you used in performing services as an employee. Income-producing property is property held for investment, such as stocks, notes, bonds, gold, silver, vacant lots, and works of art.

Line 31

If **Form 4797**, Sales of Business Property, is not otherwise required, enter the amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Next to that line, write "Form 4684."

Line 32

Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships (except electing large partnerships), enter on Form 1065, Schedule K, line 11. Electing large partnerships, enter on Form 1065-B, Part II, line 11. S corporations, enter on Form 1120S, Schedule K, line 10. Next to that line, write "Form 4684."

Line 33

If you had a casualty or theft gain from certain trade, business, or income-producing property held more than 1 year, you may have to recapture part or all of the gain as ordinary income. See the instructions for Form 4797, Part III, for more information on the types of property subject to recapture. If recapture applies, complete Form 4797, Part III, and this line, instead of Form 4684, line 34.

Line 38a

Taxpayers, other than partnerships and S corporations, if Form 4797 is not otherwise required, enter the amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Next to that line, write "Form 4684."

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., 58 min.
Learning about the law or the form	26 min.
Preparing the form	1 hr., 4 min.
Copying, assembling, and sending the form to the IRS	34 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. See the instructions for the tax return with which this form is filed.

Department of the Treasury

Internal Revenue Service

Publication 551
(Rev. May 2002)
Cat. No. 15094C

Basis of Assets

Get forms and other information faster and easier by:

Computer • www.irs.gov or **FTP** • ftp.irs.gov

FAX • 703-368-9694 (from your FAX machine)

Contents

Important Reminder

Assets held on January 1, 2001. If you made the election to treat an asset as sold and then reacquired on January 1, 2001 (January 2, 2001, for readily tradable stock), and you hold the asset for more than 5 years from that date, any future gain on the asset is eligible for an 18% (instead of 20%) capital gains tax rate. If you made the election, your basis in the reacquired asset is its closing market price (for readily tradable stock) or fair market value (for any other capital asset or property used in a trade or business) on the date you reacquired it.

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 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**.

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

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 a 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. Allocate the price among the various assets including any section 197 intangibles. 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 the basis of stock.

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 the basis of stock.

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 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 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.

- Cost of the land.
- 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

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.

Activities subject to the rules. 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 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 recover these costs through deductions for depreciation, amortization, or cost of goods sold when you use, sell, or otherwise dispose of the property.

Any cost you cannot 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 nondeductible part of the cost 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 an 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. You must 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 consideration paid to the various assets acquired. Generally, reduce the consideration paid by any cash and general deposit accounts (including checking and savings accounts) received. Allocate the remaining consideration to the other business assets received in proportion to (but not more than) their fair market value 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, other debt instruments, and assets you mark to market at least annually for federal income tax purposes.
3) Property of a kind that would properly be included in inventory if on hand at the end of the tax year or property held 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).

Agreement. The buyer and seller may enter into a written agreement as to the allocation of any consideration or the fair market value (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 your 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 (generally 3 tax years) 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 recaptured amount.

If you make additions or improvements to business property, keep separate accounts for them. Also, you must depreciate the basis of each according to the depreciation rules that would apply to the underlying property if you had 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.
- Impact fees.
- 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.

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 Casualty or theft loss deductions and insurance reimbursements Credit for qualified electric vehicles
Assessments for local improvements: Water connections Sidewalks Roads	Section 179 deduction Deduction for clean-fuel vehicles and clean-fuel vehicle refueling property
Casualty losses: Restoring damaged property	Depreciation Nontaxable corporate distributions
Legal fees: Cost of defending and perfecting a title	
Zoning costs	

- 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 expenses 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 from a manufacturer or seller.
- Easements.
- Gas-guzzler tax.
- Tax credit or refund for buying a diesel-powered highway vehicle.
- Adoption tax benefits.
- Credit for employer-provided child care.

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 any insurance or other reimbursement and by any deductible loss not covered by insurance.

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 maximum credit allowable even if the credit allowed is less than that maximum amount. For 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.

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.

Unless a timely election is made not to deduct the special depreciation allowance for property placed in service after September 10, 2001, decrease the property's basis by the special depreciation allowance you deducted or could have deducted.

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 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.*

Employer-Provided Child Care

If you are an employer, you can claim the employer-provided child care credit on amounts you paid or incurred to acquire, construct, rehabilitate, or expand property used as part of your qualified child care facility. You must reduce your basis in that property by the credit claimed.

Example

In January 1997, 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 1997 through 2001. In 2000 you had a $5,000 casualty loss from a fire that was not covered by insurance on the building. You claimed a deduction for this loss. You spent $5,500 to repair the fire damages and extend the useful life of the building. The adjusted basis of the building on January 1, 2002, 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, 2002		**$78,249**

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

Basis Other Than Cost

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

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 do 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. You received stock from your employer for services you performed. If you want to sell the stock while you are 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 must consider it when you figure the FMV.

Election. You can 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 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 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 can 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-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 of 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, you must 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.*

Trade of car used partly in business. If you trade in a car you used partly in your business for another car you will use in your business, your basis for depreciation of 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 includible in the transferor's income. For more information on these bonds, see Publication 550.

At the time of the transfer, the transferor must give you 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 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 a fraction. The numerator of the fraction 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 2002, 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 $39,000 ($50,000 minus the $11,000 annual exclusion). She paid a gift tax of $9,000. Your basis, $26,930, 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 ÷ $39,000)	.77
Gift tax due to net increase in value	$6,930
Adjusted basis of property to your mother	20,000
Your basis in the property	**$26,930**

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 a 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 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 joint tenancy or tenancy by the entirety.

Example. John and Jim owned, as joint tenants with right of survivorship, business property 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 he contributed no part of the purchase price, his basis at John's death would be $60,000, 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 you owned with your spouse as a qualified joint interest is the cost of your half of the property with certain adjustments. Decrease the cost by any deductions allowed to you for depreciation and 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 can 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. Qualified heirs should be able to get the necessary value from the executor or personal representative of the estate.

Special-use valuation. 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 name, address, and taxpayer identification number and those of the estate.
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 to Form 706 and Form 706-A.

Property Changed to Business or Rental Use

If you hold property for personal use and then 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 $25,000. You paid $20,000 for permanent improvements to the house and claimed a $2,000 casualty loss deduction for damage to the house before changing the property to rental use last year. Because land is not depreciable, you include only 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 had an FMV of $180,000, of which $15,000 was for the land and $165,000 was 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 property changed to business or rental use, 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:

- Find answers to questions you may have.
- Download forms and publications or search for forms and publications by topic or keyword.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- 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.

For help with transmission problems, call the FedWorld Help Desk at **703−487−4608.**

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.

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 and instructions.
- Popular tax forms that 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.** 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 a free copy by calling **1–800–829–3676** or visiting the IRS web site at **www.irs.gov.**

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.

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 that attaches to property because the property is an integral part of an ongoing business activity. 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-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.

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.

■

■

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

2002 Returns

Get forms and other information faster and easier by:

Computer • www.irs.gov or **FTP** • ftp.irs.gov

FAX • 703-368-9694 (from your FAX machine)

Contents

Important Change

New 5-year carryback for net operating losses (NOLs). If you have an NOL from a tax year ending during 2002, you must generally carry back the entire amount of the NOL to the 5 tax years before the NOL year (the carryback period). However, you still can choose to use a carryback period of 2 or, if applicable, 3 tax years before the NOL year. You also can choose not to carry back an NOL and only carry it forward. For more information, see *When To Use an NOL,* later.

Important Reminder

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.

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.

To have an NOL, your loss must generally be caused by deductions from your:

- Trade or business,
- Work as an employee,
- Casualty and theft losses,
- Moving expenses, or
- 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. However, 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 instructions for Form 1045, *Application for Tentative Refund.*
- Farming losses. See Publication 225, *Farmer's Tax Guide.*

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**.

You can write to us at the following address:

Internal Revenue Service
Tax Forms and Publications
W:CAR:MP:FP
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:

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 through 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 35 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 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 less 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 when figuring an NOL.

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

Schedule A (Form 1045). Use Schedule A (Form 1045) to figure an NOL. The following 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 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 allowed 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). The amount of your nonbusiness deductions (line 9) is limited to the total of:

1) Your nonbusiness capital gains less your nonbusiness capital losses (not including any section 1202 exclusion shown as a loss on Schedule D, 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 deductions that are not connected to your trade or business or your employment. Examples of deductions not related to your trade or business are:

- Alimony,
- Contributions to an IRA or other self-employed retirement plan,
- Itemized deductions (except for casualty and theft losses and any employee business expenses), and
- The standard deduction (if you do not itemize your deductions).

Do not enter business deductions on line 9. These are deductions that are connected to your trade or business. They include the following.

- State income tax on business profits.
- Moving expenses.
- The deduction of one-half of your self-employment tax or your deduction for self-employed health insurance.
- Rental losses.
- Loss on the sale or exchange of business real estate or depreciable property.
- Your share of a business loss from a partnership or S corporation.
- Ordinary loss on the sale or exchange of stock in a small business corporation or a small business investment company.
- If you itemize your deductions, casualty and theft losses (even if they involve nonbusiness property) and employee business expenses (such as union dues, uniforms, tools, education expenses, and travel and transportation expenses).
- Loss on the sale of accounts receivable (if you use an accrual method of accounting).
- Interest and litigation expenses on state and federal income taxes related to your business.
- Unrecovered investment in a pension or annuity claimed on a decedent's final return.

- Payment by a federal employee to buy back sick leave used in an earlier year.

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 on line 10 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 under section 1202 on the sale or exchange of qualified small business stock.

Adjustments for capital losses (lines 22–25). The amount deductible for capital losses is limited based on whether the losses are business capital losses or nonbusiness capital losses.

Nonbusiness capital losses. 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.

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

- Your nonbusiness capital gains that are more than the total of your nonbusiness capital losses and excess nonbusiness deductions (line 13), and
- Your total business capital gains (line 15), without regard to any section 1202 exclusion.

Line 24. 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).

Line 25. The adjustment on line 25 is your nondeductible capital losses (line 18) that are more than the nondeductible net capital loss (line 23) on your return, 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 2002.

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	4,700
Personal exemption	3,000
Glenn's total deductions	$13,700

Glenn's deductions exceed his income by $10,050 ($13,700 – $3,650). However, to figure whether he has an NOL, he must adjust certain deductions. He uses Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045), later.

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

Nonbusiness net short-term capital loss	$1,000
Nonbusiness deductions (standard deduction, $4,700) minus nonbusiness income (interest, $425)	4,275
Personal exemption	3,000
Total adjustments to net loss	$8,275

Therefore, Glenn's NOL for 2002 is figured as follows:

Glenn's total 2002 income		$3,650
Less:		
Glenn's original 2002 total deductions	$13,700	
Less:		
Glenn's total adjustments to net loss (above)	– 8,275	– 5,425
Glenn's NOL for 2002		$1,775

When the total adjustments are made, Glenn's net loss is reduced to $1,775 ($10,050 – $8,275).

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2002** IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2002, or other tax year beginning , 2002, ending , 20 OMB No. 1545-0074

Label
(See instructions on page 21.)
Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Glenn M.	Last name: Johnson	**Your social security number**: 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 21.: 5603 E. Main Street	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.: Anytown, VA 20000		

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

Presidential Election Campaign (See page 21.)
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? ▶ You: ☑ Yes ☐ No Spouse: ☐ Yes ☐ No

Filing Status
Check only one box.

1 ☑ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 21.) 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 21.)

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 22)
			☐
			☐
			☐
			☐
			☐

If more than five dependents, see page 22.

No. of children on 6c who:
- **lived with you**
- **did not live with you due to divorce or separation (see page 22)**

Dependents on 6c not entered above

Add numbers 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 23.

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 24)	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	IRA distributions 15a — b Taxable amount (see page 25)	15b	
16a	Pensions and annuities 16a — b Taxable amount (see page 25)	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 27)	20b	
21	Other income. List type and amount (see page 29)	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	Educator expenses (see page 29)	23	
24	IRA deduction (see page 29)	24	
25	Student loan interest deduction (see page 31)	25	
26	Tuition and fees deduction (see page 32)	26	
27	Archer MSA deduction. Attach Form 8853	27	
28	Moving expenses. Attach Form 3903	28	
29	One-half of self-employment tax. Attach Schedule SE	29	
30	Self-employed health insurance deduction (see page 33)	30	
31	Self-employed SEP, SIMPLE, and qualified plans	31	
32	Penalty on early withdrawal of savings	32	
33a	Alimony paid b Recipient's SSN ▶	33a	
34	Add lines 23 through 33a	34	
35	Subtract line 34 from line 22. This is your **adjusted gross income** ▶	35	(2,350)

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76. Cat. No. 11320B Form **1040** (2002)

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

Tax and Credits

Standard Deduction for—
- People who checked any box on line 37a or 37b **or** who can be claimed as a dependent, see page 34.
- All others:

Single, $4,700
Head of household, $6,900
Married filing jointly or Qualifying widow(er), $7,850
Married filing separately, $3,925

36	Amount from line 35 (adjusted gross income)	36	(2,350)
37a	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 ▶ 37a		
b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here ▶ 37b ☐		
38	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	38	4,700
39	Subtract line 38 from line 36	39	(7,050)
40	If line 36 is $103,000 or less, multiply $3,000 by the total number of exemptions claimed on line 6d. If line 36 is over $103,000, see the worksheet on page 35	40	3,000
41	**Taxable income.** Subtract line 40 from line 39. If line 40 is more than line 39, enter -0-	41	-0-
42	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972	42	
43	**Alternative minimum tax** (see page 37). Attach Form 6251	43	
44	Add lines 42 and 43 ▶	44	
45	Foreign tax credit. Attach Form 1116 if required	45	
46	Credit for child and dependent care expenses. Attach Form 2441	46	
47	Credit for the elderly or the disabled. Attach Schedule R	47	
48	Education credits. Attach Form 8863	48	
49	Retirement savings contributions credit. Attach Form 8880	49	
50	Child tax credit (see page 39)	50	
51	Adoption credit. Attach Form 8839	51	
52	Credits from: **a** ☐ Form 8396 **b** ☐ Form 8859	52	
53	Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Specify ______	53	
54	Add lines 45 through 53. These are your **total credits**	54	
55	Subtract line 54 from line 44. If line 54 is more than line 44, enter -0- ▶	55	

Other Taxes

56	Self-employment tax. Attach Schedule SE	56	
57	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	57	
58	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	58	
59	Advance earned income credit payments from Form(s) W-2	59	
60	Household employment taxes. Attach Schedule H	60	
61	Add lines 55 through 60. This is your **total tax** ▶	61	

Payments

If you have a qualifying child, attach Schedule EIC.

62	Federal income tax withheld from Forms W-2 and 1099	62	
63	2002 estimated tax payments and amount applied from 2001 return	63	
64	**Earned income credit (EIC)**	64	
65	Excess social security and tier 1 RRTA tax withheld (see page 56)	65	
66	Additional child tax credit. Attach Form 8812	66	
67	Amount paid with request for extension to file (see page 56)	67	
68	Other payments from: **a** ☐ Form 2439 **b** ☐ Form 4136 **c** ☐ Form 8885	68	
69	Add lines 62 through 68. These are your **total payments** ▶	69	

Refund

Direct deposit? See page 56 and fill in 71b, 71c, and 71d.

70	If line 69 is more than line 61, subtract line 61 from line 69. This is the amount you **overpaid**	70	
71a	Amount of line 70 you want **refunded to you** ▶	71a	
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number		
72	Amount of line 70 you want **applied to your 2003 estimated tax** ▶	72	

Amount You Owe

73	**Amount you owe.** Subtract line 69 from line 61. For details on how to pay, see page 57 ▶	73	
74	Estimated tax penalty (see page 57)	74	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 58)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign Here

Joint return? See page 21.
Keep a copy for your records.

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.

Your signature	Date	Your occupation	Daytime phone number
Glenn M. Johnson	2-5-2003	Self-employed	( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

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.	( )

Form **1040** (2002)

Schedule A—NOL. See page 5 of the instructions.

1	Adjusted gross income from your 2002 Form 1040, line 36. Estates and trusts, skip lines 1 and 2			1	(2,350)		
2	Deductions:						
a	Enter the amount from your 2002 Form 1040, line 38	2a	4,700				
b	Enter your deduction for exemptions from your 2002 Form 1040, line 40	2b	3,000				
c	Add lines 2a and 2b.			2c	7,700		
3	Subtract line 2c from line 1. Estates and trusts, enter taxable income increased by the sum of the charitable deduction and income distribution deduction					3	(10,050)
	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	3,000
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 5 of the instructions			9	4,700		
10	Nonbusiness income other than capital gains. See page 5 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	4,275
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	Subtract line 16 from line 14. If zero or less, 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	NOL deduction for losses from other years. Enter as a positive number					26	-0-
27	**NOL.** 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 an NOL.					27	(1,775)

Form **1045** (2002)

When To Use an NOL

Generally, if you have an NOL for a tax year ending in 2002, you must carry back the entire amount of the NOL to the 5 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). However, you can choose to carry back an NOL to the 2 (or 3, if eligible) years before the NOL year. Any remaining NOL can be carried forward for up to 20 years. You also can choose not to carry back an NOL and only carry it forward. 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.

If you elect to apply the 2 (or 3)-year NOL carryback period instead of the 5-year carryback period, attach a statement to your return filed by the due date (including extensions) for the NOL year. This statement must show that you are choosing to use the 2 (or 3)-year carryback period and waiving the 5-year carry back period under section 172(j) of the Internal Revenue Code. If you would like to waive the entire carryback period and only carry forward your NOL, see *Waiving the carryback period,* later.

Applying the 2 (or 3)-year carryback rules. Generally, you can choose to carry back any NOL 2 years instead of 5 years. Certain eligible losses qualify for a 3-year carry back period.

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

- Is from a casualty or theft, or
- Is attributable to a Presidentially declared disaster for a qualified small business.

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 original return filed by the due date (including extensions) for the NOL year. This statement ***must*** show that you are choosing to waive the carryback period under section 172(b)(3) of the Internal Revenue Code.

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" at the top of the statement.

Once you make this choice to waive the carryback period, 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.

Note. There was a one-time exception to the irrevocable waiver rule. If you previously elected to waive the carryback period for an NOL for any tax year ending in 2001 or 2002, you had until October 31, 2002 to revoke the waiver.

CAUTION *If you do not file this statement on time, you cannot waive the carryback period.*

How to carry an NOL back or forward. 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 5 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. You started your business as a sole proprietor in 2002 and had a $42,000 NOL for the year. You begin using your NOL in 1997, the fifth year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
1997	$42,000	$40,000
1998	40,000	37,000
1999	37,000	36,000
2000	36,000	34,000
2001	34,000	27,000
2002 (NOL year)		
2003	27,000	22,500
2004	22,500	12,700
2005	12,700	4,000
2006	4,000	–0–

If your loss were larger, you could carry it forward until the year 2022. If you still had an unused 2002 carryforward after the year 2022, you could not deduct it.

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 2000 and 2001). 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.

Generally, 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 2002 to 2000, you must file Form 1045 on or after the date you file your tax return for 2002, but no later than December 31, 2003.

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 1999 return by the April 17, 2000, due date, you must file a claim for refund of 1997 tax because of an NOL carryback from 1999 by April 17, 2003.

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) Student loan interest deduction.
5) Excludable savings bond interest.

6) Excludable employer-provided adoption benefits.

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.

- The itemized deduction for medical expenses.
- The itemized deduction for casualty losses.
- Miscellaneous itemized deductions subject to the 2% limit.
- The overall limit on itemized deductions.
- 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 the EIC Worksheet) 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 2002). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2002).

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 the joint return (filed with your former spouse) that was related to ***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.

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.

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 through 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 2002. They have an NOL of $5,000. They carry the NOL back to 1997, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 2002 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 1997 separate return.

Example 2. Assume the same facts as in Example 1, except that both Mark and Nancy had deductions in 2002 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 through 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 2000 and separate returns for 2001 and 2002. In 2002, Sam had an NOL of $18,000 and Wanda had an NOL of $2,000. They choose to carry back both NOLs 2 years to their 2000 joint return and claim a $20,000 NOL deduction.

Their joint modified taxable income (MTI) for 2000 is $15,000, and their joint NOL carryover to 2001 is $5,000 ($20,000 − $15,000). Sam and Wanda each figure their separate MTI for 2000 as if they had filed separate returns. Then 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 2001	$5,000
Joint carryover to 2001	$5,000
Sam's carryover	− 5,000
Wanda's carryover to 2001	$−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 2001. 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 2001 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 2002 deductions are more than her 2002 income because of a business loss. She uses Form 1045 and chooses to carry back her NOL 2 years and claim an NOL deduction in 2000. (See the filled-in Form 1045 on page 10.) Her filing status in both years was single.

Martha figures her 2002 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 for the second preceding tax year ended 12/31/00 on page 1 of Form 1045 using the following amounts from her 2000 return.

2000 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		$2,800
Income tax		$6,101
Self-employment tax		$6,120

Martha refigures her taxable income for 2000 after carrying back her 2002 NOL as follows:

2000 Adjusted gross income		$50,000
Less:		
NOL from 2002		−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		− 2,800
2000 Taxable income after carryback		$23,200

Martha then completes lines 10 through 26, using the After carryback column under the column for the second preceding tax year ended 12/31/00. 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 ($23,200) from line 16, and the tax tables in her 2000 Form 1040 instructions to find her income tax. She enters the new amount, $3,484, on line 17, and her new total tax liability, $9,604, on line 26.

Martha used up her $10,000 NOL in 2000 so she does not complete a column for the first preceding tax year ended 12/31/2001. The decrease in tax because of her NOL deduction (line 28) is $2,617.

Martha files Form 1045 after filing her 2002 return, but no later than December 31, 2003. She mails it to the Internal Revenue Service Center where she filed her 2002 return and attaches a copy of her 2002 return (including the applicable forms and schedules).

Form **1045**

Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

► See 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

2002

Type or print

Name(s) shown on return	Social security or employer identification number
Martha Sanders	123-00-4567
Number, street, and apt. or suite no. If a P.O. box, see page 2 of the instructions.	Spouse's social security number (SSN)
9876 Holly Street	
City, town or post office, state, and ZIP code. If a foreign address, see page 2 of the instructions.	Daytime phone number
Yardley, PA 19067	(041) 123-4567

1 This application is filed to carry back:	a Net operating loss (NOL) (Sch. A, line 27, page 2)	b Unused general business credit	c Net section 1256 contracts loss
	$ $10,000	$	$

2a For the calendar year 2002, or other tax year beginning , 2002, ending , 20

b Date tax return was filed 3-5-2003

3 If this application is for an unused credit created by another carryback, enter year of 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 an NOL or net section 1256 contracts 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 3 of the instructions ☐ Yes ☑ No

Computation of Decrease in Tax See page 3 of the instructions. **Note:** *If **1a** and **1c** are blank, skip lines 10 through 16.*	___ preceding tax year ended ►		2nd preceding tax year ended ► 12-31-00		1st preceding tax year ended ► 12-31-01	
	Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10 Adjusted gross income			50,000	50,000		
11 NOL deduction after carryback. See page 3 of the instructions				10,000		
12 Subtract line 11 from line 10			50,000	40,000		
13 Deductions. See page 4 of the instructions			13,250	14,000		
14 Subtract line 13 from line 12			36,750	26,000		
15 Exemptions. See page 4 of the instructions			2,800	2,800		
16 Taxable income. Line 14 minus line 15			33,950	23,200		
17 Income tax. See page 5 of the instructions and attach an explanation			6,101	3,484		
18 Alternative minimum tax						
19 Add lines 17 and 18			6,101	3,484		
20 General business credit. See page 5 of the instructions						
21 Other credits. Identify						
22 Total credits. Add lines 20 and 21						
23 Subtract line 22 from line 19			6,101	3,484		
24 Self-employment tax			6,120	6,120		
25 Other taxes						
26 Total tax. Add lines 23 through 25			12,221	9,604		
27 Enter the amount from the "After carryback" column on line 26 for each year			9,604			
28 Decrease in tax. Line 26 minus line 27			2,617			
29 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1) (attach computation)						

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: 4-10-2003

Spouse's signature. If Form 1045 is filed jointly, **both** must sign. — Date

Preparer Other Than Taxpayer Name ► Address ► Date

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 7 of the instructions. Cat. No. 10670A Form **1045** (2002)

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 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 2002 return includes an NOL deduction from an NOL year before 2002 that reduced your taxable income to zero (to less than zero, if an estate or trust), see *NOL Carryover From 2002 to 2003,* 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 2002, she has an NOL of $36,000 that she carries back to 1997. She has no other carrybacks or carryovers to 1997.

Ida's adjusted gross income in 1997 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 $2,650. 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 1997. She had no other deductions in 1997. Her taxable income for the year was $21,575.

Ida's $36,000 carryback will reduce her 1997 taxable income to zero. She completes the column for the fifth preceding tax year ended 12/31/97 of Schedule B (Form 1045) to figure how much of her NOL she uses up in 1997 and how much she can carry over to 1998. See the illustrated Schedule B shown on page 12. Ida does not complete the column for the fourth preceding tax year ended 12/31/98 because the $10,700 carryover to 1998 is completely used up that year. (See the information for line 9, below.)

Line 1. Ida enters $36,000, her 2002 net operating loss, on line 1.

Line 2. She enters $21,575, her 1997 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. Ida had itemized deductions and entered $1,000 on line 3, so 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 1997 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 1997 is now $30,000.

Line 13. On her 1997 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 1997 and enters zero on line 19.

Line 20. Her modified adjusted gross income remains $30,000.

Line 21. Her actual contributions for 1997 were $1,450, which she enters on line 21.

Line 22. She now refigures her charitable contributions based on her modified adjusted gross income. Her contributions are well below the 50% limit, so she enters $1,450 on line 22.

Line 23. The difference is zero.

Lines 24 through 33. Ida had no casualty losses or deductions for miscellaneous items in 1997 so 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 $2,650 for 1997.

Line 8. After combining lines 2 through 7, Ida's modified taxable income is $25,300.

Line 9. Ida figures her carryover to 1998 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 the $10,700 as her NOL deduction for 1998 on line 11 of page 1, Form 1045, in the After carryback column under the column for the fourth preceding tax year ended 12/31/98. (For an illustrated example of page 1 of Form 1045, see *Illustrated Form 1045* under *How To Claim an NOL Deduction,* earlier.)

Schedule B—NOL Carryover. See page 6 of the instructions.

Complete one column before going to the next column. Start with the earliest carryback year.		5th preceding tax year ▶ 12-31-97		____ preceding tax year ended ▶		____ preceding tax year ended ▶	
1	**NOL deduction.** Enter as a positive number. See page 6 of the instructions		36,000				
2	Taxable income before 2002 NOL carryback. Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction. See page 6 of the instructions	21,575					
3	Net capital loss deduction. See page 6 of the instructions	1,000					
4	Section 1202 exclusion. Enter as a positive number	-0-					
5	Adjustments to adjusted gross income. See page 6 of the instructions	-0-					
6	Adjustment to itemized deductions. See page 6 of the instructions	75					
7	Deduction for exemptions. Estates and trusts, enter exemption amount	2,650					
8	Modified taxable income. Combine lines 2 through 7. If zero or less, enter -0-		25,300				
9	**NOL carryover.** Subtract line 8 from line 1. If zero or less, enter -0-. See page 7 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 2002 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				

Form **1045** (2002)

Schedule B—NOL Carryover *(Continued)*

Complete one column before going to the next column. Start with the earliest carryback year.	5th preceding tax year ended ▶ 12-31-97		___ preceding tax year ended ▶		___ preceding tax year ended ▶	
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 2002 that was deducted to figure 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 16 for 1992-93) (or as previously adjusted)	1,450					
22 Refigured charitable contributions. See page 7 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 24 for 1992-93) (or as previously adjusted)						
30 Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (line 21 for 1992-93) (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 8 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). • $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. • $128,950 for 2000. • $132,950 for 2001. Otherwise, combine lines 17, 23, 28, and 33; enter the result here and on line 6 (page 3)		75				

NOL Carryover From 2002 to 2003

If you had an NOL deduction that reduced your taxable income on your 2002 return to zero (to less than zero, if an estate or trust), complete Table 1, *Worksheet for NOL Carryover From 2002 to 2003.* It will help you figure your NOL to carry to 2003. 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.

More than one NOL. If your 2002 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 NOL carryover to 2003 is the total of the amount on line 9 of the worksheet and all later NOL amounts.

Example. Your taxable income for 2002 is $4,000 without your $9,000 NOL deduction. Your NOL deduction includes $2,000 for 2000 and $7,000 for 2001. Subtract your 2000 NOL of $2,000 from $4,000. This gives you taxable income of $2,000. Your 2000 NOL is now completely used up. Subtract your $7,000 2001 NOL from $2,000. This gives you taxable income of ($5,000). You now complete the worksheet for your 2001 NOL. Your NOL carryover to 2003 is the unused part of your 2001 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) Student loan interest deduction.
5) Excludable savings bond interest.
6) Excludable employer-provided adoption benefits.

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.

- The adjusted gross income on the return.
- The amounts from lines 3 and 4 of the worksheet.
- The exemption amount from Form 1041, line 20.
- 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.

- The adjusted gross income amount you used to figure the deduction claimed on the return.
- The amounts from lines 3 and 4 of the worksheet.
- 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 2001 to 2002 and your NOL deduction includes an amount from an NOL year before 2001, you may have to reduce your contributions carryover. This reduction is any adjustment you made to your 2001 charitable contributions deduction when figuring your NOL carryover to 2002. Use the reduced contributions carryover to figure the amount to enter on line 19.

Table 1. **Worksheet for NOL Carryover From 2002 to 2003 (For an NOL Year Before 2002)***

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under *NOL Carryover From 2002 to 2003.*

NOL YEAR: ___________

USE YOUR 2002 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 38 or line 41 (see instructions)		
7. Enter your deduction for exemptions from line 40 (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 2003.** 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 2003		

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 $137,300 or less ($68,650 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 2002 NOL forward, use Schedule A, Form 1045 to compute your 2002 NOL that will be carried over to 2003. Report your 2002 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 2002.*

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 $137,300 ($68,650 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, 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:

- See answers to frequently asked tax questions or request help by e-mail.
- Download forms and publications or search for forms and publications by topic or keyword.
- Order IRS products on-line.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Learn about the benefits of filing electronically (IRS e-file).
- 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.

For help with transmission problems, call the FedWorld Help Desk at **703–487–4608.**

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 Tax Help Line for Individuals with your tax questions at **1–800–829–1040.** Or, if your question pertains to a partnership, estate, or trust return, call the Business and Specialty Tax Help Line at **1–800–829–4933.**
- *Solving problems.* Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check your local directory assistance or **www.irs.gov** for the numbers.
- *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 use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience.

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 for tax products. You can 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 that 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 **http://www.irs.gov/cdorders.** The first release is available in early January and the final release is available in late February.

CD-ROM for small businesses. IRS Publication 3207, *Small Business Resource Guide,* is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in March. You can get a free copy by calling **1-800-829-3676** or by visiting the website at **www.irs.gov/smallbiz**.

Index

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

■

Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
509 Tax Calendars for 2003
553 Highlights of 2002 Tax Changes
910 Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
225 Farmer's Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
508 Tax Benefits for Work-Related Education
514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
520 Scholarships and Fellowships
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
527 Residential Rental Property
529 Miscellaneous Deductions
530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
534 Depreciating Property Placed in Service Before 1987
536 Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
537 Installment Sales
541 Partnerships
544 Sales and Other Dispositions of Assets
547 Casualties, Disasters, and Thefts
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
571 Tax-Sheltered Annuity Plans (403(b) Plans)
575 Pension and Annuity Income
584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
587 Business Use of Your Home (Including Use by Day-Care Providers)
590 Individual Retirement Arrangements (IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 The IRS Collection Process
595 Tax Highlights for Commercial Fishermen
596 Earned Income Credit (EIC)
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
911 Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
919 How Do I Adjust My Tax Withholding?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 IRS Will Figure Your Tax
968 Tax Benefits for Adoption
969 Medical Savings Accounts (MSAs)
970 Tax Benefits for Education
971 Innocent Spouse Relief
972 Child Tax Credit (For Individuals Sent Here From the Form 1040 or 1040A Instructions)
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000
1546 The Taxpayer Advocate Service of the IRS

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320
Sch A&B Itemized Deductions & Interest and Ordinary Dividends	11330
Sch C Profit or Loss From Business	11334
Sch C-EZ Net Profit From Business	14374
Sch D Capital Gains and Losses	11338
Sch D-1 Continuation Sheet for Schedule D	10424
Sch E Supplemental Income and Loss	11344
Sch EIC Earned Income Credit	13339
Sch F Profit or Loss From Farming	11346
Sch H Household Employment Taxes	12187
Sch J Farm Income Averaging	25513
Sch R Credit for the Elderly or the Disabled	11359
Sch SE Self-Employment Tax	11358
1040A U.S. Individual Income Tax Return	11327
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329
1040-ES Estimated Tax for Individuals	11340
1040X Amended U.S. Individual Income Tax Return	11360

Form Number and Title	Catalog Number
2106 Employee Business Expenses	11700
2106-EZ Unreimbursed Employee Business Expenses	20604
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
2441 Child and Dependent Care Expenses	11862
2848 Power of Attorney and Declaration of Representative	11980
3903 Moving Expenses	12490
4562 Depreciation and Amortization	12906
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
4952 Investment Interest Expense Deduction	13177
5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
6251 Alternative Minimum Tax—Individuals	13600
8283 Noncash Charitable Contributions	62299
8582 Passive Activity Loss Limitations	63704
8606 Nondeductible IRAs	63966
8812 Additional Child Tax Credit	10644
8822 Change of Address	12081
8829 Expenses for Business Use of Your Home	13232
8863 Education Credits	25379
9465 Installment Agreement Request	14842

This Page Left Intentionally Blank

Form **1120X** (Rev. December 2001)
Department of the Treasury
Internal Revenue Service

Amended U.S. Corporation Income Tax Return

OMB No. 1545-0132

For tax year ending ▶ .... **(Enter month and year.)**

Please Type or Print		
	Name	**Employer identification number**
	Number, street, and room or suite no. (If a P.O. box, see instructions.)	
	City or town, state, and ZIP code	Telephone number (optional) ( )

Enter name and address used on original return (If same as above, write "Same.")

Internal Revenue Service Center where original return was filed ▶

Fill in Applicable Items and Use Part II To Explain Any Changes

Part I **Income and Deductions** (see instructions)		**(a)** As originally reported or as previously adjusted	**(b)** Net change—increase or (decrease)—explain in Part II	**(c)** Correct amount
1 Total income (Form 1120 or 1120-A, line 11) . . .	1			
2 Total deductions (total of lines 27 and 29c, Form 1120, or lines 23 and 25c, Form 1120-A)	2			
3 Taxable income. Subtract line 2 from line 1	3			
4 Tax (Form 1120, line 31, or Form 1120-A, line 27) .	4			

Payments and Credits (see instructions)

5a Overpayment in prior year allowed as a credit . . .	5a			
b Estimated tax payments	b			
c Refund applied for on Form 4466	c			
d Subtract line 5c from the sum of lines 5a and 5b . .	d			
e Tax deposited with Form 7004	e			
f Credit from Form 2439	f			
g Credit for Federal tax on fuels	g			
6 Tax deposited or paid with (or after) the filing of the original return			6	
7 Add lines 5d through 6, column (c)			7	
8 Overpayment, if any, as shown on original return or as later adjusted			8	
9 Subtract line 8 from line 7			9	

Tax Due or Overpayment (see instructions)

10 **Tax due.** Subtract line 9 from line 4, column (c). If paying by check, make it payable to the **"United States Treasury."** . . . . ▶	10	
11 **Overpayment.** Subtract line 4, column (c), from line 9 . . . . ▶	11	
12 Enter the amount of line 11 you want: **Credited to 20__ estimated tax** ▶ **Refunded** ▶	12	

Sign Here

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 preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

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. ( )	

For Paperwork Reduction Act Notice, see page 4. Cat. No. 11530Z Form **1120X** (Rev. 12-2001)

Part II **Explanation of Changes to Items in Part I** (Enter the line number from page 1 for the items you are changing, and give the reason for each change. Show any computation in detail. Also, see **What To Attach** on page 3 of the instructions.)

If the change is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see **Carryback Claims** on page 3, and check here . . . . ▶ ☐

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Use Form 1120X to:

- Correct a previously filed* Form 1120 or 1120-A or
- Make certain elections after the prescribed deadline (see Regulations section 301.9100-1 through 3).

**Use Form 1120X to correct the return as originally filed, or as later adjusted by an amended return, a claim for refund, or an examination.*

Do not use Form 1120X to...	Instead, use...
Apply for a quick refund of estimated tax	**Form 4466,** Corporation Application for Quick Refund of Estimated Tax
Obtain a tentative refund of taxes due to: • A net operating loss (NOL) carryback • A net capital loss carryback • An unused general business credit carryback • A claim of right adjustment under section 1341(b)(1)	**Form 1139,** Corporation Application for Tentative Refund **Note:** *Use Form 1139 only if 1 year or less has passed since the tax year in which the carryback or adjustment occurred. Otherwise, use Form 1120X.*
Request IRS approval for a change in accounting method	**Form 3115,** Application for Change in Accounting Method

When To File

File Form 1120X only after the corporation has filed its original return. Generally, Form 1120X must be filed within 3 years after the date the original return was due or 3 years after the date the corporation filed it, whichever is later. A Form 1120X based on an NOL carryback, a capital loss carryback, or a general business credit carryback, generally must be filed within 3 years after the due date (including extensions) of the return for the tax year of the NOL, capital loss, or unused credit. Other claims for refund must be filed within 3 years after the date the original return was due, 3 years after the date the corporation filed it, or 2 years after the date the tax was paid, whichever is later.

Note: *It often takes 3 to 4 months to process Form 1120X.*

Private delivery services. See the instructions for the corporation's income tax return for information on certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments.

Caution: *Private delivery services cannot deliver items to P.O. boxes. Use the U.S. Postal Service to send any item to an IRS P.O. box address.*

What To Attach

If the corrected amount involves an item of income, deduction, or credit that must be supported with a schedule, statement, or form, attach the appropriate schedule, statement, or form to Form 1120X. Include the corporation's name and employer identification number on any attachments.

In addition, if the corporation requests a direct deposit of a refund of $1 million or more, attach **Form 8302,** Direct Deposit of Tax Refund of $1 Million or More.

Tax Shelters

If the corporation's return is being amended to include any item (loss, credit, deduction, other tax benefit, or income) relating to a tax shelter required to be registered, attach **Form 8271,** Investor Reporting of Tax Shelter Registration Number.

Carryback Claims

If Form 1120X is used as a carryback claim, attach copies of Form 1120 (pages 1 and 3) or Form 1120-A (pages 1 and 2), for both the year the loss or credit originated and for the carryback year. Also attach any other forms, schedules, or statements that are necessary to support the claim, including a statement that shows all adjustments required to figure any NOL that was carried back. At the top of the forms or schedules attached, write "Copy Only—Do Not Process."

Information on Income, Deductions, Tax Computation, etc.

For information on income, deductions, tax computation, etc., see the Instructions for Forms 1120 and 1120-A for the tax year being amended.

Caution: *Deductions for such items as charitable contributions and the dividends-received deduction may have to be refigured because of changes made to items of income or expense.*

Where To File

File this form at the applicable Internal Revenue Service Center where the corporation filed its original return.

Specific Instructions

Tax Year

In the space above the employer identification number, enter the ending month and year of the calendar or fiscal year for the tax return being amended.

P.O. Box

If the post office does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead of the street address.

Column (a)

Enter the amounts from the corporation's return as originally filed or as it was later amended. If the return was changed or audited by the IRS, enter the amounts as adjusted.

Column (b)

Enter the net increase or net decrease for each line being changed. Use parentheses around all amounts that are decreases. Explain the increase or decrease in Part II.

Column (c)

Lines 1 and 2. Add the increase in column (b) to the amount in column (a) or subtract the column (b) decrease from column (a). Enter the result in column (c). For an item that did not change, enter the amount from column (a) in column (c).

Line 4. Figure the new amount of tax using the taxable income on line 3, column (c). Use Schedule J, Form 1120, or Part I, Form 1120-A, of the original return to make the necessary tax computation.

Line 5e. Enter the amount of tax deposited with **Form 7004,** Application for Automatic Extension of Time To File Corporation Income Tax Return.

Line 5g. Include on line 5g any write-in credits or payments, such as the credit for ozone-depleting chemicals or backup withholding.

Line 8. Enter the amount from the "Overpayment" line of the original return, even if the corporation chose to credit all or part of this amount to the next year's estimated tax. This amount must be considered in preparing Form 1120X because any refund due from the original return will be refunded separately (or credited to estimated tax) from any additional refund claimed on Form 1120X.

Line 10—Tax due. If the corporation does not use the Electronic Federal Tax Payment System (EFTPS), enclose a check with this form and make it payable to the **"United States Treasury."** Do not use the depository method of payment.

Line 11—Overpayment. If the corporation is entitled to a refund larger than the amount claimed on the original return, line 11 will show only the additional amount of overpayment. This additional amount will be refunded separately from the amount claimed on the original return. The IRS will figure any interest due and include it in the refund.

Line 12. Enter the amount, if any, to be applied to the estimated tax for the next tax period. Also, enter that tax period. No interest will be paid on this amount. The election to apply part or all of the overpayment to the next year's estimated tax is irrevocable.

Who Must Sign

The return must be signed and dated by:

- The president, vice president, treasurer, assistant treasurer, chief accounting officer or
- Any other corporate officer (such as tax officer) authorized to sign.

A receiver, trustee, or assignee must also sign and date any return filed on behalf of a corporation.

If a corporate officer completes Form 1120X, the paid preparer's space should remain blank. Anyone who prepares Form 1120X but does not charge the corporation should not sign the return. Generally, anyone who is paid to prepare the return must sign it and fill in the "Paid Preparer's Use Only" area. See the Instructions for Forms 1120 and 1120-A for more information.

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	13 hr., 9 min.
Learning about the law or the form	1 hr., 14 min.
Preparing the form	3 hr., 22 min.
Copying, assembling, and sending the form to the IRS	32 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** above.

Form **8822**

(Rev. December 2002)

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, income, and other business returns (Forms 720, 940, 940-EZ, 941, 990, 1041, 1065, 1120, etc.)

9 ☐ Employee plan returns (Forms 5500, 5500-EZ, etc.).

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	

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.

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 or is otherwise authorized to sign tax returns for the business.

Where To File

Send this form to the **Internal Revenue Service Center** shown next that applies to you.

CAUTION If you checked the box on line 2, see **Filers Who Checked the Box on Line 2 or Completed Part II** for where to file this form.

Filers Who Checked the Box on Line 1 and Completed Part I

IF your old home mailing address was in. . .	THEN use this address. . .
Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	Atlanta, GA 39901
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301
Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington	Fresno, CA 93888
New York *(New York City and counties of Nassau, Rockland, Suffolk, and Westchester)*	Holtsville, NY 00501
New York *(all other counties),* Maine, Massachusetts, Michigan, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Ohio, Tennessee, Virginia	Memphis, TN 37501
Connecticut, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania	Philadelphia, PA 19255
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 Dual-status aliens All APO and FPO addresses	Philadelphia, PA 19255

Filers Who Checked the Box on Line 2 or Completed Part II

IF your old business address was in. . .	THEN use this address. . .
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201
Outside the United States	Philadelphia, PA 19255

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 give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. We may give it to foreign governments because of tax treaties they have with the United States. We may also give this information to Federal and state agencies to enforce Federal nontax criminal laws and to combat terrorism.

Our legal right to ask for information is Internal Revenue Code sections 6001 and 6011, which require you to file a statement with us for any tax for which you are liable. Section 6109 requires that you provide your social security number on what you file. This is so we know who you are, and can process your form and other papers.

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 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.

Printed on recycled paper