



Disaster Losses Kit

for Individuals



Help from the IRS

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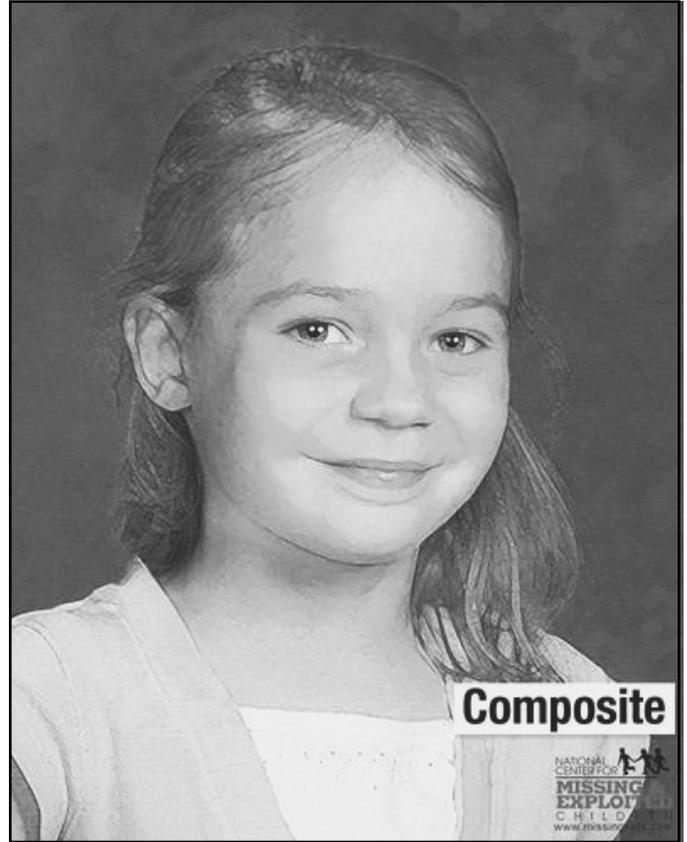
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**Help Us To
Picture Them Home**

Hannah Pobursky



**Female, Age Now: 4
Blue eyes, Blonde hair**



Age Progression By NCMEC

Missing From: Oakhurst, CA on 2/1/2006

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

**Proud Partners With
Internal Revenue Service**



www.missingkids.com

Disaster Losses Kit for Individuals

Introduction

If you were affected 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.

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 of Tax Return*, or Form 4506-T, *Request for Transcript of Tax Return*. Just write the name of the disaster in red at the top of the form before submitting (for example, Hurricane Katrina).

If you need additional forms or publications, there are several ways you can obtain them. You can download forms from www.irs.gov. 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.

Disaster Information on the Web - To access the latest disaster tax information on www.irs.gov, use the key word “disasters”.

Electronic IRS - The number of electronic options available is increasing every year, helping reduce your burden and improve the timeliness and accuracy of tax returns. The Electronic IRS (<http://www.irs.gov/efile/article/0,,id=151880,00.html>) is a gateway to the many IRS electronic options available. A few of the electronic options include “Where’s My Refund?” where you can check the status of your refund, find an IRS e-file provider, check your eligibility for the Earned Income Tax Credit, download tax forms or sign up to pay electronically.

Taxpayer Assistance Center & IRS Hotline - the special toll free disaster hotline is 1-866-562-5227 and can assist with explanations on the type of relief provided by IRS, tax preparation, penalty and interest computations, guidance on how to report a casualty loss on original or amended returns, address change requests, assistance with suppression of notices when applicable, expediting tax refunds, and process Reasonable Cause requests to skip a payment on an installment agreement account. To find a Taxpayer Assistance Center in your area access <http://www.irs.gov/localcontacts/index.html> on [irs.gov](http://www.irs.gov) or call the IRS Hotline.

***Please be aware that some forms included in this publication may be revised in the future. Please be sure to check our website to download the most current forms at: www.irs.gov. You can also order forms or publications at no cost by calling 1-800-829-3676.**

Choosing a tax preparer - Taxpayers should be very careful when choosing a tax preparer. You should be as careful as you would in choosing a doctor or a lawyer. The most reputable preparers will request to see your records and receipts and will ask you multiple questions to determine your total income and your qualifications for expenses, deductions, and other items. By doing so, they have your best interest in mind and are trying to help you avoid penalties, interest, or additional taxes that could result from later IRS contacts. While most tax return preparers are professional and honest, taxpayers can use the following tips to choose a preparer who will offer the best service for their tax preparation needs.

- **Ask about service fees.** Avoid preparers who claim they can obtain larger refunds than other preparers, or those who guarantee results or base fees on a percentage of the amount of the refund.
- **Plan Ahead.** Choose a preparer you will be able to contact after the return is filed and one who will be responsive to your needs.
- **Get References.** Ask questions and get references from clients who have used the tax professional before. Were they satisfied with the service received?
- **Research.** Check to see if the preparer has any questionable history with the Better Business Bureau, the state's board of accountancy for CPAs or the state's bar association for attorneys. Find out if the preparer belongs to a professional organization that requires its members to pursue continuing education and also holds them accountable to a code of ethics.
- **Determine if the preparer's credentials meet your needs.** Are they an Enrolled Agent, Certified Public Accountant or Tax Attorney? Only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in all matters including audits, collection actions and appeals. Other return preparers may represent taxpayers only in audits regarding a return they signed as a preparer.

Report tax fraud and abusive tax preparers - You can report suspected tax fraud and abusive tax preparers to the IRS on Form 3949-A, Information Referral or by sending a letter to Internal Revenue Service, Fresno, CA 93888. Download Form 3949-A from IRS.gov or order by mail at 1-800-829-3676.

IRS Partner Disaster Relief Resources

American Bar Association (ABA)

www.abanet.org/disaster

A resource center for taxpayers in disaster situations provided by ABA.

American Institute of Certified Public Accountants (AICPA)

http://www.aicpa.org/Disaster%20Recovery/disaster_recovery_resources.htm

A central resource for a number of hurricane relief initiatives launched by AICPA.

Association of Latino Professionals in Finance and Accounting (ALPFA)

<http://www.alpfa.org/>

A central resource for a number of initiatives launched by ALPFA.

National Association of Black Accountants, Inc. (NABA)

<http://www.nabainc.org/>

National Association of Enrolled Agents (NAEA)

http://www.naea.org/MemberPortal/Advocacy/Comments/NAEA_BreakingIRSNews.htm

National Association of Tax Professionals (NATP)

<http://www.natptax.com/>

National Society of Accountants (NSA)

<http://www.nsacct.org/index.asp?id=607>

Disaster relief initiatives and information for NSA members and their clients.

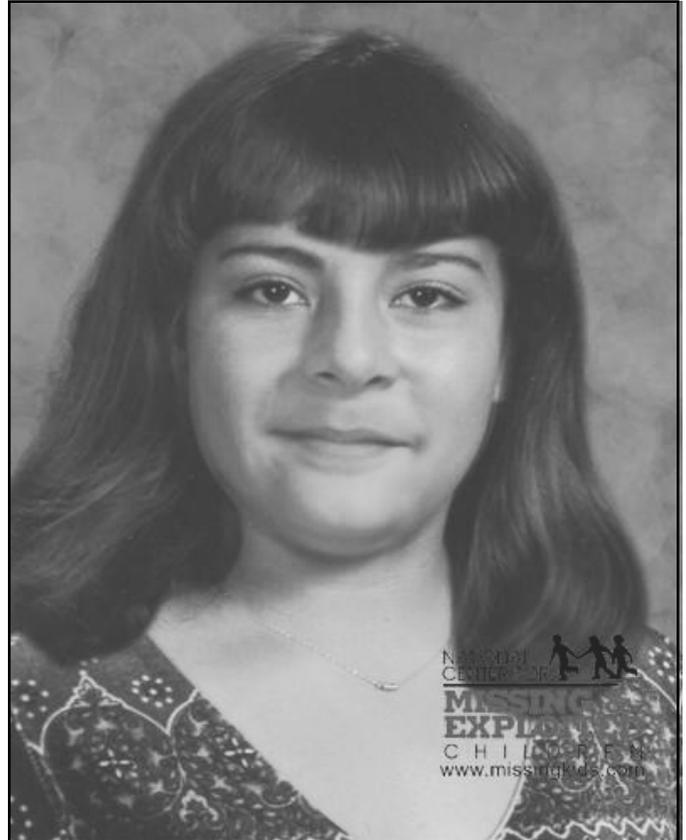
IRS Disaster Hotline-1-866-562-5227

(Monday – Friday from 7:00 am to 10:00 pm local time),

*Please have your own interpreter, if needed, when calling the Hotline number

**Help Us To
Picture Them Home**

Jade Abramov



**Female, Age Now: 13
Ht:3'0 Wt:50 lbs.
Brown eyes, Brown hair**

Age Progression By NCMEC

Missing From: Miami Beach, FL on 10/26/2001

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

**Proud Partners With
Internal Revenue Service**

www.missingkids.com





IRS Disaster Assistance

Federally Declared Disaster Area

You may deduct the loss or partial loss of your home, household goods, and motor vehicles from disaster damage on your individual federal income tax return. If you paid taxes in the tax year immediately preceding the tax year in which the disaster occurred, you can choose to deduct your loss on a Form 1040X (*Amended U.S. Individual Income Tax Return*) for the prior year instead of waiting to file your current year return. This will allow you to receive a refund of some or all of the taxes paid on your prior year return.

What this means to you...

- If you filed a federal income tax return in the preceding tax year and paid federal taxes ...
 - You may be able to file an amended return now (or wait until next year) to claim your loss and receive a refund of the amount of taxes paid.
 - You need to itemize using Form 1040 Schedule A.

To claim your losses...

- Make a list of everything you owned and lost
- Determine its original cost (or adjusted basis)
- Determine the fair market value of each item
 - *This is the amount it could have been sold for just before the disaster*
- Determine the present value – *after the disaster*
- Determine insurance or other reimbursements you received or expect to receive

To take advantage of casualty losses and to assist you through this process...

- Get Publication 2194, *Disaster Loss Kit* for individuals or Publication 2194-B *Disaster Loss Kit* for businesses.
- Get computer generated copies of your last year's tax return from the IRS.
- IRS can assist with preparing your amended tax returns.

For additional information and assistance...

- IRS Disaster Assistance Hotline – 1-866-562-5227
(Monday – Friday from 7:00 am to 10:00 pm local time),
**Please have your own interpreter, if needed, when calling the Hotline number*
- Visit the website at www.irs.gov or
- Contact your tax professional



Department of the Treasury
Internal Revenue Service
publish.no.irs.gov

Pub.3067(EN/SP) (1-2009)
Catalog Number 52704Z



Asistencia del *IRS* en Desastres

Declaración Federal en Zona de Desastre

Usted podría deducir en su declaración de impuestos federales sobre el ingreso personal las pérdidas sufridas a consecuencia de un desastre, ya sea por la pérdida parcial o total de su vivienda, los artículos del hogar y de vehículos de motor. Si pagó impuestos en el año tributario inmediatamente anterior al año tributario en el que ocurrió el desastre, usted puede escoger el deducir su pérdida en el Formulario 1040X, *Amended U.S. Individual Income Tax Return* (Declaración enmendada del impuesto sobre el ingreso personal en los Estados Unidos), en inglés, por el año anterior, en lugar de esperar a presentar su declaración para el año actual. Esto le permitirá recibir un reembolso sobre algunos o todos los impuestos pagados en su declaración del año anterior.

Lo que esto significa para usted...

- Si presentó una declaración de impuestos federales sobre el ingreso en el año tributario anterior y pagó impuestos federales...
 - o Podría presentar una declaración enmendada ahora (o esperar al año próximo) para reclamar su pérdida y recibir un reembolso por la cantidad de impuestos pagada.
 - o Necesita detallar sus deducciones utilizando el Anexo A, del Formulario 1040.

Para reclamar sus pérdidas...

- Haga una lista de todo lo que usted poseía y perdió
- Determine su costo original (o base ajustada)
- Determine el valor normal en el mercado de cada objeto
 - o *Esta es la cantidad por la que se pudo haber vendido justo antes del desastre*
- Determine el valor actual – *después del desastre*
- Determine el seguro u otros reembolsos recibidos o que espera recibir

Para aprovechar las pérdidas fortuitas y asistirle en este proceso...

- Obtenga la Publicación 2194, *Disaster Losses Kit for Individuals - Help from the IRS* (Juego de formularios y publicaciones relacionadas con las pérdidas por desastres para personas físicas – ayuda del *IRS*) o Publicación 2194-B, *Disaster Losses Kit for Businesses - Help from the IRS* (Juego de formularios y publicaciones relacionadas con las pérdidas por desastres para negocios – ayuda del *IRS*), ambas en inglés.
- Obtenga copias generadas por computadora de su declaración de impuestos del año anterior del *IRS*.
- El *IRS* puede ayudarle con la preparación de sus declaraciones enmendadas de impuestos.

Para más información y ayuda...

- Llame a la Línea Directa de Ayuda en Desastres del *IRS*, al 1-866-562-5227. *(de lunes a viernes de las 7:00 am a las 10:00 pm, hora local)*,
- Visite el sitio web en www.irs.gov/espanol o
- Comuníquese con su profesional de impuestos.

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 584-B**, 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 withholding, real property taxes, personal property, home mortgage interest, and charitable contributions paid in the prior year.

Securing copies of previously filed returns, providing Form 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 the IRS can provide, if needed.



Department of the Treasury
Internal Revenue Service

Publication 3932 (Rev. 12-2005)
Catalog Number 32903Y

www.irs.gov

**Help Us To
Picture Them Home**

Erika Brown



**Female, Age Now: 19
Ht:5'4 Wt:130 lbs.
Brown eyes, Black hair**

Age Progression By NCMEC

Missing From: Philadelphia, PA on 05/16/2006 10:00:00 PM

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

**Proud Partners With
Internal Revenue Service**



www.missingkids.com



Reconstructing Your Records

Reconstructing records after a disaster may be essential for tax purposes, getting federal assistance or insurance reimbursement. Records that you need to prove your loss may have been damaged or destroyed in a casualty. While it may not be easy, reconstructing your records may be essential for:

- Tax purposes – You may need to reconstruct your records to prove you have a casualty loss and the amount of the loss. To compute your casualty loss, you need to determine: 1) the decrease in value of the property as a result of the casualty and 2) the adjusted basis of the property (usually the cost of the property and improvements). You may deduct the smaller of these two amounts, minus insurance or other reimbursement. See Publication 547 for further information on figuring your casualty loss deduction.

If you repair damage caused by the casualty, or spend money for cleaning up, keep the repair bills and any other records of what was done and how much it cost. You cannot deduct these costs, but you can use them as a measure of the decrease in fair market value caused by the casualty if the repairs are actually made, are not excessive, are necessary to bring the property back to its condition before the casualty, take care of the damage only, and do not cause the property to be worth more than before the casualty.

- Insurance reimbursement.
- Federal Emergency Management Agency (FEMA) and Small Business Administration aid – The more accurately you estimate your loss, the more loan and grant money there may be available to you.

The following tips may help to reconstruct your records to prove loss of personal-use or business property:

Personal Residence/Real Property

- Be sure to take photographs as quickly as possible after the casualty to establish the extent of the damage.
- Contact the title company, escrow company or bank that handled the purchase to obtain copies of escrow papers. Your real estate broker may also be able to help.
- Use the current property tax statement for land vs. building ratios, if available; if not available, get copies from the county assessor's office.

- Check with appraisal companies to locate a library of old multiple listing books. These can be used for "comps" to establish a basis or fair market value. "Comps" are comparable sales within the same neighborhood.
- Check with your mortgage company for copies of any appraisals or other information they may have about cost or fair market value.
- Tax records – Immediately after the casualty, file Form 4506, Request for Copy of Tax Return, to request copies of the previous four years of income tax returns. To obtain copies of the previous four years of transcripts you may file a Form 4506-T, Request for Transcripts of a Tax Return. Write the appropriate disaster designation, such as "HURRICANE KATRINA," in red letters across the top of the forms to expedite processing and to waive the normal user fee.
 - Form 4506, Request for Copy of Tax Return
 - Form 4506-T, Request for Transcript of Tax Return
- Insurance Policy – Most policies list the value of the building to establish a base figure for replacement value insurance.
- If you are unsure how to reach your insurance company, check with your state insurance department. http://www.naic.org/state_web_map.htm
- Improvements – Call the contractor(s) to see if records are available. If possible get statements from the contractors verifying their work and cost.
 - Get written accounts from friends and relatives who saw your house before and after any improvements. See if any of them have photos taken at get-togethers.
 - If a home improvement loan was obtained, obtain paperwork from the institution issuing the loan. The amount of the loan may help establish the cost of the improvements.
- Inherited Property – Check court records for probate values. If a trust or estate existed, contact the attorney who handled the estate or trust.
- No other records are available – Check at the county assessor's office for old records about the property. Look for assessed valued and ask for the percentage of assessment to value at the time of purchase. This is a rough guess, but better than no records at all.

Vehicles

Kelly's Blue Book, NADA and Edmunds are available on-line and at most libraries. They are good sources for the current fair market value of most vehicles on the road.

- Call the dealer and ask for a copy of the contract. If not available, give the dealer all the facts and details and ask for a comparable price figure.
- Use newspaper ads for the period in which the vehicle was purchased to determine cost basis. Use ads for the period when it was destroyed for fair market value. Be sure to keep copies of the ads.
- If you're still making payments, check with your lien holder.

Personal Property

The number and types of personal property may make it difficult to reconstruct records. One of the best methods is to draw pictures of each room. Draw a floor plan showing where each piece of furniture was placed. Then show pictures of the room looking toward any shelves or tables. These do not have to be professionally drawn, just functional. Take time to draw shelves with memorabilia on them. Do the same with kitchens and bedrooms. Reconstruct what was there, especially furniture that would have held items — drawers, dressers, shelves. Be sure to include garages, attics and basements.

- Get old catalogs. These catalogs are a great way to establish cost basis and fair market value.
- Check the prices on similar items in your local thrift stores to establish fair market value. Walk through the stores and look at comparable items, especially items such as kitchen gadgets. Look for odds and ends you may have had but forgotten because of infrequent use.
- Use your local "advertiser" as a source for fair market value. Keep copies of the issues handy and copy pages used for specific items to put with your tax records file on the disaster.
- Check local newspaper want ads for similar items. Again keep a copy of any you use for comparison with the tax file.
- If you bought items using a credit card, contact your credit card company.
- Check with your local library for back issues of newspapers. Most libraries keep old issues on microfilm. The sale sections of these back issues may help establish original costs on items such as appliances.

- Go to a used bookstore with a tape measure and the diagram of the destroyed property. Measure several rows of used books and count the number of books per shelf. Add up the prices of those books and determine an average cost per shelf. Then count the number of shelves you had in your home and multiply by the average cost per shelf. This will help determine the value of your books before the loss.

Business Records

- Inventories – Get copies of invoices from suppliers. Whenever possible, the invoices should date back at least one calendar year.
- Income – Get copies of bank statements. The deposits should closely reflect what the sales were for any given time period.
 - Obtain copies of last year's federal, state and local tax returns including sales tax reports, payroll tax returns and business licenses (from city or county). These will reflect gross sales for a given time period.
- Furniture and fixtures – Sketch an outline of the inside and outside of the business location. Then start to fill in the details of the sketches. (Inside the building — what equipment was where; if a store, where were the products/inventory located. Outside the building — shrubs, parking, signs, awnings, etc.)
 - If you purchased an existing business, go back to the broker for a copy of the purchase agreement. This should detail what was acquired.
 - If the building was constructed for you, contact the contractor for building plans or the county/city planning commissions for copies of any plans.

For assistance and additional information, use these resources:

IRS Disaster Assistance Hotline at 1-866-562-5227 (Monday through Friday from 7 a.m. to 10 p.m. local time).



Publication 4758 (4-2009) Catalog Number 53057P
Department of the Treasury **Internal Revenue Service** www.irs.gov

Request for Copy of Tax Return

(Rev. January 2010)

OMB No. 1545-0429

Department of the Treasury
Internal Revenue Service

Request may be rejected if the form is incomplete or illegible.

Tip. You may be able to get your tax return or return information from other sources. If you had your tax return completed by a paid preparer, they should be able to provide you a copy of the return. The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the original tax return and usually contains the information that a third party (such as a mortgage company) requires. See **Form 4506-T, Request for Transcript of Tax Return**, or you can call 1-800-829-1040 to order a transcript.

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

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

4 Previous address shown on the last return filed if different from line 3

5 If the tax return is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number. The IRS has no control over what the third party does with the tax return.

Caution. If the tax return is being mailed to a third party, ensure that you have filled in line 6 and line 7 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy.

6 Tax return requested. Form 1040, 1120, 941, etc. and all attachments as originally submitted to the IRS, including Form(s) W-2, schedules, or amended returns. Copies of Forms 1040, 1040A, and 1040EZ are generally available for 7 years from filing before they are destroyed by law. Other returns may be available for a longer period of time. Enter only one return number. If you need more than one type of return, you must complete another Form 4506.

Note. If the copies must be certified for court or administrative proceedings, check here

7 Year or period requested. Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than eight years or periods, you must attach another Form 4506.

8 Fee. There is a \$57 fee for each return requested. Full payment must be included with your request or it will be rejected. Make your check or money order payable to "United States Treasury." Enter your SSN or EIN and "Form 4506 request" on your check or money order.	
a Cost for each return	\$ 57.00
b Number of returns requested on line 7	
c Total cost. Multiply line 8a by line 8b	\$

9 If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here

Signature of taxpayer(s). 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 return requested. If the request applies to a joint return, **either** husband or wife must sign. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506 on behalf of the taxpayer. **Note.** For tax returns being sent to a third party, this form must be received within 120 days of signature date.

Sign Here	Signature (see instructions)	Date	Telephone number of taxpayer on line 1a or 2a
	Title (if line 1a above is a corporation, partnership, estate, or trust)		
	Spouse's signature	Date	

General Instructions

Section references are to the Internal Revenue Code.

Purpose of form. Use Form 4506 to request a copy of your tax return. You can also designate a third party to receive the tax return. See line 5.

How long will it take? It may take up to 60 calendar days for us to process your request.

Tip. Use Form 4506-T, Request for Transcript of Tax Return, to request tax return transcripts, tax account information, W-2 information, 1099 information, verification of non-filing, and record of account.

Automated transcript request. You can call 1-800-829-1040 to order a transcript through the automated self-help system. Follow prompts for "questions about your tax account" to order a tax return transcript.

Where to file. Attach payment and mail Form 4506 to the address below for the state you lived in, or the state your business was in, when that return was filed. There are two address charts: one for individual returns (Form 1040 series) and one for all other returns.

If you are requesting a return for more than one year and the chart below shows two different RAVS teams, send your request to the team based on the address of your most recent return.

Chart for individual returns (Form 1040 series)

If you filed an individual return and lived in:	Mail to the "Internal Revenue Service" at:
Florida, Georgia, North Carolina, South Carolina	RAIVS Team P.O. Box 47-421 Stop 91 Doraville, GA 30362
Alabama, Kentucky, Louisiana, Mississippi, Tennessee, Texas, a foreign country, or A.P.O. or F.P.O. address	RAIVS Team Stop 6716 AUSC Austin, TX 73301
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming	RAIVS Team Stop 37106 Fresno, CA 93888
Arkansas, Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia	RAIVS Team Stop 6705 P-6 Kansas City, MO 64999

Chart for all other returns

If you lived in or your business was in:	Mail to the "Internal Revenue Service" at:
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming, a foreign country, or A.P.O. or F.P.O. address	RAIVS Team P.O. Box 9941 Mail Stop 6734 Ogden, UT 84409
Connecticut, Delaware, District of Columbia, Georgia, 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	RAIVS Team P.O. Box 145500 Stop 2800 F Cincinnati, OH 45250

Specific Instructions

Line 1b. Enter your employer identification number (EIN) if you are requesting a copy of a business return. Otherwise, enter the first social security number (SSN) shown on the return. For example, if you are requesting Form 1040 that includes Schedule C (Form 1040), enter your SSN.

Signature and date. Form 4506 must be signed and dated by the taxpayer listed on line 1a or 2a. If you completed line 5 requesting the return be sent to a third party, the IRS must receive Form 4506 within 120 days of the date signed by the taxpayer or it will be rejected.

Individuals. Copies of jointly filed tax returns may be furnished to either spouse. Only one signature is required. Sign Form 4506 exactly as your name appeared on the original return. If you changed your name, also sign your current name.

Corporations. Generally, Form 4506 can be signed by: (1) an officer having legal authority to bind the corporation, (2) any person designated by the board of directors or other governing body, or (3) any officer or employee on written request by any principal officer and attested to by the secretary or other officer.

Partnerships. Generally, Form 4506 can be signed by any person who was a member of the partnership during any part of the tax period requested on line 7.

All others. See section 6103(e) if the taxpayer has died, is insolvent, is a dissolved corporation, or if a trustee, guardian, executor, receiver, or administrator is acting for the taxpayer.

Documentation. For entities other than individuals, you must attach the authorization document. For example, this could be the letter from the principal officer authorizing an employee of the corporation or the Letters Testamentary authorizing an individual to act for an estate.

Signature by a representative. A representative can sign Form 4506 for a taxpayer only if this authority has been specifically delegated to the representative on Form 2848, line 5. Form 2848 showing the delegation must be attached to Form 4506.

Privacy Act and Paperwork Reduction Act Notice.

We ask for the information on this form to establish your right to gain access to the requested return(s) under the Internal Revenue Code. We need this information to properly identify the return(s) and respond to your request. Sections 6103 and 6109 require you to provide this information, including your SSN or EIN, to process your request. If you do not provide this information, we may not be able to process your request. Providing false or fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

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 Form 4506 will vary depending on individual circumstances. The estimated average time is: **Learning about the law or the form**, 10 min.; **Preparing the form**, 16 min.; and **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 4506 simpler, we would be happy to hear from you. You can write to Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see *Where to file* on this page.

Request for Transcript of Tax Return

Request may be rejected if the form is incomplete or illegible.

Tip. Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can also call 1-800-829-1040 to order a transcript. If you need a copy of your return, use **Form 4506, Request for Copy of Tax Return**. There is a fee to get a copy of your return.

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

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

4 Previous address shown on the last return filed if different from line 3

5 If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number. The IRS has no control over what the third party does with the tax information.

Caution. If the transcript is being mailed to a third party, ensure that you have filled in line 6 and line 9 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy.

6 **Transcript requested.** Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request.

a **Return Transcript**, which includes most of the line items of a tax return as filed with the IRS. A tax return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120A, Form 1120H, Form 1120L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days

b **Account Transcript**, which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 30 calendar days.

c **Record of Account**, which is a combination of line item information and later adjustments to the account. Available for current year and 3 prior tax years. Most requests will be processed within 30 calendar days

7 **Verification of Nonfiling**, which is proof from the IRS that you **did not** file a return for the year. Current year requests are only available after June 15th. There are no availability restrictions on prior year requests. Most requests will be processed within 10 business days

8 **Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript.** The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2007, filed in 2008, will not be available from the IRS until 2009. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 45 days

Caution. If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and request a copy of your return, which includes all attachments.

9 **Year or period requested.** Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T. For requests relating to quarterly tax returns, such as Form 941, you must enter each quarter or tax period separately.

Signature of taxpayer(s). 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. If the request applies to a joint return, **either** husband or wife must sign. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer. **Note.** For transcripts being sent to a third party, this form must be received within 120 days of signature date.

Signature (see instructions)	Date	Telephone number of taxpayer on line 1a or 2a
------------------------------	------	---

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

Spouse's signature	Date
--------------------	------

General Instructions

Purpose of form. Use Form 4506-T to request tax return information. You can also designate a third party to receive the information. See line 5.

Tip. Use Form 4506, Request for Copy of Tax Return, to request copies of tax returns.

Where to file. Mail or fax Form 4506-T to the address below for the state you lived in, or the state your business was in, when that return was filed. There are two address charts: one for individual transcripts (Form 1040 series and Form W-2) and one for all other transcripts.

If you are requesting more than one transcript or other product and the chart below shows two different RAVS teams, send your request to the team based on the address of your most recent return.

Automated transcript request. You can call 1-800-829-1040 to order a transcript through the automated self-help system. Follow prompts for "questions about your tax account" to order a tax return transcript.

Chart for individual transcripts (Form 1040 series and Form W-2)

If you filed an individual return and lived in:	Mail or fax to the "Internal Revenue Service" at:
Florida, Georgia, North Carolina, South Carolina	RAIVS Team P.O. Box 47-421 Stop 91 Doraville, GA 30362 770-455-2335
Alabama, Kentucky, Louisiana, Mississippi, Tennessee, Texas, a foreign country, or A.P.O. or F.P.O. address	RAIVS Team Stop 6716 AUSC Austin, TX 73301 512-460-2272
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming	RAIVS Team Stop 37106 Fresno, CA 93888 559-456-5876
Arkansas, Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia	RAIVS Team Stop 6705 P-6 Kansas City, MO 64999 816-292-6102

Chart for all other transcripts

If you lived in or your business was in:	Mail or fax to the "Internal Revenue Service" at:
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming, a foreign country, or A.P.O. or F.P.O. address	RAIVS Team P.O. Box 9941 Mail Stop 6734 Ogden, UT 84409 801-620-6922
Connecticut, Delaware, District of Columbia, Georgia, 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	RAIVS Team P.O. Box 145500 Stop 2800 F Cincinnati, OH 45250 859-669-3592

Line 1b. Enter your employer identification number (EIN) if your request relates to a business return. Otherwise, enter the first social security number (SSN) shown on the return. For example, if you are requesting Form 1040 that includes Schedule C (Form 1040), enter your SSN.

Line 6. Enter only one tax form number per request.

Signature and date. Form 4506-T must be signed and dated by the taxpayer listed on line 1a or 2a. If you completed line 5 requesting the information be sent to a third party, the IRS must receive Form 4506-T within 120 days of the date signed by the taxpayer or it will be rejected.

Individuals. Transcripts of jointly filed tax returns may be furnished to either spouse. Only one signature is required. Sign Form 4506-T exactly as your name appeared on the original return. If you changed your name, also sign your current name.

Corporations. Generally, Form 4506-T can be signed by: (1) an officer having legal authority to bind the corporation, (2) any person designated by the board of directors or other governing body, or (3) any officer or employee on written request by any principal officer and attested to by the secretary or other officer.

Partnerships. Generally, Form 4506-T can be signed by any person who was a member of the partnership during any part of the tax period requested on line 9.

All others. See Internal Revenue Code section 6103(e) if the taxpayer has died, is insolvent, is a dissolved corporation, or if a trustee, guardian, executor, receiver, or administrator is acting for the taxpayer.

Documentation. For entities other than individuals, you must attach the authorization document. For example, this could be the letter from the principal officer authorizing an employee of the corporation or the Letters Testamentary authorizing an individual to act for an estate.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to establish your right to gain access to the requested tax information under the Internal Revenue Code. We need this information to properly identify the tax information and respond to your request. You are not required to request any transcript; if you do request a transcript, sections 6103 and 6109 and their regulations require you to provide this information, including your SSN or EIN. If you do not provide this information, we may not be able to process your request. Providing false or fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

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 Form 4506-T will vary depending on individual circumstances. The estimated average time is: **Learning about the law or the form**, 10 min.; **Preparing the form**, 12 min.; and **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 4506-T simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see *Where to file* on this page.



Department
of the
Treasury

Internal
Revenue
Service

Publication 584

(Rev. December 2008)

Cat. No. 15151M

Casualty, Disaster, and Theft Loss Workbook

(Personal-Use Property)



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Internet www.irs.gov

What's New for 2008

Waiver of \$100 and 10% of adjusted gross income limits. The \$100 and 10% of adjusted gross income limits do not apply to losses of personal use property that arose in the Kansas disaster area or a Midwestern disaster area. The 10% limit does not apply to losses of personal use property attributable to federally declared disasters declared in tax years beginning after 2007 and that occur before 2010. (The \$100 limit, however, does apply.) See *Deduction limits* later. For more information about these disasters, see Publication 547.

What's New for 2009

Increase in \$100 personal casualty and theft loss limit. Generally, a personal casualty or theft loss must exceed \$500 to be allowed for 2009. This is in addition to the 10% of adjusted gross income limit that generally applies to the net loss.

Introduction

This workbook is designed to help you figure your loss on personal-use property in the event of a disaster, casualty, or theft. It contains schedules to help you figure the loss to your main home, its contents, and your motor vehicles. However, these schedules are for your information only. You must complete Form 4684, 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 cost or other basis and fair market value, discussed later.
3. Fill out Schedules 1 through 20.
4. Read the instructions for Form 4684.
5. Fill out Form 4684 using the information you entered in Schedules 1 through 20.

Use the chart below to find out how to use Schedules 1 through 19 to fill out Form 4684.

<u>Take what's in each row of...</u>	<u>And enter it on Form 4684...</u>
Column 1	Line 1
Column 2	Line 2
Column 3	Line 3
Column 4	Line 4
Column 5	Line 5
Column 6	Line 6
Column 7	Line 7

Losses

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

Amount of loss. You figure the amount of your loss using the following steps.

1. Determine your cost or other 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. (The decrease in FMV is the difference between the property's value immediately before and immediately after the casualty or theft.)
3. From the smaller of the amounts you determined in (1) and (2), subtract any insurance or other reimbursement you received or expect to receive.

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

Cost or other basis. Cost or other basis usually means original cost plus improvements. 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. 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. When filling out Schedules 1 through 20, you need to know the FMV of the property immediately before and immediately after the disaster, casualty, or theft.

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

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

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

Deduction limits. After you have figured the amount of your loss, as discussed earlier, you must figure how much of the loss you can deduct. You do this on Form 4684, section A. If the loss was to property for your personal use or

your family's, there are two limits on the amount you can deduct for your casualty or theft loss.

1. You must reduce each casualty or theft loss by \$100 (\$100 rule). (This amount increases to \$500 for 2009.)
2. You must further reduce the total of all your losses by 10% of your adjusted gross income (10% rule).

The above limits do not apply if your loss arose in the Kansas disaster area or a Midwestern disaster area. Furthermore, the 10% limit does not apply if your loss is a net disaster loss attributable to a federally declared disaster. (The limit in (1) above does apply.)

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

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

Comments and Suggestions

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

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
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.

You can email us at taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to the address below and receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

Tax questions. If you have a tax question, check the information available on www.irs.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get 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. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, Taxpayer Advocate Service—Your Voice at the IRS. You can file Form 911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on your behalf. For more information, go to www.irs.gov/advocate.

Low Income Taxpayer Clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right-hand corner.



Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2008 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2008 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *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.
- *Refund information.* To check the status of your 2008 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2008 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services. To ensure 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 listen in on or record random 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 government offices, credit unions, and office supply stores have a collection of products available to print from a CD 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 Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or

a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613



CD/DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship the beginning of January 2009.
 - The final release will ship the beginning of March 2009.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee). The price is discounted to \$25 for orders placed prior to December 1, 2008.



Small Business Resource Guide 2009. This online guide is a must for every small business owner or any taxpayer about to start a business. This year's guide includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2009.
- Tax Map: an electronic research tool and finding aid.

- Web links to various government agencies, business associations, and IRS organizations.
- “Rate the Product” survey—your opportunity to suggest changes for future editions.

- A site map of the guide to help you navigate the pages with ease.
- An interactive “Teens in Biz” module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

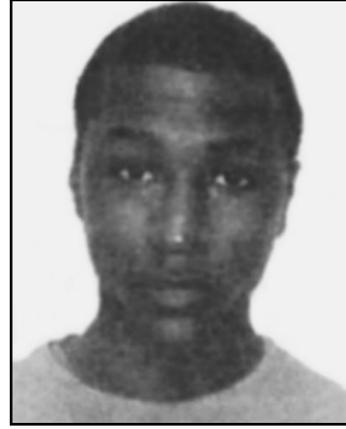
The information is updated during the year. Visit www.irs.gov and enter keyword “SBRG” in the upper right-hand corner for more information.

Help Us To Picture Them Home



Leonardo Morning

**Male, Age Now: 19
Ht:5'8 Wt:160 lbs.
Brown eyes, Black hair**



Missing From: Bessemer, AL on 6/24/2008 12:00:00 PM

National Center for Missing and Exploited Children

**Call 1-800-THE-LOST
(1-800-843-5678)**

**Proud Partners With
Internal Revenue Service**

www.missingkids.com



Schedule 20. Home (Excluding Contents)

Note. If you used the entire property as your home, fill out only column (a). If you used part of the property as your home and part of it for business or to produce rental income, you must allocate the entries on lines 2-9 between the personal part (column (a)) and the business/rental part (column (b)).

		(a) Personal Part	(b) Business/ Rental Part
1.	Description of property (Show location and date acquired.) _____ _____		
2.	Cost or other (adjusted) basis of property (from Worksheet A)		
3.	Insurance or other reimbursement Note. If line 2 is more than line 3, skip line 4. If line 3 is more than line 2, you exclude gain, and the gain is more than you can exclude, see the instructions for line 3 in the Instructions for Form 4684 for the amount to enter.		
4.	Gain from casualty. If line 3 is more than line 2, enter the difference here and skip lines 5 through 9. But see Next below line 9.		
5.	Fair market value before casualty		
6.	Fair market value after casualty		
7.	Decrease in fair market value. Subtract line 6 from line 5.		
8.	Enter the smaller of line 2 or line 7 Note for business/rental part. If the property was totally destroyed by casualty, enter on line 8, column (b) the amount from line 2, column (b).		
9.	Subtract line 3 from line 8. If zero or less, enter -0-.		

Next: Transfer the entries from line 1 and lines 2-9, column (a), above to the corresponding lines on Form 4684, Section A. Transfer the entries from line 1 and lines 2-9, column (b), to the corresponding lines on Form 4684, Section B.

Help Us To Picture Them Home



Diego Flores

Male, Age Now: 5

Ht:2'9 Wt:24 lbs.

Brown eyes, Lt. Brown hair

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

**Missing From: Victorville, CA on
10/23/2007 6:00:00 PM**

**Proud Partners With
Internal Revenue Service
www.missingkids.com**



Worksheet A. **Cost or Other (Adjusted) Basis**

Keep for Your Records



Caution. See the Worksheet A Instructions before you use this worksheet.

	(a) Personal Part	(b) Business/ Rental Part
1. Enter the purchase price of the home damaged or destroyed. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)	1. _____	_____
2. Seller paid points for home bought after 1990. Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1	2. _____	_____
3. Subtract line 2 from line 1	3. _____	_____
4. Settlement fees or closing costs. (See <i>Settlement costs</i> in Publication 551.) If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a-4g and 5; go to line 6.		
a. Abstract and recording fees	4a. _____	_____
b. Legal fees (including fees for title search and preparing documents)	4b. _____	_____
c. Survey fees	4c. _____	_____
d. Title insurance	4d. _____	_____
e. Transfer or stamp taxes	4e. _____	_____
f. Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	4f. _____	_____
g. Other	4g. _____	_____
5. Add lines 4a through 4g	5. _____	_____
6. Cost of additions and improvements. (See <i>Increases to Basis</i> in Publication 551.) Do not include any additions and improvements included on line 1	6. _____	_____
7. Special tax assessments paid for local improvements, such as streets and sidewalks	7. _____	_____
8. Other increases to basis	8. _____	_____
9. Add lines 3, 5, 6, 7, and 8	9. _____	_____
10. Depreciation allowed or allowable, related to the business use or rental of the home	10. 0	_____
11. Other decreases to basis (See <i>Decreases to Basis</i> in Publication 551.)	11. _____	_____
12. Add lines 10 and 11	12. _____	_____
13. Cost or other (adjusted) basis of home damaged or destroyed. Subtract line 12 from line 9. Enter here and on Schedule 20, line 2	13. _____	_____

Worksheet A Instructions.

If you use *Worksheet A* to figure the cost or other (adjusted) basis of your home, follow these instructions.

IF...		THEN...
you inherited your home	1	skip lines 1–4 of the worksheet.
	2	find your basis using the rules under <i>Inherited Property</i> in Publication 551. Enter this amount on line 5 of the worksheet.
	3	fill out lines 6–13 of the worksheet.
you received your home as a gift	1	read <i>Property Received as a Gift</i> in Publication 551 and enter on lines 1 and 3 of the worksheet either the donor's adjusted basis or the home's fair market value at the time of the gift, whichever is appropriate.
	2	if you can add any federal gift tax to your basis, enter that amount on line 5 of the worksheet.
	3	fill out the rest of the worksheet.
you received your home as a trade for other property	1	enter on line 1 of the worksheet the fair market value of the other property at the time of the trade. (But if you received your home as a trade for your previous home before May 7, 1997, and had a gain on the trade that you postponed using Form 2119, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out the rest of the worksheet.
you built your home	1	add the purchase price of the land and the cost of building the home. Enter that total on line 1 of the worksheet. (However, if you filed a Form 2119 to postpone gain on the sale of a previous home before May 7, 1997, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out the rest of the worksheet.
you received your home from your spouse after July 18, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 of the worksheet your spouse's cost or other (adjusted) basis in the home just before you received it.
	3	fill out lines 6–13 of the worksheet, making adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you after July 18, 1984		fill out one worksheet, including adjustments to basis for events both before and after the transfer.
you received your home from your spouse before July 19, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 of the worksheet the home's fair market value at the time you received it.
	3	fill out lines 6–13 of the worksheet, making adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, and your spouse transferred his or her interest in the home to you before July 19, 1984	1	fill out a worksheet, lines 1–13, making adjustments to basis only for events before the transfer.
	2	multiply the amount on line 13 of that worksheet by 50% (0.50) to get the adjusted basis of your half-interest at the time of the transfer.
	3	multiply the fair market value of the home at the time of the transfer by 50% (0.50). Generally, this is the basis of the half-interest that your spouse owned.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a second worksheet.
	5	complete lines 6–13 of the second worksheet, making adjustments to basis only for events after the transfer.

Worksheet A Instructions. (Continued)

IF...		THEN...
you owned your home jointly with your spouse who died before the casualty	1	fill out a worksheet, lines 1–13, making adjustments to basis only for events before your spouse’s death.
	2	multiply the amount on line 13 of that worksheet by 50% (0.50) to get the adjusted basis of your half-interest on the date of death.
	3	figure the basis for the half-interest owned by your spouse. This is one-half of the fair market value on the date of death (or alternate valuation date). (The basis in your half will remain one-half of the adjusted basis determined in step 2.)
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a second worksheet.
	5	complete lines 6–13 of the second worksheet, making adjustments to basis only for events after your spouse’s death.
you owned your home jointly with your spouse who died before the casualty, and your permanent home is in a community property state	1	skip lines 1–4 of the worksheet.
	2	enter the amount of your basis on line 5 of the worksheet. Generally, this is the fair market value of the home at the time of death. (But see <i>Community Property</i> in Publication 551 for special rules.)
	3	fill out lines 6–13 of the worksheet, making adjustments to basis only for events after your spouse’s death.
your home was ever damaged as a result of a prior casualty	1	on line 8 of the worksheet, enter any amounts you spent to restore the home to its condition before the prior casualty.
	2	on line 11 enter: any insurance reimbursements you received (or expect to receive) for the prior loss, and any deductible casualty losses from prior years not covered by insurance.
the person who sold you your home paid points on your loan and you bought your home after 1990 but before April 4, 1994.		on line 2 enter the seller-paid points only if you deducted them as home mortgage interest in the year paid (unless you used the seller-paid points to reduce the amount on line 1).
the person who sold you your home paid points on your loan and you bought your home after April 3, 1994		on line 2 enter the seller-paid points even if you did not deduct them (unless you used the seller-paid points to reduce the amount on line 1).
you used part of the property as your home and part of it for business or to produce rental income		you must allocate the entries on Worksheet A between the personal part (column (a)) and the business/rental part (column (b)).
none of these items apply		fill out the entire worksheet.

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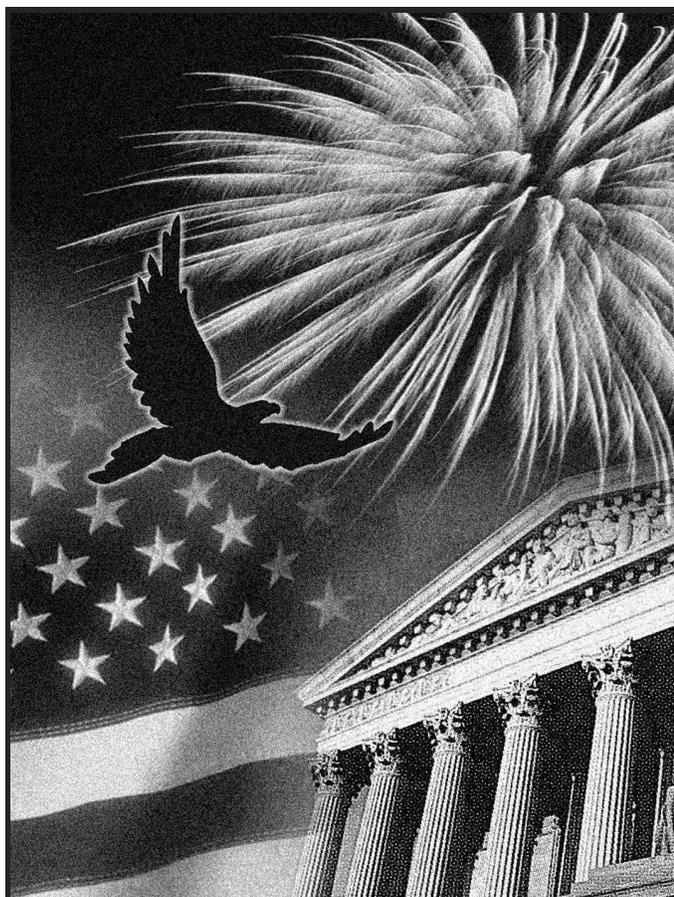
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Publication 547

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Casualties, Disasters, and Thefts

For use in preparing
2009 Returns



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What's New for 2009

Increase in personal casualty and theft loss limit. Generally, each personal casualty or theft loss is limited to the excess of the loss over \$500. In addition, the 10%-of-adjusted gross income (AGI) limit continues to apply to the net loss.

New Schedule L (Form 1040A or 1040). If you claim a net disaster loss as part of your standard deduction, you must complete Schedule L (Form 1040A or 1040) and attach it to Form 1040. See *Disaster Area Losses* later.

What's New for 2010

Decrease in personal casualty and theft loss limit. Each personal casualty or theft loss is limited to the excess of the loss over \$100 (instead of \$500). In addition, the 10%-of-AGI limit continues to apply to the net loss.

Disaster losses. The special rules that were in effect in 2008 and 2009 for losses of personal use property attributable to federally declared disasters do not apply to losses occurring in 2010 and later years. Instead, these losses will be subject to the 10%-of-AGI limit and will be deductible only if you itemize your deductions. These losses will continue to be subject to the \$100-per-loss limit.

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

- Schedule A (Form 1040).
- Form 1040NR, Schedule A (for nonresident aliens).
- Schedule D (Form 1040).
- Schedule L (Form 1040A or 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 584-B 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 write to us at the following address:

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Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
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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.

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Tax questions. If you have a tax question, check the information available on www.irs.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

- Schedule A (Form 1040)** Itemized Deductions
- Form 1040NR, Schedule A** Itemized Deductions (for nonresident aliens)
- Schedule D (Form 1040)** Capital Gains and Losses
- Schedule L (Form 1040A or 1040)** Standard Deduction for Certain Filers
- 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 (explained below).
- A fire if you willfully set it, or pay someone else to set it.
- A car accident if your willful negligence or willful act caused it. The same is true if the willful act or willful negligence of someone acting for you caused the accident.
- Progressive deterioration (explained below).

Family pet. Loss of property due to damage by a family pet is not deductible as a casualty loss unless the requirements discussed earlier under *Casualty* are met.

Example. Your antique oriental rug was damaged by your new puppy before it was housebroken. Because the damage was not unexpected and unusual, the loss is not deductible as a casualty loss.

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

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).

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. You do not need to show a conviction for theft.

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

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

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

Decline in market value of stock. You cannot deduct as a theft loss the decline in market value of stock acquired on the open market for investment if the decline is caused by disclosure of accounting fraud or other illegal misconduct by the officers or directors of the corporation that issued the stock. However, you can deduct as a capital loss the loss you sustain when you sell or exchange the stock or the stock becomes completely worthless. You report a capital loss on Schedule D (Form 1040). For more information about stock sales, worthless stock, and capital losses, see chapter 4 of Publication 550.

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.

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

- Revenue Ruling 2009-9, 2009-14 I.R.B. 735 (available at www.irs.gov/irb/2009-14_IRB/ar07.html).
- Revenue Procedure 2009-20, 2009-14 I.R.B. 749 (available at www.irs.gov/irb/2009-14_IRB/ar11.html).

These losses are deductible as theft losses of income-producing property on your tax return for the year the loss was discovered. You figure the deductible loss in Section B of Form 4684. If you qualify to use Revenue Procedure 2009-20 and you choose to follow the procedures in Revenue Procedure 2009-20, you also must complete Appendix A of that procedure and write "Revenue Procedure 2009-20" across the top of Form 4684. For more information, see the above revenue ruling and revenue procedure.

Loss on Deposits

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

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

Casualty loss or ordinary loss. You can choose to deduct a loss on deposits as a casualty loss or as an ordinary loss for any year in which you can reasonably estimate how much of your deposits you have lost in an insolvent or bankrupt financial institution. The choice generally is made on the return you file for that year and applies to all your losses on deposits for the year in that particular financial institution. If you treat the loss as a casualty or ordinary loss, you 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.

If you claim an ordinary loss, report it as a miscellaneous itemized deduction on Schedule

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

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 year the actual loss is determined and deduct the loss as a nonbusiness bad debt in that year.

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

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

Deducted loss recovered. If you recover an amount you deducted as a loss in an earlier year, you may have to include the amount recovered in your income for the year of recovery. If any part of the original deduction 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.



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 it.

Figuring a Loss

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

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

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

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

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

Business or income-producing property. If you have business or income-producing property, such as rental property, and it is stolen or completely destroyed, the decrease in FMV 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 federally declared disaster to establish the amount of your disaster loss. For more information on disasters, see *Disaster Area Losses*, later.

Cost of cleaning up or making repairs. The cost of repairing damaged property 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 Decrease 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.

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

Related expenses. The incidental expenses due to a casualty or theft, such as expenses for the treatment of personal injuries, for temporary housing, or for a rental car, 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 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 \$1,000 deductible. Because your insurance did not cover the first \$1,000 of an auto collision, the \$1,000 would be deductible (subject to the \$500 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 Form 1040, line 21. However, if the casualty occurs in a federally declared disaster area, none of the insurance payments are taxable. See *Qualified disaster relief payments*, later, under *Disaster Area Losses*.

A temporary increase in your living expenses is the difference between the actual living expenses you and your family incurred during the period you 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	<u>725</u>
4) Temporary increase in living expenses: Subtract line 3 from line 2	<u>875</u>
5) Amount of payment includible in income: Subtract line 4 from line 1	<u>\$ 225</u>

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

Example. Your main home was destroyed by a tornado in August 2007. You regained use of your home in November 2008. The insurance payments you received in 2007 and 2008 were \$1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 2008 Form 1040. If, in 2009, you receive further payments to cover the living expenses you had in

2007 and 2008, you must include those payments in income on your 2009 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.

TIP *Qualified disaster relief payments you receive for expenses you incurred as a result of a federally declared disaster, are not taxable income to you. For more information, see Qualified disaster relief payments under Disaster Area Losses, later.*

Disaster unemployment assistance payments are unemployment benefits that are taxable.

Generally, disaster relief grants received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act are not included in your income. See *Federal disaster relief grants, later, under Disaster Area Losses.*

Reimbursement Received After Deducting Loss

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

Actual reimbursement less than expected. If you later receive less reimbursement than you expected, include that difference as a loss with your other losses (if any) on your return for the

year in which you can reasonably expect no more reimbursement.

Example. Your personal car had a FMV of \$2,000 when it was destroyed in a collision with another car in 2008. The accident was due to the negligence of the other driver. At the end of 2008, there was a reasonable prospect that the owner of the other car would reimburse you in full. You did not have a deductible loss in 2008.

In January 2009, the court awards you a judgment of \$2,000. However, in July it becomes apparent that you will be unable to collect any amount from the other driver. Since this is your only casualty or theft loss, you can deduct the loss in 2009 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. In 2008, 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 2008 return, so you could not deduct the loss. When the insurance company reimburses

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

		\$500 Rule	10% Rule*	2% Rule
General Application		You must reduce each casualty or theft loss by \$500 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 \$500 (the \$500 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.

*The 10% rule does not apply to a net disaster loss attributable to a federally declared disaster (defined later under *Disaster Area Losses*).

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 2008 return. The loss did not reduce your tax.



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

Actual reimbursement same as expected. If you receive exactly the reimbursement you expected to receive, you do not have to include any of the reimbursement in your income and you cannot deduct any additional loss.

Example. In December 2009, 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 in 2009.

Due to the \$500 rule, you cannot deduct the \$100 you paid as the deductible. When you receive the \$850 from the insurance company in 2010, 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. With certain exceptions, a loss on property you own for your personal use is subject to the \$500 and 10% rules, discussed later. The 2%, \$500, 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 Form 4684, Section B. If the casualty or theft loss involved property used in a passive activity, see Form 8582, Passive Activity Loss Limitations, and its instructions.

2% Rule

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

\$500 Rule

After you have figured your casualty or theft loss on personal-use property, as discussed earlier, you must reduce that loss by \$500. 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 \$500 reduction applies.

Example. You have \$750 deductible collision insurance on your car. The car is damaged in a collision. The insurance company pays you for the damage minus the \$750 deductible. The amount of the casualty loss is based solely on the deductible. The casualty loss is \$250 (\$750 – \$500) because the first \$500 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 \$500 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	<u>\$ 500</u>	<u>\$1,200</u>
4. Total loss		\$1,700
5. Subtract \$500		<u>500</u>
6. Loss before 10% rule		<u>\$1,200</u>

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 \$500 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 \$500 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 \$500.

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 \$500 rule to each separate casualty loss. Since neither accident resulted in a loss of over \$500, 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 \$500 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 \$500. Your house guest must reduce his or her loss by \$500.

Married taxpayers. If you and your spouse file a joint return, you are treated as one individual in applying the \$500 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 \$500. 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 \$500.

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 \$500 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 \$500 rule applies separately to each sister.

10% Rule



This rule does not apply to a net disaster loss attributable to a federally declared disaster (defined later under Disaster Area Losses).

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

You do not have a theft loss deduction because your loss (\$1,500) 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 \$500. 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 \$1,800. In November, a fire damaged your basement and totally destroyed the furniture, washer, dryer, and other items you had stored there. Your loss on the basement items after reimbursement was \$2,100. Your adjusted gross income for the year that the accident and fire occurred is \$25,000. You figure your casualty loss deduction as follows.

	<u>Car</u>	<u>Basement</u>
1. Loss	\$1,800	\$2,100
2. Subtract \$500 per incident	500	500
3. Loss after \$500 rule	<u>\$1,300</u>	<u>\$1,600</u>
4. Total loss		\$2,900
5. Subtract 10% of \$25,000 AGI		<u>2,500</u>
6. Casualty loss deduction		\$ 400

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 \$500 but before you have reduced the losses by 10% of your adjusted gross income.



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 \$500 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 \$500. Your casualty gain is \$1,600. Because your gain is more than your loss, you must report the \$1,000 net gain (\$1,600 – \$600) on Schedule D.

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

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 \$6,300, figured in the following manner.

1. Adjusted basis of the entire property (cost in this example)	<u>\$144,800</u>
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)	<u>\$145,000</u>
5. Loss (smaller of line 1 or line 4)	\$144,800
6. Subtract insurance	<u>130,000</u>
7. Loss after reimbursement	\$14,800
8. Subtract \$500	500
9. Loss after \$500 rule	\$14,300
10. Subtract 10% of \$80,000 AGI	<u>8,000</u>
11. Casualty loss deduction	\$ 6,300

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)	<u>\$152,000</u>
2. FMV of entire property before fire	\$175,000
3. FMV of entire property after fire	50,000
4. Decrease in FMV of entire property (line 2 – line 3)	<u>\$125,000</u>
5. Loss (smaller of line 1 or line 4)	\$125,000
6. Subtract insurance	<u>95,000</u>
7. Loss after reimbursement	\$30,000
8. Subtract \$500	500
9. Loss after \$500 rule	\$29,500
10. Subtract 10% of \$70,000 AGI	<u>7,000</u>
11. Casualty loss deduction	\$ 22,500

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 \$500 and 10% of your adjusted gross income to figure the loss deduction.

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

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

1. Adjusted basis (cost in this example)	<u>\$18,500</u>
2. FMV before storm	\$17,000
3. FMV after storm	200
4. Decrease in FMV (line 2 – line 3)	<u>\$16,800</u>
5. Loss (smaller of line 1 or line 4)	\$16,800
6. Subtract insurance	-0-
7. Loss after reimbursement	<u>\$16,800</u>
8. Subtract \$500	500
9. Loss after \$500 rule	\$16,300
10. Subtract 10% of \$70,000 AGI	7,000
11. Casualty loss deduction	\$ 9,300

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.

	<u>Car</u>	<u>Watch</u>
1. Adjusted basis (cost)	\$30,000	\$250
2. FMV before accident	\$17,500	\$500
3. FMV after accident	180	-0-
4. Decrease in FMV (line 2 – line 3)	<u>\$17,320</u>	<u>\$500</u>
5. Loss (smaller of line 1 or line 4)	\$17,320	\$250
6. Subtract insurance	<u>16,000</u>	-0-
7. Loss after reimbursement	<u>\$1,320</u>	<u>\$250</u>
8. Total loss		\$1,570
9. Subtract \$500		500
10. Loss after \$500 rule		\$1,070
11. Subtract 10% of \$97,000 AGI		<u>9,700</u>
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 \$500 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)	<u>\$164,000</u>
2. FMV of real property before hurricane	\$170,000
3. FMV of real property after hurricane	<u>100,000</u>
4. Decrease in FMV of real property (line 2 – line 3)	<u>\$70,000</u>
5. Loss on real property (smaller of line 1 or line 4)	\$70,000
6. Subtract insurance	<u>50,000</u>
7. Loss on real property after reimbursement	<u>\$20,000</u>
8. Loss on furnishings	\$600
9. Subtract insurance	<u>-0-</u>
10. Loss on furnishings after reimbursement	<u>\$600</u>
11. Total loss (line 7 plus line 10)	\$20,600
12. Subtract \$500	<u>500</u>
13. Loss after \$500 rule	\$20,100
14. Subtract 10% of \$65,000 AGI	<u>6,500</u>
15. Casualty loss deduction	<u>\$ 13,600</u>

Property used partly for business and partly for personal purposes. When property is used partly for personal purposes and partly for business or income-producing purposes, the casualty or theft loss deduction must be figured separately for the personal-use portion and for the business or income-producing portion. You must figure each loss separately because the losses attributed to these two uses are figured in two different ways. When figuring each loss, allocate the total cost or basis, the FMV before and after the casualty or theft loss, and the insurance or other reimbursement between the business and personal use of the property. The \$500 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.

	<u>Business Part</u>	<u>Personal Part</u>
1. Cost (total \$400,000)	\$200,000	\$200,000

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

Figuring a Gain

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

- The amount you receive (discussed next), minus
- Your adjusted basis in the property at the time of the casualty or theft. See *Adjusted Basis*, earlier, for 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). To exclude a gain, you generally must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date it was destroyed. For information on this exclusion, see 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.



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

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 federally declared disaster area. If your destroyed business or income-producing property was located in a federally declared disaster area, any tangible replacement property you acquire for use in any business is treated as similar or related in service or use to the destroyed property. 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 basis of the corporation's properties below your adjusted basis in the corporation's stock (determined after reduction by the amount of your postponed gain).

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

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

If two or more properties fall in the same class, allocate the reduction to each property in proportion to the adjusted bases of all the properties in that class. The reduced basis of any single property 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

Table 3. When To Deduct a Casualty or Theft Loss

IF you have a loss...	THEN deduct it in the year...
from a casualty	the loss occurred.
in a federally 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	a reasonable estimate can be made.

stolen from your home. You discovered the theft when you returned home on August 10, 2009. Your insurance company investigated the theft and did not settle your claim until January 4, 2010, when they paid you \$3,000. You first realized a gain from the reimbursement for the theft during 2010, so you have until December 31, 2012, to replace the property.

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

Example. You are a calendar year taxpayer. A hurricane destroyed your home in September 2009. In December 2009, the insurance company paid you \$3,000 more than the adjusted basis of your home. The area in which your home is located is not a federally declared disaster area. You first realized a gain from the reimbursement for the casualty in 2009, so you have until December 31, 2011, to replace the property. If your home had been in a federally declared disaster area, you would have until December 31, 2013, to replace the property.

Property in a Midwestern disaster area. For property located in a Midwestern disaster area (defined in Table 4 in the 2008 Publication 547) that was destroyed, damaged, or stolen as a result of severe storms, tornadoes, or flooding, 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 a Midwestern disaster area.

Property in the Kansas disaster area. For property located in the Kansas disaster area that was destroyed, damaged, or stolen after May 3, 2007, as a result of storms and tornadoes, 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 Kansas disaster area.

Property in the Hurricane Katrina disaster area. For property located in the Hurricane Katrina disaster area that was destroyed, damaged, or stolen after August 24, 2005, as a result of Hurricane Katrina, 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 Hurricane Katrina disaster area.

Extension. You can apply for an extension of the replacement period. Send your written application to the Internal Revenue Service Center

where you file your tax return. See your tax return instructions for the address. Your application must contain all the details about the need for the extension. You should make the application before the end of the replacement period.

However, you can file an application within a reasonable time after the replacement period ends if you have a good reason for the delay. An extension may be granted if you can show that there is reasonable cause for not making the replacement within the regular period.

Ordinarily, requests for extensions 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 in 2008. Your insurance company reimbursed you \$10,000, of which \$5,000 was a gain. You reported the \$5,000 gain on your return for 2008 (the year you realized the gain) and paid the tax due. In 2009 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 2008 using Form 1040X. You should attach an explanation showing that you previously reported the entire gain from the theft but you now want to report only the part of

the gain (\$1,000) equal to the part of the reimbursement not spent for replacement property.

When To Report Gains and Losses

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

Losses. Generally, you can deduct a casualty loss that is not reimbursable 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.)

You can deduct theft losses that are not reimbursable only in the year you discover your property was stolen.

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.

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

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

TIP A list of the areas warranting public or individual assistance (or both) under the Act for 2009 is available at the Federal Emergency Management Agency (FEMA) web site at www.fema.gov.

Losses of personal use property. You enter disaster losses of personal use property on Form 4684, line 17. The net disaster loss (the

excess of line 17 over line 14 of Form 4684) is not subject to the 10%-of-adjusted-gross-income limit. The net disaster loss is deductible as an itemized deduction on Schedule A, or as part of the standard deduction on Schedule L (Form 1040A or 1040).

When to deduct the loss. You generally must deduct a casualty loss in the year it occurred. However, if you have a casualty loss from a federally declared disaster that occurred in an area warranting public or individual assistance (or both), you can 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. Your town is located in an area designated by FEMA for public or individual assistance (or both). 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 designated by FEMA for public or individual assistance (or both), 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.

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

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

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

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

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

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, 2010, to amend your 2008 tax return to claim a casualty loss that occurred during 2009.

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 main home and destroyed your furniture in 2009. This was your only casualty loss for the year. Your home is located in a federally declared disaster area designated by FEMA for public or individual assistance (or both). The cost of your home and land was \$134,000. The FMV immediately before the disaster was \$147,500 and the FMV

immediately afterward was \$100,000. You separately figured the loss on each item of furniture (see *Figuring the Deduction*, earlier) and arrived at a total loss for furniture of \$3,000. Your insurance 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 2008 return to claim your casualty loss for the disaster. You figure your deductible net disaster loss as follows:

	<u>House</u>	<u>Furnishings</u>
1. Cost	\$134,000	\$10,000
2. FMV before disaster	\$147,500	\$8,000
3. FMV after disaster . . .	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	\$5,500
9. Subtract \$100	100	100
10. Loss after \$100 rule	\$50,400	\$5,400
11. Subtract personal casualty gains	0	0
12. Amount of deductible net disaster loss	\$50,400	\$5,400

You can deduct the net disaster loss as an itemized deduction or as part of your standard deduction for 2008.

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 personal use property, you can deduct the net disaster loss as an itemized deduction on Schedule A (Form 1040) or Form 1040NR, Schedule A, or as part of your standard deduction on Schedule L (Form 1040A or 1040). **However**, if the property was income-producing property or employee property, you must itemize your deductions to deduct the loss.

If you must itemize your deductions to deduct the loss or you want to deduct the net disaster loss as an itemized deduction **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) or Form 1040NR, Schedule A 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.

If your records were destroyed or lost, you may have to reconstruct them. Information about reconstructing records is available at www.irs.gov/newsroom/. Type "reconstructing your records" in the search box.

Need a copy of your tax return for the preceding year? It will be easier to prepare Form 1040X if you have a copy of your tax return for the preceding year. If you had your tax return completed by a tax preparer, he or she should be able to provide you with a copy of your return. If not, you can get a copy by filing Form 4506 with the IRS. There is a \$57 fee (subject to change) for each return requested. However, if your main home, principal place of business, or tax records are located in a federally declared disaster area, this fee will be waived. Write the name of the disaster in the top margin of Form 4506 (for example, "Hurricane Katrina").

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

Federal disaster relief grants. Do not include post-disaster relief grants received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act in your income if the grant payments are made to help you meet necessary expenses or serious needs for medical, dental, housing, personal property, transportation, or funeral expenses. Do not deduct casualty losses or medical expenses to the extent they are specifically reimbursed by these disaster relief grants. If the casualty loss was specifically reimbursed by the grant and you received the grant after the year in which you deducted the casualty loss, see *Reimbursement Received After Deducting Loss* earlier. Unemployment assistance payments under the Act in excess of \$2,400 per recipient are taxable unemployment compensation.

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

Qualified disaster relief payments. Qualified disaster relief payments are not included in the income of individuals to the extent any expenses compensated by these payments are not otherwise compensated for by insurance or other reimbursement. 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 federally declared disaster.

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

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



Qualified disaster relief payments do not include:

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

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

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

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

- *Main home in disaster area* earlier under *Replacement Property*.
- *Business or income-producing property located in a federally declared disaster area* earlier under *Replacement Property*.
- *Main home in disaster area* earlier under *Replacement Period*.
- *Property in a Midwestern disaster area* earlier under *Replacement Period*.
- *Property in the Kansas disaster area* earlier under *Replacement Period*.
- *Property in the Hurricane Katrina disaster area* earlier under *Replacement Period*.

Postponed Tax Deadlines

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

If any tax deadline is postponed, the IRS will publicize the postponement in your area and publish a news release, 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 proprietorship whose records are needed to meet a postponed tax deadline, provided those records are maintained in a covered disaster area. The main home or principal place of business 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 individual, business entity, or sole proprietorship not located in a covered disaster area, but whose records necessary to meet a postponed tax deadline are located in the covered disaster area.
- Any individual visiting the covered disaster area who was killed or injured as a result of the disaster.
- Any other person determined by the IRS to be affected by a federally declared disaster.

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

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

Contacting the Federal Emergency Management Agency (FEMA)

If you live in an area that was declared a disaster area by the President, you can get information from FEMA by visiting its website at www.fema.gov, or calling the following phone

numbers. These numbers are only activated after a federally declared disaster.

- 1-800-621-3362.
- 1-800-462-7585, if you are 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 (or Form 1040NR, Schedule A, if you are a nonresident alien).

Note. Use Schedule L (Form 1040A or 1040) instead of Schedule A (Form 1040) if you are deducting a net disaster loss as part of your standard deduction.

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

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

Do not report on these forms any gain you postpone. If you choose to postpone gain, see *How To Postpone a Gain* earlier.

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

Property held 1 year or less. Individuals report losses from income-producing property and property used in performing services as an employee on Schedule A (Form 1040). Gains from business and income-producing property are combined with losses from business property (other than property used in performing services as an employee) and the net gain or loss is reported on Form 4797. If you 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, enter "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, enter "Form 4684." Individuals deduct any loss of income-producing property and property used in

performing services as an employee on Schedule A (Form 1040). Partnerships and S corporations should see Form 4684 to find out where to report these gains and losses.

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

Depreciable property. If the damaged or stolen property was depreciable property held more than 1 year, you may have to treat all or part of the gain as ordinary income to the extent of depreciation allowed or allowable. You figure the ordinary income part of the gain in Part III of Form 4797. See *Depreciation Recapture* in chapter 3 of 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 restore the property to its pre-casualty condition. Do not increase your basis in the property by any qualified disaster mitigation payments (discussed earlier under *Disaster Area Losses*). 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 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. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- TAS is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for TAS help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should.
- TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- TAS employees know the IRS and how to navigate it. We will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.
- TAS has at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Pub. 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.
- You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov.

Low Income Taxpayer Clinics (LITCs).

The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at www.irs.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right-hand corner.



Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2009 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, Regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-TAX FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to

your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.

- *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.
- *Refund information.* To check the status of your 2009 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services.

To ensure 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 listen in on or record random 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 government offices, credit unions, and office supply stores have a collection of products available to print from a CD 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 Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance

Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613



DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.

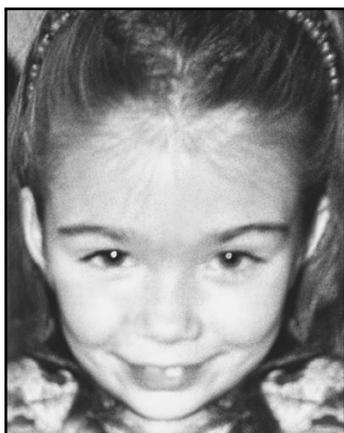
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship the beginning of January 2010.
 - The final release will ship the beginning of March 2010.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee).



Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Help Us To Picture Them Home



Cara Cox

**Female, Age Now: 9
Ht:4'1 Wt:46 lbs.
Hazel eyes, Brown hair**



Missing From: Deltona, FL on 8/14/2009 9:00:00 PM

National Center for Missing and Exploited Children

**Call 1-800-THE-LOST
(1-800-843-5678)**

**Proud Partners With
Internal Revenue Service**

www.missingkids.com





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Help Us To Picture Them Home



Shy'Kemmmia Pate

**Female, Age Now: 19
 Ht:4'4 Wt:59 lbs.
 Brown eyes, Black hair**



Age Enhanced Photo

Missing From: Unadilla, GA on 09/04/1998

National Center for Missing and Exploited Children

**Call 1-800-THE-LOST
 (1-800-843-5678)**

**Proud Partners With
 Internal Revenue Service**

www.missingkids.com



Casualties and Thefts

See separate instructions.
 Attach to your tax return.

Use a separate Form 4684 for each casualty or theft.

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). Use a separate line for each property lost or damaged from the same casualty or theft.

- Property **A** _____
- Property **B** _____
- Property **C** _____
- Property **D** _____

Properties

	Properties			
	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 \$500				11
12 Subtract line 11 from line 10				12
Caution: Use only one Form 4684 for lines 13 through 22.				
13 Add the amounts on line 12 of all Forms 4684				13
14 Add the amounts on 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 Add the amounts on line 12 of all Forms 4684 on which you entered a disaster loss (see instructions)				17
18 Is line 17 more than line 14? <input type="checkbox"/> Yes. Enter the difference. If you are filing Schedule A (Form 1040), go to line 19. Otherwise, enter this amount on line 6 of Schedule L (Form 1040A or 1040). Do not complete the rest of Section A. Form 1040NR filers, see instructions. <input type="checkbox"/> No. Enter -0-. If you claim the standard deduction, do not complete the rest of Section A.				18
19 Subtract line 18 from line 16				19
20 Enter 10% of your adjusted gross income from Form 1040, line 38, or Form 1040NR, line 36. Estates and trusts, see instructions				20
21 Subtract line 20 from line 19. If zero or less, enter -0-				21
22 Add lines 18 and 21. Also enter the result on Schedule A (Form 1040), line 20, or Form 1040NR, Schedule A, line 8. Estates and trusts, enter the result on the "Other deductions" line of your tax return				22

For Paperwork Reduction Act Notice, see page 5 of the instructions.

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.)

23 Description of properties (show type, location, and date acquired for each property). Use a separate line for each property lost or damaged from the same casualty or theft.

- Property A
Property B
Property C
Property D

Table with columns for Properties A, B, C, D and rows 24-32 for cost, insurance, gain, market value, and loss calculations.

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

Summary table with columns (a) Identify casualty or theft, (b) Losses from casualties or thefts, and (c) Gains from casualties or thefts includible in income.

Casualty or Theft of Property Held One Year or Less

Table for Casualty or Theft of Property Held One Year or Less, rows 33-36.

Casualty or Theft of Property Held More Than One Year

Table for Casualty or Theft of Property Held More Than One Year, rows 37-43.



Instructions for Form 4684

Casualties and Thefts

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

General Instructions

What's New for 2009

Increase in personal casualty and theft loss limit. Generally, each personal casualty or theft loss is limited to the excess of the loss over \$500. In addition, the 10%-of-adjusted-gross-income (AGI) limit continues to apply to the net loss.

New Schedule L (Form 1040A or 1040). If you claim a net disaster loss as part of your standard deduction, you must complete Schedule L (Form 1040A or 1040) and attach it to Form 1040. See *Disaster Losses* on page 2.

What's New for 2010

Decrease in personal casualty and theft loss limit. Each personal casualty or theft loss is limited to the excess of the loss over \$100 (instead of \$500). In addition, the 10%-of-AGI limit continues to apply to the net loss.

Disaster losses. The special rules that were in effect in 2008 and 2009 for losses of personal use property attributable to federally declared disasters do not apply to losses occurring in 2010 and later years. Instead, these losses will be subject to the 10%-of-AGI limit and will be deductible only if you itemize your deductions. These losses will continue to be subject to the \$100-per-loss limit.

Purpose of Form

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

Losses You Can Deduct

You can 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 Cannot 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.

The replacement period is 5 years, instead of 2 years, if the property was located in the:

- Hurricane Katrina disaster area (which includes the states of Alabama, Florida, Louisiana, and Mississippi) and that property was converted after August 24, 2005, as a result of Hurricane Katrina, but only if substantially all of the use of the replacement property is in that disaster area.
- Kansas disaster area (as defined in Pub. 4492-A, Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes) and that property was converted after May 3, 2007, as a result of the storms or tornadoes, but only if substantially all of the use of the replacement property is in that disaster area.

- Midwestern disaster areas (as defined in Pub. 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas) and that property was converted on or after the applicable disaster date as a result of severe storms, tornadoes, or flooding, but only if substantially all of the use of the replacement property is in those disaster areas.

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 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.

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 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. It includes a major disaster or emergency declaration. A list of areas warranting public or individual assistance (or both) is available at the Federal Emergency Management Agency (FEMA) website at www.fema.gov.

You enter disaster losses of personal use property on line 17. The net disaster loss (the excess of line 17 over line 14) is not subject to the 10%-of-AGI limit. The net disaster loss is deductible as an itemized deduction on Schedule A (Form 1040) or Form 1040NR, Schedule A, or as part of the standard deduction on Schedule L (Form 1040A or 1040).

If you have a casualty loss from a disaster that occurred in an area warranting public or individual assistance (or both), you can elect to deduct the 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 can 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 line 1 of the Form 4684 on which you claim the disaster loss (or on an attachment), specify the date(s) of the disaster and the city, town, county or parish, and state in which the damaged or destroyed property was located.

To determine the amount to deduct for a disaster loss, you must take into account as reimbursements any benefits you received or which you have a reasonable possibility of receiving 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 because of the disaster, 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 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.

1. No gain is recognized on any insurance proceeds received for unscheduled personal property that was part of the contents of the home.

2. Any other insurance proceeds you receive for the home or its contents are 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.

3. 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:

a. Hurricane Katrina disaster area (which includes the states of Alabama, Florida, Louisiana, and Mississippi) and that property was converted after August 24, 2005, as a result of Hurricane Katrina, but only if substantially all of the use of the replacement property is in that disaster area.

b. Kansas disaster area (as defined in Pub. 4492-A) and that property was converted after May 3, 2007, as a result of the storms or tornadoes, but only if substantially all of the use of the replacement property is in that disaster area.

c. Midwestern disaster areas (as defined in Pub. 4492-B) and that property was converted on or after the applicable disaster date as a result of severe storms, tornadoes, or flooding, but only if substantially all of the use of the replacement property is in those disaster areas.

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

Example. Your main home and its contents were completely destroyed in 2009 by a tornado in a federally declared disaster area. In 2009, 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 2014. Your basis in the replacement property equals its cost decreased by the amount of any postponed gain.

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 of the bankruptcy or insolvency of that institution 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), Itemized Deductions, line 23, or Form 1040NR, Schedule A, Itemized Deductions, line 11. You cannot elect the ordinary loss deduction if any part of the deposits related to the loss is federally insured. 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%-of-AGI limit.

If you elect to deduct the estimated loss as a casualty loss or as an ordinary loss, you cannot claim the same loss as a nonbusiness bad debt. If the estimated loss deducted is less than the actual loss, you can claim the difference as a nonbusiness bad debt for the year in which the final determination of the loss occurs. A nonbusiness bad debt is deducted on Schedule D (Form 1040), Capital Gains and Losses, 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."

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. See Notice 89-28, 1989-1 C.B. 667, for more details.

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 "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.

Losses From Ponzi-Type Investment Schemes

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

- Revenue Ruling 2009-9, 2009-14 I.R.B. 735 (available at www.irs.gov/irb/2009-14_IRB/ar07.html).
- Revenue Procedure 2009-20, 2009-14 I.R.B. 749 (available at www.irs.gov/irb/2009-14_IRB/ar11.html).

These losses are deductible as theft losses of income-producing property on your tax return for the year the loss was discovered. You figure the deductible loss in Section B of Form 4684. If you qualify to use Revenue Procedure 2009-20 and choose to follow the procedures in the guidance, you also must complete Appendix A of that procedure and write "Revenue Procedure 2009-20" across the top of Form 4684. For more information, see the above revenue ruling and revenue procedure.

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.

Casualty or theft losses of personal use property are deductible only to the extent that the amount of the loss from each separate casualty or theft is more than \$500 and the total amount of all losses (as so reduced) during the year is more than 10% of your AGI (Form 1040, line 38, or Form 1040NR, line 36). The 10% limit does not apply to the net disaster loss (Form 4684, line 18). (The \$500 dollar limit, however, does apply.)

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 1

If you claim a disaster loss (defined on page 2), specify the date(s) of the disaster and the city, town, county or parish, and state in which the damaged or destroyed property was located. Include this information on line 1 or on an attached statement.

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 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 fair market value 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.

Main home destroyed. If you have a gain because your main home was destroyed, you generally can exclude the gain from your income as if you had sold or exchanged your home. You may be able to exclude up to \$250,000 of the gain (up to \$500,000 if married filing jointly). To exclude a gain, you generally must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date it was destroyed. For information on this exclusion, see Pub. 523.

If you exclude the gain and the entire gain is excludable, do not report the casualty on Form 4684. If the gain is more than you can exclude, reduce the insurance or other reimbursement by the amount of the exclusion and enter the result on line 3. Attach a statement showing the full amount of insurance or other reimbursement and the amount of the exclusion. You may be able to postpone reporting the excess gain if you buy replacement property. See *Gain on Reimbursement*, on page 1, and *Gains Realized on Homes in Disaster Areas*, on page 2.

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

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

See *Disaster Losses* on page 2.

Line 18

If you are filing Form 1040NR, Schedule A, go to Form 4684, line 19.

If you are a nonresident alien student or business apprentice from India and are claiming the standard deduction, enter this amount on Worksheet 5-1 in Pub. 519. Do not complete the rest of Section A.

Line 20

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

Section B—Business and Income-Producing Property

Use a separate column of Part I, lines 23 through 31, 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 23 through 31.

Use a separate Form 4684, Section B, Part I, 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 23 through 30. 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 Form 4684, line 31, the deductible loss from Form 8829, line 34, and "See Form 8829" above line 31. 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 31 and "See attached statement" above line 31.

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.

Section 179 Property of a Partnership or S corporation

Partnerships (other than electing large partnerships) and S corporations that have a casualty or theft involving property for which the section 179 expense deduction was previously claimed and passed through to the partners or shareholders must not use Form 4684 to report the transaction. Instead, see the Instructions for Form 4797 for details on how to report it. Partners and S corporation shareholders who receive a Schedule K-1 reporting such a transaction should see the Instructions for Form 4797 for details on how to figure the amount to enter on Form 4684, line 24.

Line 24

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 25

See the instructions for line 3 on page 3.

Line 26

See the instructions for line 4 on page 3.

Lines 27 and 28

See the instructions for lines 5 and 6 that begin on page 3 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 32

If the amount on line 32 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 33 and 38 according to how long you held each property. Enter on line 33 all gains and losses on property held 1 year or less. Enter on line 38 all gains and losses on property held more than 1 year, except as provided in the instructions for line 37.

If you are claiming a theft loss from a Ponzi-type investment scheme and are following the procedures in Revenue Procedure 2009-20, 2009-14 I.R.B. 749, enter on line 32 the amount from line 10 in Part II of Appendix A. Do not complete the remainder of Section B, Part I of Form 4684 for that loss.

Part II, Column (a)

Use a separate line for each casualty or theft.

Part II, Column (b)(i)

Enter the part of line 32 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 32 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 35

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, enter "Form 4684."

Line 36

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 13d. Electing large partnerships, enter on Form 1065-B, Part II, line 11. S corporations, enter on Form 1120S, Schedule K, line 12d. Next to that line, enter "Form 4684."

Line 37

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 38.

Line 42a

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, enter "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.

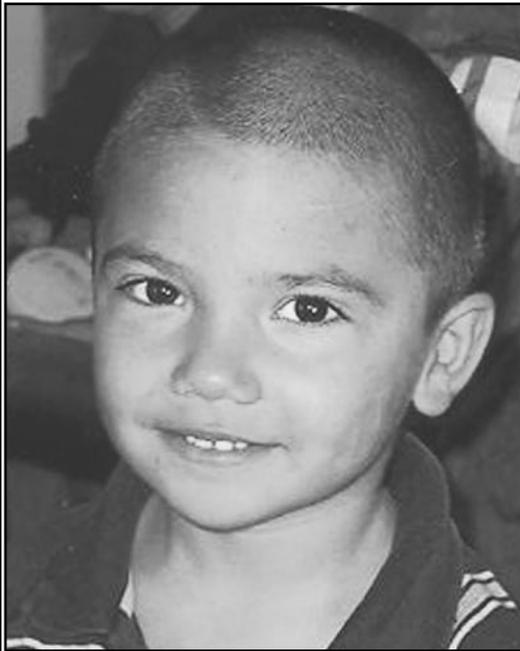
The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates

shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	1 hr., 58 min.
Learning about the law or the form	27 min.
Preparing the form	1 hr., 7 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.

Help Us To Picture Them Home



Angel Madrigal

Male, Age Now: 5
Ht:3'3 Wt:50 lbs.
Brown eyes, Brown hair

National Center for Missing and Exploited Children
Call 1-800-THE-LOST
(1-800-843-5678)

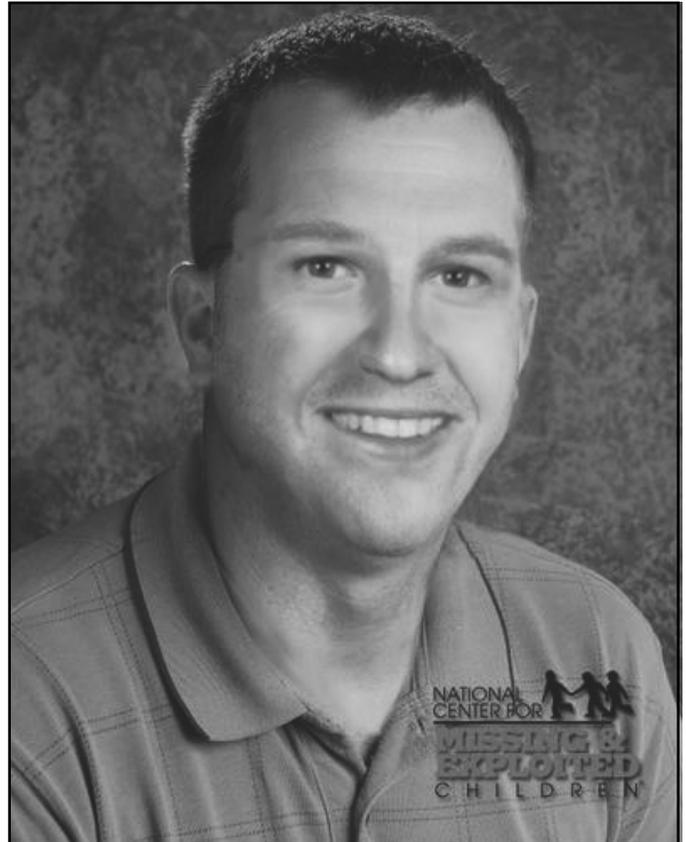
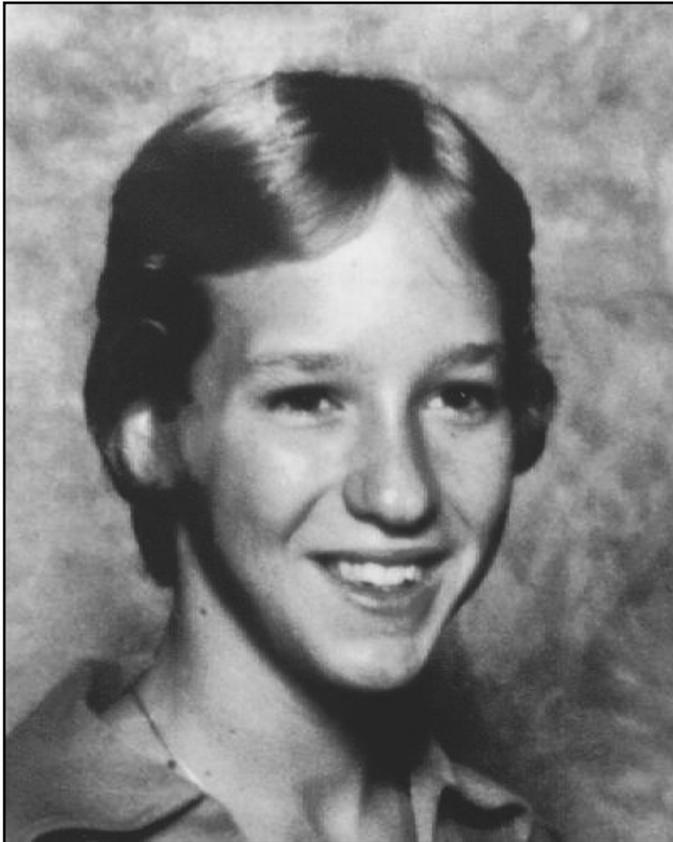
Missing From: Hermiston, OR on
4/22/2009

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**Help Us To
Picture Them Home**

Robert Keck



**Male, Age Now: 47
Ht:5'7 Wt:140 lbs.
Hazel eyes, Blonde hair**

Age Progression By NCMEC

Missing From: Coopersburg, PA on 6/30/1979

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Basis of Assets



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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:

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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*.



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 gov-

ernmental 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
<p>Capital improvements:</p> <ul style="list-style-type: none"> Putting an addition on your home Replacing an entire roof Paving your driveway Installing central air conditioning Rewiring your home 	<p>Exclusion from income of subsidies for energy conservation measures</p>
<p>Assessments for local improvements:</p> <ul style="list-style-type: none"> Water connections Sidewalks Roads 	<p>Casualty or theft loss deductions and insurance reimbursements</p>
<p>Casualty losses:</p> <ul style="list-style-type: none"> Restoring damaged property 	<p>Credit for qualified electric vehicles</p> <p>Section 179 deduction</p>
<p>Legal fees:</p> <ul style="list-style-type: none"> Cost of defending and perfecting a title 	<p>Deduction for clean-fuel vehicles and clean-fuel vehicle refueling property</p>
<p>Zoning costs</p>	<p>Depreciation</p>
	<p>Nontaxable corporate distributions</p>

- 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 substan-

tially 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	<u>\$26,000</u>

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))	<u>1,000</u>
	\$5,000
Plus: Gain recognized (adjustment 2(b))	<u>200</u>
Basis of new truck	<u>\$5,200</u>

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))	<u>1,000</u>
	\$14,000
Plus: Gain recognized (adjustment 2(b))	<u>1,500</u>
Total basis of properties received	<u>\$15,500</u>

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.



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	<u>\$30,000</u>
Gift tax paid	\$9,000
Multiplied by (\$30,000 ÷ \$39,000)	.77
Gift tax due to net increase in value	<u>\$6,930</u>
Adjusted basis of property to your mother	20,000
Your basis in the property	<u>\$26,930</u>

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 includable 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— $\frac{1}{3}$ of \$30,000 cost	\$10,000
Interest Jim received on John's death— $\frac{2}{3}$ of \$60,000 FMV	<u>40,000</u> \$50,000
Minus: $\frac{1}{2}$ of \$12,000 depreciation before John's death	<u>6,000</u>

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 cur-

rent 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.

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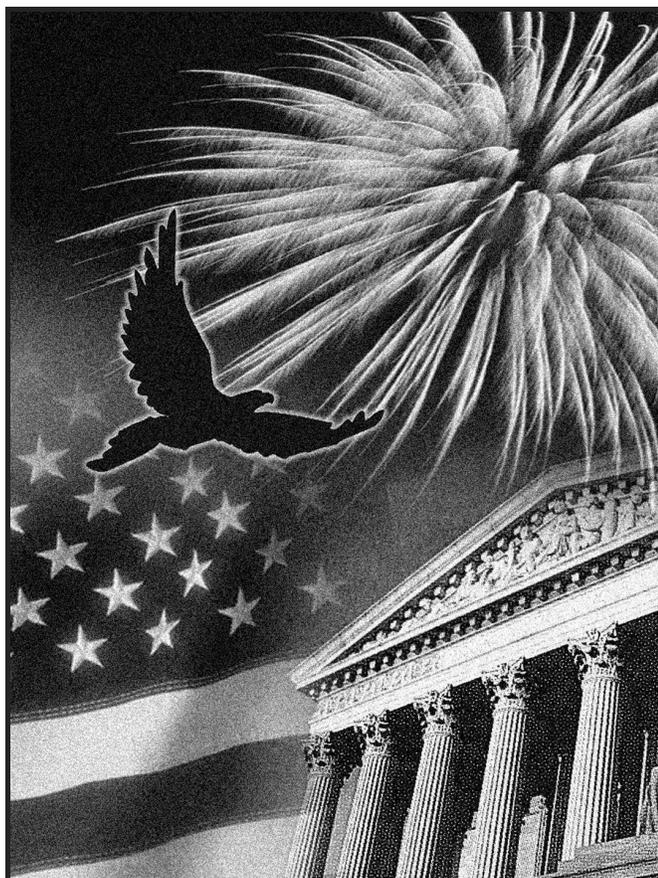
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Net Operating Losses (NOLs) for Individuals, Estates, and Trusts

For use in preparing
2009 Returns



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What's New

Carryback of 2008 or 2009 net operating losses (NOLs). You can elect to carry back either a 2008 or 2009 NOL, but not both, for a period of 3, 4, or 5 years. If you make this election by filing a statement with your income tax return for the tax year of the NOL, you must also attach a copy of the statement to any Form 1045 or Form 1040X on which you deduct the NOL. If you previously elected to waive the entire NOL carryback period for an NOL arising in a tax year ending before November 6, 2009, you can revoke that election if you elect to carry the NOL back 3, 4, or 5 tax years. For more information, see *Special Rules for 2008 or 2009 NOLs*. See also Rev. Proc. 2009-52, 2009-49 I.R.B. 744.

Carryback of 2008 NOLs for eligible small businesses (ESBs). If you made an election to carry back a 2008 NOL that was attributable to an ESB for a period of 3, 4, or 5 years under Rev. Proc. 2009-26, 2009-19 I.R.B. 935, you can now elect to carry back, under the rules described above, any remaining 2008 or 2009 NOL that was not subject to the election under Rev. Proc. 2009-26.

For more information, see *Special Rules for 2008 or 2009 NOLs*, on page 8.

Alternative Tax Net Operating Loss The 90 percent limit on the alternative tax net operating loss deduction does not apply to the portion of the ATNOLD attributable to any 2008 or 2009 NOL you elect to carry back more than 2 years.

Qualified Gulf Opportunity (GO) Zone loss. Beginning in 2009, the portion of any NOL attributable to a qualified GO Zone loss is now limited to the amount of any qualified GO Zone casualty loss and any special GO Zone depreciation or amortization allowable for any specified GO Zone extension property placed in service during the tax year.

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). An NOL year is the year in which an NOL occurs. 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.

Keeping records. You should keep records for any tax year that generates an NOL for 3 years after you have used the carryback/carryforward or 3 years after the carryforward expires.

 **TIP** You should attach all required documents to the Form 1045 or Form 1040X. For details, see the instructions for Form 1045 or Form 1040X.

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.

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

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

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
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.

You can email us at taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

Tax questions. If you have a tax question, check the information available on www.irs.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Useful Items

You may want to see:

Publication

- 4492** Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma
- 4492-A** Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes
- 4492-B** Information for Affected Taxpayers in the Midwestern Disaster Areas

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 publications and forms.

NOL Steps

Follow Steps 1 through 5 to figure and use your NOL.

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

Individuals — Form 1040, line 41, or Form 1040NR, line 38.

Estates and trusts — Form 1041, line 22.

If the amount on that line is not negative, 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 may have an NOL.

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

- Any deduction for 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 non-business income.
- Net operating loss deduction.
- The domestic production activities 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 Schedule A, line 1, using amounts from your return. If line 1 is a negative amount, you may have an NOL.

Next, complete the rest of Schedule A to figure your NOL.

Nonbusiness deductions (line 6). Enter on line 6 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 paid,
- Deductions for contributions to an IRA or a self-employed retirement plan,
- Health savings account deduction,
- Archer MSA deduction,
- The additional exemption amount for providing housing to a Midwestern displaced individual from Form 8914,

- Most itemized deductions (except for casualty and theft losses, state income tax on business profits, and any employee business expenses), and
- The standard deduction (except the amount of any net disaster loss from Form 4684, line 18).

Do not include on line 6 the deduction for personal exemptions for you, your spouse, or your dependents.

Do not enter business deductions on line 6. These are deductions that are connected to your trade or business. They include the following.

- State income tax on business profits.
- Moving expenses.
- Educator expenses.
- The deduction of one-half of your self-employment tax or your deduction for self-employed health insurance.
- Domestic production activities deduction.
- 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 non-business property) and employee business expenses (such as union dues, uniforms, tools, education expenses, and travel and transportation expenses).
- The amount of any net disaster loss from Schedule L (Form 1040A or 1040), line 6, you included in your standard deduction.
- 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 7). Enter on line 7 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 7 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 17). Enter on line 17 any gain you excluded under Internal Revenue Code section 1202 on the sale or exchange of qualified small business stock.

Adjustments for capital losses (lines 19–22). 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 2) only up to the amount of your nonbusiness capital gains without regard to any section 1202 exclusion (line 3). If your nonbusiness capital losses are more than your nonbusiness capital gains without regard to any section 1202 exclusion, you cannot deduct the excess.

Business capital losses. You can deduct your business capital losses (line 11) 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 10), and
- Your total business capital gains without regard to any section 1202 exclusion (line 12).

Domestic production activities deduction (line 23). You cannot take the domestic production activities deduction when figuring your NOL. Enter on line 23 any domestic production activities deduction claimed on your return.

NOLs from other years (line 24). You cannot deduct any NOL carryovers or carrybacks from other years. Enter 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 2009.

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	<u>2,000</u>
Glenn's total income	<u>\$3,650</u>

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	5,700
Personal exemption	<u>3,650</u>
Glenn's total deductions	<u>\$15,350</u>

Glenn's deductions exceed his income by \$11,700 (\$15,350 – \$3,650). However, to figure whether he has an NOL, certain deductions are not allowed. He uses Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045), later.

The following items are not allowed on Schedule A (Form 1045).

Nonbusiness net short-term capital loss	\$1,000
Nonbusiness deductions (standard deduction, \$5,700) minus nonbusiness income (interest, \$425)	5,275
Deduction for personal exemption	<u>3,650</u>
Total adjustments to net loss	<u>\$9,925</u>

Therefore, Glenn's NOL for 2009 is figured as follows:

Glenn's total 2009 income	\$3,650
Less:	
Glenn's original 2009 total deductions	\$15,350
Reduced by the disallowed items	<u>–9,925</u>
Glenn's NOL for 2009	<u>\$1,775</u>

TIP For 2009, Glenn can carry back his NOL 2 years under the general 2-year carryback rule, or he can choose a 3, 4, or 5-year carryback period for his entire NOL under the special rules for 2008 or 2009 NOLs.

Label

(See instructions on page 14.)

Use the IRS label.

Otherwise, please print or type.

Form fields for personal information: Name (Glenn M. Johnson), Social Security numbers, Home address (5603 E. Main Street), City (Anytown, VA 20000), and checkboxes for Presidential Election Campaign and filing status.

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).
5 Qualifying widow(er) with dependent child

Exemptions

If more than four dependents, see page 17 and check here

Exemptions section including checkboxes for Yourself and Spouse, a table for dependents with columns for name, SSN, relationship, and child tax credit, and a total number of exemptions claimed (1).

Income

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

If you did not get a W-2, see page 22.

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

Table with 4 columns: Line number, Description, Amount, and Total. Rows include Wages (1,225), Taxable interest (425), Dividends, Business income (5,000), Capital gain (1,000), and Total income (2,350).

Adjusted Gross Income

Table with 4 columns: Line number, Description, Amount, and Total. Rows include Educator expenses, Business expenses, Health savings account, Moving expenses, Self-employment tax, and Adjusted gross income (2,350).

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 97.

Cat. No. 11320B

Form 1040 (2009)

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

Tax and Credits

38 Amount from line 37 (adjusted gross income)
39a Check [] You were born before January 2, 1945, [] Blind. Total boxes checked 39a
b If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here 39b
40a Itemized deductions (from Schedule A) or your standard deduction (see left margin)
b If you are increasing your standard deduction by certain real estate taxes, new motor vehicle taxes, or a net disaster loss, attach Schedule L and check here (see page 35) 40b
41 Subtract line 40a from line 38
42 Exemptions. If line 38 is \$125,100 or less and you did not provide housing to a Midwestern displaced individual, multiply \$3,650 by the number on line 6d. Otherwise, see page 37
43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
44 Tax (see page 37). Check if any tax is from: a [] Form(s) 8814 b [] Form 4972
45 Alternative minimum tax (see page 40). Attach Form 6251
46 Add lines 44 and 45
47 Foreign tax credit. Attach Form 1116 if required
48 Credit for child and dependent care expenses. Attach Form 2441
49 Education credits from Form 8863, line 29
50 Retirement savings contributions credit. Attach Form 8880
51 Child tax credit (see page 42)
52 Credits from Form: a [] 8396 b [] 8839 c [] 5695
53 Other credits from Form: a [] 3800 b [] 8801 c []
54 Add lines 47 through 53. These are your total credits
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-

Table with 2 columns: Line number and Amount. Values include (2,350), 5,700, (8,050), 3,650, -0-, and 54.

Standard Deduction for—

• People who check any box on line 39a, 39b, or 40b or who can be claimed as a dependent, see page 35.

• All others: Single or Married filing separately, \$5,700

Married filing jointly or Qualifying widow(er), \$11,400

Head of household, \$8,350

Other Taxes

56 Self-employment tax. Attach Schedule SE
57 Unreported social security and Medicare tax from Form: a [] 4137 b [] 8919
58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
59 Additional taxes: a [] AEIC payments b [] Household employment taxes. Attach Schedule H
60 Add lines 55 through 59. This is your total tax

Table with 2 columns: Line number and Amount. Values include 56, 57, 58, 59, and 60.

Payments

61 Federal income tax withheld from Forms W-2 and 1099
62 2009 estimated tax payments and amount applied from 2008 return
63 Making work pay and government retiree credits. Attach Schedule M
64a Earned income credit (EIC)
b Nontaxable combat pay election 64b
65 Additional child tax credit. Attach Form 8812
66 Refundable education credit from Form 8863, line 16
67 First-time homebuyer credit. Attach Form 5405
68 Amount paid with request for extension to file (see page 72)
69 Excess social security and tier 1 RRTA tax withheld (see page 72)
70 Credits from Form: a [] 2439 b [] 4136 c [] 8801 d [] 8885
71 Add lines 61, 62, 63, 64a, and 65 through 70. These are your total payments

Table with 2 columns: Line number and Amount. Values include 61, 62, 63, 64a, 65, 66, 67, 68, 69, 70, and 71.

Refund

Direct deposit? See page 73 and fill in 73b, 73c, and 73d, or Form 8888.

72 If line 71 is more than line 60, subtract line 60 from line 71. This is the amount you overpaid
73a Amount of line 72 you want refunded to you. If Form 8888 is attached, check here
b Routing number
c Type: [] Checking [] Savings
d Account number
74 Amount of line 72 you want applied to your 2010 estimated tax

Table with 2 columns: Line number and Amount. Values include 72, 73a, and 74.

Amount You Owe

75 Amount you owe. Subtract line 71 from line 60. For details on how to pay, see page 74
76 Estimated tax penalty (see page 74)

Table with 2 columns: Line number and Amount. Values include 75 and 76.

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 75)? [] Yes. Complete the following. [] No
Designee's name Phone no. Personal identification number (PIN)

Sign Here

Joint return? See page 15. 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
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.

Schedule A—NOL (see page 7 of the instructions)

1	Enter the amount from your 2009 Form 1040, line 41, or Form 1040NR, line 38, minus any amount on Form 8914, line 6. Estates and trusts, enter taxable income increased by the total of the charitable deduction, income distribution deduction, and exemption amount	1	(8,050)
2	Nonbusiness capital losses before limitation. Enter as a positive number	2	1,000
3	Nonbusiness capital gains (without regard to any section 1202 exclusion)	3	
4	If line 2 is more than line 3, enter the difference; otherwise, enter -0-	4	1,000
5	If line 3 is more than line 2, enter the difference; otherwise, enter -0-	5	-0-
6	Nonbusiness deductions (see page 7 of the instructions)	6	5,700
7	Nonbusiness income other than capital gains (see page 7 of the instructions)	7	425
8	Add lines 5 and 7	8	425
9	If line 6 is more than line 8, enter the difference; otherwise, enter -0-	9	5,275
10	If line 8 is more than line 6, enter the difference; otherwise, enter -0-. But do not enter more than line 5.	10	-0-
11	Business capital losses before limitation. Enter as a positive number	11	
12	Business capital gains (without regard to any section 1202 exclusion)	12	2,000
13	Add lines 10 and 12	13	2,000
14	Subtract line 13 from line 11. If zero or less, enter -0-	14	-0-
15	Add lines 4 and 14	15	1,000
16	Enter the loss, if any, from line 16 of your 2009 Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 15, 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 16 through 21 and enter on line 22 the amount from line 15	16	
17	Section 1202 exclusion. Enter as a positive number	17	
18	Subtract line 17 from line 16. If zero or less, enter -0-	18	-0-
19	Enter the loss, if any, from line 21 of your 2009 Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 16 of Schedule D (Form 1041).) Enter as a positive number	19	
20	If line 18 is more than line 19, enter the difference; otherwise, enter -0-	20	-0-
21	If line 19 is more than line 18, enter the difference; otherwise, enter -0-	21	-0-
22	Subtract line 20 from line 15. If zero or less, enter -0-	22	1,000
23	Domestic production activities deduction from your 2009 Form 1040, line 35, or Form 1040NR, line 33 (or included on Form 1041, line 15a)	23	
24	NOL deduction for losses from other years. Enter as a positive number	24	
25	NOL. Combine lines 1, 9, 17, and 21 through 24. 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	25	(1,775)

When To Use an NOL

Generally, if you have an NOL for a tax year ending in 2009, you must carry back the entire amount of the NOL to the 2 tax years before the NOL year (the carryback period), and then carry forward any remaining NOL for up to 20 years after the NOL year (the carryforward period). You can, however, choose not to carry back an NOL and only carry it forward. See *Waiving the Carryback Period*, later. You cannot deduct any part of the NOL remaining after the 20-year carryforward period.

NOL year. This is the year in which the NOL occurred.

Exceptions to 2-Year Carryback Rule

Eligible losses, farming losses, qualified disaster losses, qualified GO Zone losses, qualified recovery assistance losses, qualified disaster recovery assistance losses, 2008 or 2009 NOLs, eligible small business losses, and specified liability losses, defined next, qualify for longer carryback periods.

Eligible loss. The carryback period for eligible losses is 3 years. Only the eligible loss portion of the NOL can be carried back 3 years. An eligible loss is any part of an NOL that:

- Is from a casualty or theft, or
- Is attributable to a federally declared disaster for a qualified small business or certain qualified farming businesses.

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.

An eligible loss does not include a farming loss, a qualified disaster loss, a qualified GO Zone loss, a qualified recovery assistance loss, or a qualified disaster recovery assistance loss. An eligible loss also does not include an eligible 2008 or 2009 loss for which you choose a 3, 4, or 5-year carryback period under section 172(b)(1)(H) of the Internal Revenue Code.

Farming loss. The carryback period for a farming loss is 5 years. Only the farming loss portion of the NOL can be carried back 5 years. A farming loss is the smaller of:

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

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

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

Waiving the 5-year carryback. You can choose to figure the carryback period for a farming loss without regard to the special 5-year carryback rule. To make this choice for 2009, attach to your 2009 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2009 farming losses without regard to the special 5-year carryback rule. If you filed your return on time, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach a statement to your amended return, and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

Qualified disaster loss. The carryback period for a qualified disaster loss is 5 years. Only the qualified disaster loss portion of the NOL can be carried back 5 years. A qualified disaster loss is the smaller of:

1. The sum of:
 - a. Any losses attributable to a federally declared disaster and occurring in the disaster area, plus
 - b. Any allowable qualified disaster expenses (even if you did not choose to treat those expenses as deductions in the current year), or
2. The NOL for the tax year.

Qualified disaster expenses. A qualified disaster expense is any capital expense paid or incurred in connection with a trade or business or with business-related property which is:

- For the abatement or control of hazardous substances that were released as a result of a federally declared disaster,
- For the removal of debris from, or the demolition of structures on, real property which is business-related property damaged or destroyed as a result of a federally declared disaster, or
- For the repair of business-related property damaged as a result of a federally declared disaster.

Business-related property is property held for use in a trade or business, property held for the production of income, or inventory property.

Note. Internal Revenue Code section 198A allows taxpayers to treat certain capital expenses (qualified disaster expenses) as deductions in the year the expenses were paid or incurred.

Excluded losses. A qualified disaster loss does not include any losses from property used in connection with any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, or any store for which the principal business is the sale of alcoholic beverages for consumption off premises.

A qualified disaster loss also does not include any losses from any gambling or animal racing property. Gambling or animal racing property is any equipment, furniture, software, or other property used directly in connection with gambling, the racing of animals, or the on-site viewing of such racing, and the portion of any real property (determined by square footage) that is dedicated to gambling, the racing of animals, or the on-site viewing of such racing, unless this portion is less than 100 square feet.

Waiving the 5-year carryback. You can choose to figure the carryback period for a qualified disaster loss without regard to the special 5-year carryback rule. To make this choice for 2009, attach to your 2009 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2009 qualified disaster losses without regard to the special 5-year carryback rule. If you filed your return on time, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach a statement to your amended return, and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

Qualified GO Zone loss. The carryback period for a qualified GO Zone loss is 5 years. Only the qualified GO Zone loss portion of the NOL can be carried back 5 years. A qualified GO Zone loss is the smaller of:

1. The excess of the NOL for the year over the specified liability loss for the year to which a 10-year carryback applies, or
2. The total of any qualified GO Zone casualty loss and any depreciation allowable for any specified GO Zone extension nonresidential real property and residential rental property placed in service in 2009 (even if you elected not to claim the special GO Zone depreciation allowance for such property).

For a list of counties and parishes included in the GO Zone, see Notice 2007-36, 2007-17 I.R.B. 1000, available at http://www.irs.gov/irb/2007-17_IRB/ar12.html.

Waiving the 5-year carryback. You can choose to figure the carryback period for a qualified GO Zone loss without regard to the special 5-year carryback rule. To make this choice for 2009, attach to your 2009 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2009 qualified GO Zone losses without regard to the special 5-year carryback rule. If you filed your original return on time, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach a statement to your amended return, and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

Qualified recovery assistance loss. The carryback period for a qualified recovery assistance loss is 5 years. Only the qualified recovery assistance loss portion of the NOL can be carried back 5 years. For the definition of qualified recovery assistance loss, see page 2 of Publication 4492-A, Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes.

Waiving the 5-year carryback. You can choose to figure the carryback period for a qualified recovery assistance loss without regard to the special 5-year carryback rule. To make this choice for 2009, attach to your 2009 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2009 qualified recovery assistance losses without regard to the special 5-year carryback rule. If you filed your return on time, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach a statement to your amended return, and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

Qualified disaster recovery assistance loss. The carryback period for a qualified disaster recovery assistance loss is 5 years. Only the qualified disaster recovery assistance loss portion of the NOL can be carried back 5 years. For the definition of qualified disaster recovery assistance loss, see page 5 of Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.

Waiving the 5-year carryback. You can choose to figure the carryback period for a qualified disaster recovery assistance loss without regard to the special 5-year carryback rule. To make this choice for 2009, attach to your 2009 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2009 qualified disaster recovery assistance losses without regard to the special 5-year carryback rule. If you filed your return on time, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach a statement to your amended return, and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

Special Rules for 2008 or 2009 NOLs. A 2008 or 2009 NOL is a NOL arising in a taxable year ending after December 31, 2007, and beginning before January 1, 2010. To the extent you have a 2008 or 2009 NOL, you can elect to apply a 3, 4, or 5-year carryback period instead of the general 2-year carryback period. Once made, this election is irrevocable. Any such NOLs not used in the 3rd, 4th, or 5th preceding tax year (depending on which carryback period you elect) are carried to the next more recent preceding tax year (either the 2nd, 3rd, or 4th preceding tax year, whichever applies) and then applied consecutively forward through the 1st preceding tax year.

Generally, this election is available for only 1 tax year (either 2008 or 2009). If you made an election under Rev. Proc. 2009-26 for a 2008 NOL attributable to an ESB (see later on this page), you can make this election for a NOL that was not covered by your previous election made under Rev. Proc. 2009-26. A NOL carried back to the 5th preceding tax year under these special rules can offset no more than 50 percent of your taxable income for the 5th preceding tax year (computed without regard to the NOL carryback for the loss year or any tax year thereafter). This limitation does not apply to the 3rd or 4th preceding tax year nor does it apply to the portion of the loss carried back under another provision of the law, such as a specified liability loss, farming loss, or qualified disaster loss. Any loss not used in the carryback years can be carried forward up to 20 years.

You make this election by filing an election statement with (1) your Form 1045 or amended Form 1045, (2) your income tax return or amended tax return for the loss year, or (3) your amended income tax return for the earliest carryback year.

The election statement must state:

1. You are electing to apply section 172(b)(1)(H) under Rev. Proc. 2009-52,
2. You are not a Troubled Asset Relief Program (TARP) recipient nor were you, in 2008 or 2009, an affiliate of a TARP recipient, and
3. The carryback period (3, 4, or 5 years) you are electing for your 2008 or 2009 NOL.

An election to apply a 3, 4, or 5-year carryback period must be filed by the due date

(including extensions) for filing your 2009 return. If you filed your return on time without making the election, you can still make the election on an amended return filed within 6 months of the due date of the return (excluding extensions) by attaching the election to the amended return, and writing "Filed pursuant to section 301.9100-2" on the election statement.



If you make the election to carry back a 2009 NOL, you must use 2009 Form 1045 to claim the deduction. To make a 2008 NOL claim, you must use the 2008 Form 1045. However, if you elect a 5-year carryback for a 2008 NOL under the special rules explained above, you must follow the Special Rules for Certain 5-Year NOL Carrybacks explained on page 13 of this publication.

Changing your carryback period. You can elect to use a 3, 4, or 5-year carryback period for a 2008 or 2009 NOL even if you (a) previously filed Form 1045, or (b) made an election to waive the carryback period for a NOL arising in a tax year ending before November 6, 2009. To make the election, attach an election statement to (a) an amended Form 1045, (b) an amended return (using Form 1040X or Form 1041) for the loss year, or (c) an amended return for the earliest carryback year. The election statement must include the three items listed under *Special Rules for 2008 or 2009 NOLs* discussed above. If you previously filed a Form 1045 or amended return without making the election, you must state that the election amends a previous carryback application or claim. If you previously made an election to waive the carryback period, you must also state that you are revoking a NOL carryback waiver. Generally, the Form 1045 or amended return must be filed by April 15, 2010 (or by October 15, 2010, if an extension is filed).

Eligible small business (ESB) loss. In 2008, you could elect a 3, 4, or 5-year carryback period for an ESB loss under Rev. Proc. 2009-26. The 3, 4, or 5-year carryback period applies only to the ESB loss portion of the NOL. An ESB loss is the smaller of:

1. The amount that would be the 2008 NOL if only income, gains, losses, and deductions attributable to ESBs were taken into account, or
2. The 2008 NOL.

An ESB is a sole proprietorship, partnership, or S corporation that has average annual gross receipts (reduced by returns and allowances) of \$15 million or less during the 3-year period ending with the tax year of the NOL. This gross receipts test is applied at the sole proprietorship, partnership, or corporate level, and the aggregation rules of Internal Revenue Code section 448(c)(2) apply. If the business did not exist for this entire 3-year period, use the period the business was in existence.

A 2008 NOL is any NOL for a tax year ending or beginning in 2008. For a fiscal year taxpayer with a tax year beginning in 2007 and ending in 2008, see 2008 Publication 536 for further details.

Carryback under Rev. Proc. 2009-52. If you elected a 3, 4, or 5-year carryback period for a 2008 NOL attributable to ESBs under Rev. Proc. 2009-26, you may not revoke that election to make an election under Rev. Proc. 2009-52. However, you can make an election under Rev. Proc. 2009-52 for a NOL that was not covered by your election under Rev. Proc. 2009-26. See

the 2008 Instructions for Form 1045 for more information on electing a 3, 4, or 5-year carryback period for a NOL attributable to ESBs.

Specified liability loss. The carryback period for a specified liability loss is 10 years. Only the specified liability loss portion of the NOL can be carried back 10 years. Generally, a specified liability loss is a loss arising from:

- Product liability, or
- An act (or failure to act) that occurred at least 3 years before the beginning of the loss year and resulted in a liability under a federal or state law requiring:

1. Reclamation of land,
2. Dismantling of a drilling platform,
3. Remediation of environmental contamination, or
4. Payment under any workers compensation act.

Any loss from a liability arising from (1) through (4) above can be taken into account as a specified liability loss only if you used an accrual method of accounting throughout the period in which the act (or failure to act) occurred. For details, see section 172(f) of the Internal Revenue Code.

Waiving the 10-year carryback. You can choose to figure the carryback period for a specified liability loss without regard to the special 10-year carryback rule. To make this choice for 2009, attach to your 2009 income tax return filed by the due date (including extensions) a statement that you are choosing to treat any 2009 specified liability losses without regard to the special 10-year carryback rule. If you filed your original return on time, you can make this choice on an amended return filed within 6 months after the due date of the return (excluding extensions). Attach a statement to your amended return and write "Filed pursuant to section 301.9100-2" at the top of the statement. Once made, this choice is irrevocable.

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). Enter "Filed pursuant to section 301.9100-2" at the top of the statement.

Once you choose to waive the carryback period, it generally 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.



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 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 forward until the NOL is used up or you complete the 20-year carryforward period.

Example 1. You started your business as a sole proprietor in 2009 and had a \$42,000 NOL for the year. No part of the NOL qualifies for the 3-year, 5-year, or 10-year carryback (and you did not choose a 3, 4, or 5-year carryback period for 2008 or 2009 losses). You begin using your NOL in 2007, the second year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
2007	\$42,000	\$40,000
2008	40,000	37,000
2009 (NOL year)		
2010	37,000	31,500
2011	31,500	22,500
2012	22,500	12,700
2013	12,700	4,000
2014	4,000	-0-

If your loss were larger, you could carry it forward until the year 2029. If you still had an unused 2009 carryforward after the year 2029, you may not deduct it.

Example 2. Assume the same facts as in Example 1, except that \$4,000 of the NOL is attributable to a casualty loss and this loss qualifies for a 3-year carryback period. You begin using the \$4,000 in 2006. As shown in the following chart, \$3,000 of this NOL is used in 2006. The remaining \$1,000 is carried to 2007 with the \$38,000 NOL that you must begin using in 2007.

Year	Carryback/ Carryover	Unused Loss
2006	\$4,000	\$1,000
2007	39,000	37,000
2008	37,000	34,000
2009 (NOL year)		
2010	34,000	28,500
2011	28,500	19,500
2012	19,500	9,700
2013	9,700	1,000
2014	1,000	-0-

How To Claim an NOL Deduction

If you have not already carried the NOL to an earlier year, your NOL deduction is the total NOL. If you carried the NOL to an earlier year, your NOL deduction is the carried over NOL

minus the NOL 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 that do not file 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). 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 end of the NOL year. If the last day of the NOL year falls on a Saturday, Sunday, or holiday, the form will be considered timely if postmarked on the next business day. For example, if you are a calendar year taxpayer with a carryback from 2009 to 2007, you must file Form 1045 on or after the date you file your tax return for 2009, but no later than January 3, 2011.

Exception. If you have a 2008 or 2009 NOL and you are filing Form 1045 to elect a 3, 4, or 5-year carryback period under Rev. Proc. 2009-52, you must file Form 1045 by the later of the regular due date (discussed above), or the due date (including extensions) for filing your return for your last tax year beginning in 2009.

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 2006 return by the April 16, 2007, due date, you must file a claim for refund of 2004 tax because of an NOL carryback from 2006 by April 15, 2010.

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 and 11 and the "After carryback" column for the applicable carryback year.) Use your adjusted gross income after applying the NOL deduction to refigure income or deduction items that are based on, or limited to, a percentage of your adjusted gross income. Refigure the following items.

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

If more than one of these items apply, refigure them in the order listed above, using your adjusted gross income after applying the NOL deduction and any previous item. (Enter your NOL deduction on Form 1045, line 10. On line 11, using the "After carryback" column, enter your adjusted gross income refigured after applying the NOL deduction and after refiguring any above items.)

Next, refigure your taxable income. (On Form 1045, use lines 12 through 15 and the "After carryback" column.) Use your refigured adjusted gross income (Form 1045, line 11, 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 qualified mortgage insurance premiums.
- 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 (Form 1045, line 15, 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 16 through 25, 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 or Form 1040NR (line 21 for 2009). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2009).

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 2009. They have an NOL of \$5,000. They carry the NOL back to 2007, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy's 2009 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 2007 separate return.

Example 2. Assume the same facts as in Example 1, except that both Mark and Nancy had deductions in 2009 that were more than their income. Figured separately, his NOL is \$1,800 and her NOL 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 2007 and separate returns for 2008 and 2009. In 2009, 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 2007 joint return and claim a \$20,000 NOL deduction.

Their joint modified taxable income (MTI) for 2007 is \$15,000, and their joint NOL carryover to 2008 is \$5,000 (\$20,000 – \$15,000). Sam and Wanda each figure their separate MTI for 2007 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 2008	\$5,000
Joint carryover to 2008	\$5,000
Sam's carryover	– 5,000
Wanda's carryover to 2008	\$-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 2008. 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 2008 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 2009 deductions are more than her 2009 income because of a business loss. She uses Form 1045 to carry back her NOL 2 years and claim an NOL deduction in 2007. (Martha does not choose a 3, 4, or 5-year carryback period for her 2009 NOL under the rule for 2008 or 2009 NOLs.) Her filing status in both years was single. See the filled-in Form 1045 on page 12.

Martha figures her 2009 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 Schedule A, line 25, on Form 1045, line 1a.

Martha completes lines 10 through 25, using the "Before carryback" column under the column for the second preceding tax year ended 12/31/07 on page 1 of Form 1045 using the following amounts from her 2007 return.

2007 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	\$3,400
Income tax	\$4,768
Self-employment tax	\$6,120

Martha refigures her taxable income for 2007 after carrying back her 2009 NOL as follows:

2007 Adjusted gross income . . .	\$50,000
Less:	
NOL from 2009	<u>-10,000</u>
2007 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	<u>-14,000</u>
Less:	
Exemption	<u>-3,400</u>
2007 Taxable income after carryback	<u>\$22,600</u>

Martha then completes lines 10 through 25, using the "After carryback" column under the column for the second preceding tax year ended 12/31/07. On line 10, Martha enters her \$10,000 NOL deduction. Her new adjusted gross income

on line 11 is \$40,000 (\$50,000 – \$10,000). To complete line 12, 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 itemized deductions to \$14,000 [\$13,250 + (\$3,000 – \$2,250)].

Martha uses her refigured taxable income (\$22,600) from line 15, and the tax tables in her 2007 Form 1040 instructions to find her income tax. She enters the new amount, \$3,003, on line 16, and her new total tax liability, \$9,123, on line 25.

Martha used up her \$10,000 NOL in 2007 so she does not complete a column for the first preceding tax year ended 12/31/2008. The decrease in tax because of her NOL deduction (line 27) is \$1,765.

Martha files Form 1045 after filing her 2009 return, but no later than January 3, 2011. She mails it to the Internal Revenue Service Center for the place where she lives as shown in the 2009 instructions for Form 1040 and attaches a copy of her 2009 return (including the applicable forms and schedules).

Application for Tentative Refund

Department of the Treasury
Internal Revenue Service

- ▶ See separate instructions.
- ▶ Do not attach to your income tax return—mail in a separate envelope.
- ▶ For use by individuals, estates, or trusts.

2009

Type or print	Name(s) shown on return <i>Martha Sanders</i>	Social security or employer identification number 123-00-4567
	Number, street, and apt. or suite no. If a P.O. box, see page 3 of the instructions. <i>9876 Holly Street</i>	Spouse's social security number (SSN) : : :
	City, town or post office, state, and ZIP code. If a foreign address, see page 3 of the instructions. <i>Yardley, PA 19067</i>	Daytime phone number (<i>041</i>) 123-4567

1 This application is filed to carry back:	a Net operating loss (NOL) (Sch. A, line 25, page 2) \$ <i>10,000</i>	b Unused general business credit \$	c Net section 1256 contracts loss \$
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2a For the calendar year 2009, or other tax year beginning , 2009, and ending , 20	b Date tax return was filed <i>3-5-2010</i>
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- 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)		____ preceding tax year ended ▶		____ 2nd preceding tax year ended ▶		____ 1st preceding tax year ended ▶	
		12-31-07	12-31-07	12-31-08	12-31-08	12-31-08	12-31-08
Note: If 1a and 1c are blank, skip lines 10 through 15.		Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10	NOL deduction after carryback (see page 3 of the instructions)				10,000		
11	Adjusted gross income			50,000	40,000		
12	Deductions (see page 5 of the instructions)			13,250	14,000		
13	Subtract line 12 from line 11			36,750	26,000		
14	Exemptions (see page 6 of the instructions)			3,400	3,400		
15	Taxable income. Line 13 minus line 14			33,350	22,600		
16	Income tax. See page 6 of the instructions and attach an explanation			4,768	3,003		
17	Alternative minimum tax						
18	Add lines 16 and 17			4,768	3,003		
19	General business credit (see page 6 of the instructions)						
20	Other credits. Identify						
21	Total credits. Add lines 19 and 20						
22	Subtract line 21 from line 18			4,768	3,003		
23	Self-employment tax			6,120	6,120		
24	Other taxes						
25	Total tax. Add lines 22 through 24			10,888	9,123		
26	Enter the amount from the "After carryback" column on line 25 for each year			9,123			
27	Decrease in tax. Line 25 minus line 26			1,765			
28	Overpayment of tax due to a claim of right adjustment under section 1341(b)(1) (attach computation)						

Sign Here 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 <i>Martha Sanders</i>	Date 4-12-2010
Spouse's signature. If Form 1045 is filed jointly, both must sign.	Date
Preparer Other Than Taxpayer Name ▶	Date
Address ▶	

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 the domestic production activities deduction.
4. You cannot claim a deduction for your exemptions for yourself, your spouse, or dependents.
5. You must figure any item affected by the amount of your adjusted gross income after making the changes in (1), (2), and (3), above, and certain other changes to your adjusted gross income that result from (1), (2), and (3). 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 2009 return includes an NOL deduction from an NOL year before 2009 that reduced your taxable income to zero (to less than zero, if an estate or trust), see *NOL Carryover From 2009 to 2010*, later.

Special Rules for Certain 5-Year NOL Carrybacks. If you elect to carry back a 2008 or 2009 NOL for a period of 5 years under Rev. Proc. 2009-52 (as explained under *Special Rules for 2008 or 2009 NOLs* on page 8), the amount so elected is absorbed by no more than 50 percent of your modified taxable income for the 5th preceding tax year. You must follow the special rules discussed below.

Carryback under Rev. Proc. 2009-52. The amount of the NOL that is absorbed in the 5th

preceding tax year is limited to 50 percent of modified taxable income for such tax year (determined without regard to the NOL for the loss year or any tax year thereafter). To figure this limit, combine lines 2 through 8 on Schedule B (Form 1045) and divide that amount by 2. Enter the result (but not less than zero) on Schedule B (Form 1045), line 9. Subtract the amount so entered on line 9 from the amount on line 1 and enter the result on Schedule B (Form 1045), line 10. For other years, the general rule applies.

Carryback under Rev. Proc. 2009-52 and other 5-year carryback provisions. If you carry back part of your NOL to the 5th preceding tax year under Rev. Proc. 2009-52 and also carry back to the 5th preceding year another part of your NOL from the same loss year under a different 5-year carryback provision, such as Rev. Proc. 2009-26 (for ESBs) or section 172(b)(1)(G) (farming losses), use the Worksheet for NOL Carryovers on page 8 of the 2009 Instructions for Form 1045, to calculate your NOL carryover from the 5th preceding tax year.

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 2009, she has an NOL of \$36,000 that she carries back to 2007. (Ida does not choose a 3, 4, or 5-year carryback period for her 2009 NOL under the special rules for 2008 or 2009 NOLs.) She has no other carrybacks or carryovers to 2007.

Ida's adjusted gross income in 2007 was \$35,000, consisting of her salary of \$36,000 minus a \$1,000 capital loss deduction. She is single and claimed only one personal exemption of \$3,400. During that year, she gave \$1,450 in charitable contributions. Her medical expenses were \$3,000. She also deducted \$1,650 in taxes and \$3,125 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 ($.075 \times \$35,000 = \$2,625$; $\$3,000 - \$2,625 = \$375$). The deductions for taxes and home mortgage interest were not subject to any limits. She was able to claim \$6,600 ($\$1,450 + \$375 + \$1,650 + \$3,125$) in itemized deductions for 2007. She had no other deductions in 2007. Her taxable income for the year was \$25,000.

Ida's \$36,000 carryback will reduce her 2007 taxable income to zero. She completes the column for the second preceding tax year ended 12/31/07 of Schedule B (Form 1045) to figure how much of her NOL she uses up in 2007 and how much she can carry over to 2008. See the illustrated Schedule B shown on pages 14 and 15. Ida does not complete the column for the first preceding tax year ended 12/31/08 because the \$6,525 carryover to 2008 is completely used up that year. (See the information for line 9 below.)

Line 1. Ida enters \$36,000, her 2009 net operating loss, on line 1.

Line 2. She enters \$25,000, her 2007 taxable income, on line 2.

Line 3. Ida enters her net capital loss deduction of \$1,000 on line 3.

Lines 4 and 5. Ida had no section 1202 exclusion or domestic production activities deduction in 2007. She enters zero on lines 4 and 5.

Line 6. 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 6.

Line 7. Ida had itemized deductions and entered \$1,000 on line 3, so she completes lines 11 through 38 to figure her adjustment to itemized deductions. On line 7, she enters the total adjustment from line 38.

Line 11. Ida's adjusted gross income for 2007 was \$35,000.

Line 12. She adds lines 3 through 6 and enters \$1,000 on line 12. (This is her net capital loss deduction added back, which modifies her adjusted gross income.)

Line 13. Her modified adjusted gross income for 2007 is now \$36,000.

Line 14. On her 2007 tax return, she deducted \$375 as medical expenses.

Line 15. Her actual medical expenses were \$3,000.

Line 16. She multiplies her modified adjusted gross income, \$36,000, by .075. She enters \$2,700 on line 16.

Line 17. The difference between her actual medical expenses and the amount she is allowed to deduct is \$300.

Line 18. The difference between her medical deduction and her modified medical deduction is \$75. She enters this on line 18.

Lines 19 through 21. Ida had no deduction for qualified mortgage insurance premiums in 2007. She skips lines 19 and 20 and enters zero on line 21.

Line 22. She enters her modified adjusted gross income of \$36,000 on line 22.

Line 23. She had no other carrybacks to 2007 and enters zero on line 23.

Line 24. Her modified adjusted gross income remains \$36,000.

Line 25. Her actual contributions for 2007 were \$1,450, which she enters on line 25.

Line 26. 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 26.

Line 27. The difference is zero.

Lines 28 through 37. Ida had no casualty losses or deductions for miscellaneous items in 2007. She skips lines 28 through 31 and lines 33 through 36. Ida enters zero on lines 32 and 37.

Line 38. She combines lines 18, 21, 27, 32, and 37 and enters \$75 on line 38. She carries this figure to line 7.

Line 8. Ida enters the deduction for her personal exemption of \$3,400 for 2007.

Line 9. After combining lines 2 through 8, Ida's modified taxable income is \$29,475.

Line 10. Ida figures her carryover to 2008 by subtracting her modified taxable income (line 9) from her NOL deduction (line 1). She enters the \$6,525 carryover on line 10. She also enters the \$6,525 as her NOL deduction for 2008 on Form 1045, page 1, line 10, in the "After carryback" column under the column for the first preceding tax year ended 12/31/08. (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 7 of the instructions)

Complete one column before going to the next column. Start with the earliest carryback year.

	<u>2nd</u> preceding tax year ended ▶ 12-31-07	_____ preceding tax year ended ▶	_____ preceding tax year ended ▶
1 NOL deduction (see page 7 of the instructions). Enter as a positive number	36,000		
2 Taxable income before 2009 NOL carryback (see page 8 of the instructions). Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction	25,000		
3 Net capital loss deduction (see page 8 of the instructions)	1,000		
4 Section 1202 exclusion. Enter as a positive number	-0-		
5 Domestic production activities deduction	-0-		
6 Adjustment to adjusted gross income (see page 8 of the instructions)	-0-		
7 Adjustment to itemized deductions (see page 8 of the instructions)	75		
8 Individuals, enter deduction for exemptions (minus any amount on Form 8914, line 6, for 2006; line 2 for 2005 and 2008). Estates and trusts, enter exemption amount	3,400		
9 Modified taxable income. Combine lines 2 through 8. If zero or less, enter -0-	29,475		
10 NOL carryover (see page 8 of the instructions).	6,525		
Adjustment to Itemized Deductions (Individuals Only) Complete lines 11 through 38 for the carryback year(s) for which you itemized deductions only if line 3, 4, or 5 above is more than zero.			
11 Adjusted gross income before 2009 NOL carryback	35,000		
12 Add lines 3 through 6 above	1,000		
13 Modified adjusted gross income. Add lines 11 and 12	36,000		
14 Medical expenses from Sch. A (Form 1040), line 4 (or as previously adjusted)	375		
15 Medical expenses from Sch. A (Form 1040), line 1 (or as previously adjusted)	3,000		
16 Multiply line 13 by 7.5% (.075)	2,700		
17 Subtract line 16 from line 15. If zero or less, enter -0-	300		
18 Subtract line 17 from line 14	75		
19 Qualified mortgage insurance premiums from Sch. A (Form 1040), line 13 (or as previously adjusted)			
20 Refigured qualified mortgage insurance premiums (see instructions)			
21 Subtract line 20 from line 19	-0-		

Schedule B—NOL Carryover (Continued)

Complete one column before going to the next column. Start with the earliest carryback year.

	<u>2nd</u> preceding tax year ended ▶ 12-31-07	_____ preceding tax year ended ▶	_____ preceding tax year ended ▶
22 Modified adjusted gross income from line 13 on page 3 of the form	36,000		
23 Enter as a positive number any NOL carryback from a year before 2009 that was deducted to figure line 11 on page 3 of the form	-0-		
24 Add lines 22 and 23	36,000		
25 Charitable contributions from Sch. A (Form 1040), line 18 (line 19 for 2007 and 2008), or Sch. A (Form 1040NR), line 7 (or as previously adjusted)	1,450		
26 Refigured charitable contributions (see page 9 of the instructions)	1,450		
27 Subtract line 26 from line 25	-0-		
28 Casualty and theft losses from Form 4684, line 18 (line 20 for 2005 and 2006; line 23 for 2008) (or as previously adjusted)			
29 Casualty and theft losses from Form 4684, line 16 (line 18 for 2005 and 2006; line 21 for 2008) (or as previously adjusted)			
30 Multiply line 22 by 10% (.10)			
31 Subtract line 30 from line 29. If zero or less, enter -0-			
32 Subtract line 31 from line 28	-0-		
33 Miscellaneous itemized deductions from Sch. A (Form 1040), line 26 (line 27 for 2007 and 2008), or Sch. A (Form 1040NR), line 15 (or as previously adjusted)			
34 Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (line 24 for 2007 and 2008), or Sch. A (Form 1040NR), line 12 (or as previously adjusted)			
35 Multiply line 22 by 2% (.02)			
36 Subtract line 35 from line 34. If zero or less, enter -0-			
37 Subtract line 36 from line 33	-0-		
38 Complete the worksheet on page 9 of the instructions if line 22 is more than the applicable amount shown below (more than one-half that amount if married filing separately for that year). <ul style="list-style-type: none"> ● \$126,600 for 1999. ● \$128,950 for 2000. ● \$132,950 for 2001. ● \$137,300 for 2002. ● \$139,500 for 2003. ● \$142,700 for 2004. ● \$145,950 for 2005. ● \$150,500 for 2006. ● \$156,400 for 2007. ● \$159,950 for 2008. Otherwise, combine lines 18, 21, 27, 32, and 37; enter the result here and on line 7 (page 3)			
	75		

SAMPLE

NOL Carryover From 2009 to 2010

If you had an NOL deduction carried forward from a year prior to 2009 that reduced your taxable income on your 2009 return to zero (to less than zero, if an estate or trust), complete Table 1, Worksheet for NOL Carryover From 2009 to 2010 on the following page. It will help you figure your NOL to carry to 2010. 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 2009 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 2010 is the total of the amount on line 10 of the worksheet and all later NOL amounts.

Example. Your taxable income for 2009 is \$4,000 without your \$9,000 NOL deduction. Your NOL deduction includes a \$2,000 carryover from 2007 and a \$7,000 carryover from 2008. Subtract your 2007 NOL of \$2,000 from \$4,000. This gives you taxable income of \$2,000. Your 2007 NOL is now completely used up. Subtract your \$7,000 2008 NOL from \$2,000. This gives you taxable income of (\$5,000). You now complete the worksheet for your 2008 NOL. Your NOL carryover to 2010 is the unused part of your 2008 NOL from line 10 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 6. 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 deductions.

4. Excludable savings bond interest.
5. Excludable employer-provided adoption benefits.
6. The student loan interest deduction.
7. The tuition and fees deduction.

If none of these items apply to you, enter zero on line 6. Otherwise, increase your adjusted gross income by the total of lines 3 through 5 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. Combine the adjustments for previous items with 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 6.

Line 7. Enter zero if you claimed the standard deduction. Otherwise, use lines 11 through 50 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 7 if you did not claim any miscellaneous deductions on Form 1041, line 15b, 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 7.

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 through 5 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 through 5 of the worksheet.
- The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

Line 11. 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 11.

Line 20. Is your modified adjusted gross income from line 13 of this worksheet more than \$260,000 (\$135,000 if married filing separately)?

Yes. Your deduction is limited. Refigure your deduction using the New Motor Vehicle Tax Deduction Worksheet in the 2009 Schedule A (Form 1040). On line 4 of the New Motor Vehicle Tax Deduction Worksheet, enter the amount from line 13 of this worksheet.

No. Your deduction is not limited. Enter the amount from line 19 on line 20 and enter -0- on line 21.

Line 23. Is your modified adjusted gross income from line 13 of this worksheet more than \$100,000 (\$50,000 if married filing separately)?

Yes. Your deduction is limited. Refigure your deduction using the Qualified Mortgage Insurance Premiums Deduction Worksheet in the 2009 Instructions for Schedule A (Form 1040). On line 2 of the Qualified Mortgage Insurance Premiums Deduction Worksheet, enter the amount from line 13 of this worksheet.

No. Your deduction is not limited. Enter the amount from line 22 on line 23 and enter -0- on line 24.

Line 26. If you had a contributions carryover from 2008 to 2009 and your NOL deduction includes an amount from an NOL year before 2008, you may have to reduce your contributions carryover. This reduction is any adjustment you made to your 2008 charitable contributions deduction when figuring your NOL carryover to 2009. Use the reduced contributions carryover to figure the amount to enter on line 26.

Table 1. **Worksheet for NOL Carryover From 2009 to 2010 (For an NOL Year Before 2009)***

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under *NOL Carryover From 2009 to 2010*.



NOL YEAR: _____

USE YOUR 2009 FORM 1040, FORM 1040NR (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 Form 1040NR) or line 15a (Form 1041)	
2. Enter your taxable income without the NOL deduction for 2009 (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 the amount of any domestic production activities deduction	
6. Enter any adjustments to your adjusted gross income (see instructions)	
7. Enter any adjustments to your itemized deductions from line 35 or line 47 (see instructions)	
8. Enter your deduction for exemptions from line 42 (Form 1040), line 39 (Form 1040NR), or line 20 (Form 1041).	
9. Modified taxable income. Combine lines 2 through 8. Enter the result (but not less than zero)	
10. NOL carryover to 2010. Subtract line 9 from line 1. Enter the result (but not less than zero) here and on the "other income" line of Form 1040 or Form 1040NR (or the line on Form 1041 for deductions NOT subject to the 2% floor) in 2010	
ADJUSTMENTS TO ITEMIZED DEDUCTIONS (INDIVIDUALS ONLY):	
11. Enter your adjusted gross income without the NOL deduction for the NOL year entered above or later years. (see instructions)	
12. Combine lines 3, 4, 5, and 6 above	
13. Modified adjusted gross income. Combine lines 11 and 12 above	
ADJUSTMENT TO MEDICAL EXPENSES:	
14. Enter your medical expenses from Schedule A (Form 1040), line 4	
15. Enter your medical expenses from Schedule A (Form 1040), line 1	
16. Multiply line 13 above by 7.5% (.075)	
17. Subtract line 16 from line 15. Enter the result (but not less than zero).	
18. Subtract line 17 from line 14	
ADJUSTMENT TO QUALIFIED MOTOR VEHICLE TAXES:	
19. Enter your qualified motor vehicle taxes deduction from Schedule A (Form 1040), line 7	
20. Refigure your qualified motor vehicle taxes deduction using line 13 above as your adjusted gross income (see instructions)	
21. Subtract line 20 from line 19	
ADJUSTMENT TO QUALIFIED MORTGAGE INSURANCE PREMIUMS:	
22. Enter your qualified mortgage insurance premiums deduction from Schedule A (Form 1040), line 13	
23. Refigure your qualified mortgage insurance premiums deduction using line 13 above as your adjusted gross income (see instructions)	
24. Subtract line 23 from line 22	
ADJUSTMENT TO CHARITABLE CONTRIBUTIONS:	
25. Enter your charitable contributions deduction from Schedule A (Form 1040), line 19, or Schedule A (Form 1040NR), line 7	
26. Refigure your charitable contributions deduction using line 13 above as your adjusted gross income. (see instructions)	
27. Subtract line 26 from line 25	
ADJUSTMENT TO CASUALTY AND THEFT LOSSES:	
28. Enter your casualty and theft losses from Form 4684, line 21	
29. Enter your casualty and theft losses from Form 4684, line 18	
30. Multiply line 13 above by 10% (.10)	
31. Subtract line 30 from line 29. Enter the result (but not less than zero)	
32. Subtract line 31 from line 28	
ADJUSTMENT TO MISCELLANEOUS DEDUCTIONS:	
33. Enter your miscellaneous deductions from Schedule A (Form 1040), line 27, or Schedule A (Form 1040NR), line 15	
34. Enter your miscellaneous deductions from Schedule A (Form 1040), line 24, or Schedule A (Form 1040NR), line 12	
35. Multiply line 13 above by 2% (.02)	
36. Subtract line 35 from line 34. Enter the result (but not less than zero)	
37. Subtract line 36 from line 33	

*Note: If you choose to waive the carryback period, and instead you choose to only carry your 2009 NOL forward, use Schedule A, Form 1045 to compute your 2009 NOL that will be carried over to 2010. Report your 2009 NOL from line 25, Schedule A, Form 1045, on the "other income" line of your 2010 Form 1040 or Form 1040NR, or the line on Form 1041 for deductions NOT subject to the 2% floor in 2010.

Table 1. (Continued)

TENTATIVE TOTAL ADJUSTMENT:	
38. Combine lines 18, 21, 24, 27, 32, and 37, and enter the result here. If line 13 above is \$166,800 or less (\$83,400 or less if married filing separately), also enter the result on line 7 above and stop here. Otherwise, go to line 39	
ADJUSTMENT TO OVERALL ITEMIZED LIMIT:	
39. Enter the amount from Schedule A (Form 1040), line 29, or Schedule A (Form 1040NR), line 17	
40. Add lines 17, 20, 23, 26, 31, and 36, and the amounts on Schedule A (Form 1040), lines 9, 10, 11, 12, 14, and 28, or the amounts from Schedule A (Form 1040NR), lines 3 and 16	
41. Add lines 17 and 31, the amount on Schedule A (Form 1040), line 14, and any gambling and casualty or theft losses included on Schedule A (Form 1040), line 28, or Schedule A (Form 1040NR), line 16. Also include in the total any amount included on line 26 of this worksheet that you elected to treat as qualified contributions for relief efforts in a Midwestern disaster area	
42. Subtract line 41 from line 40. If the result is zero, enter the amount from line 38 on line 7 above and stop here. Otherwise, go to line 43	
43. Multiply line 42 by 80% (.80)	
44. Subtract \$166,800 (\$83,400 if married filing separately) from the amount on line 13	
45. Multiply line 44 by 3% (.03)	
46. Enter the smaller of line 43 or line 45	
47. Divide line 46 by 1.5	
48. Subtract line 47 from line 46	
49. Subtract line 48 from line 40. Enter the result (but not less than your standard deduction amount)	
50. Subtract line 49 from line 39. Enter the result here and on line 7	

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get 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. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- TAS is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for TAS help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should.
- TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- TAS employees know the IRS and how to navigate it. We will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.
- TAS has at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Pub. 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.
- You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov.

Low Income Taxpayer Clinics (LITCs). The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at www.irs.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to

Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right-hand corner.



Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2009 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, Regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-TAX FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *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.
- *Refund information.* To check the status of your 2009 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services. To ensure 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 listen in on or record random 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 government offices, credit unions, and office

supply stores have a collection of products available to print from a CD 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 Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an

ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613



DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.

- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship the beginning of January 2010.
 - The final release will ship the beginning of March 2010.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee).

Help Us To Picture Them Home

Mikelle Biggs



Female, Age Now: 22
Ht:4'8 Wt:65 lbs.
Hazel eyes, Blonde hair

Missing From: Mesa, AZ on 01/02/1999

National Center for Missing and Exploited Children

Call 1-800-THE-LOST
(1-800-843-5678)

Proud Partners With
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www.missingkids.com



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

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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 2010
- 910 IRS Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 54 Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 225 Farmer's Tax Guide
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 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
- 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 (Including Rental of Vacation Homes)
- 529 Miscellaneous Deductions
- 530 Tax Information for Homeowners
- 531 Reporting Tip Income

- 535 Business Expenses
- 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 (Including Capital Gains and Losses)
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Tax Guide for Seniors
- 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) For Employees of Public Schools and Certain Tax-Exempt Organizations
- 575 Pension and Annuity Income
- 584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587 Business Use of Your Home (Including Use by Daycare Providers)
- 590 Individual Retirement Arrangements (IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 The IRS Collection Process
- 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
- 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 For Wages Paid in 2010
- 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 The IRS Will Figure Your Tax
- 969 Health Savings Accounts and Other Tax-Favored Health Plans
- 970 Tax Benefits for Education
- 971 Innocent Spouse Relief
- 972 Child Tax Credit
- 1542 Per Diem Rates (For Travel Within the Continental United States)
- 1544 Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business)
- 1546 Taxpayer Advocate Service – Your Voice at the IRS

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 17SP El Impuesto Federal sobre los Ingresos Para Personas Fisicas
- 547SP Hechos Fortuitos Desastres y Robos
- 594SP El Proceso de Cobro del IRS
- 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, phone, and mail.

Form Number and Title
1040 U.S. Individual Income Tax Return
Sch A Itemized Deductions
Sch B Interest and Ordinary Dividends
Sch C Profit or Loss From Business
Sch C-EZ Net Profit From Business
Sch D Capital Gains and Losses
Sch D-1 Continuation Sheet for Schedule D
Sch E Supplemental Income and Loss
Sch EIC Earned Income Credit
Sch F Profit or Loss From Farming
Sch H Household Employment Taxes
Sch J Income Averaging for Farmers and Fishermen
Sch L Standard Deduction for Certain Filers
Sch M Making Work Pay and Government Retiree Credits
Sch R Credit for the Elderly or the Disabled
Sch SE Self-Employment Tax
1040A U.S. Individual Income Tax Return
1040EZ Income Tax Return for Single and Joint Filers With No Dependents
1040-ES Estimated Tax for Individuals
1040X Amended U.S. Individual Income Tax Return
2106 Employee Business Expenses
2106-EZ Unreimbursed Employee Business Expenses

Form Number and Title
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts
2441 Child and Dependent Care Expenses
2848 Power of Attorney and Declaration of Representative
3903 Moving Expenses
4562 Depreciation and Amortization
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4952 Investment Interest Expense Deduction
5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
6251 Alternative Minimum Tax—Individuals
8283 Noncash Charitable Contributions
8582 Passive Activity Loss Limitations
8606 Nondeductible IRAs
8812 Additional Child Tax Credit
8822 Change of Address
8829 Expenses for Business Use of Your Home
8863 Education Credits (American Opportunity, Hope, and Lifetime Learning Credits)
9465 Installment Agreement Request

Schedule A—NOL (see page 7 of the instructions)

1	Enter the amount from your 2009 Form 1040, line 41, or Form 1040NR, line 38, minus any amount on Form 8914, line 6. Estates and trusts, enter taxable income increased by the total of the charitable deduction, income distribution deduction, and exemption amount		1
2	Nonbusiness capital losses before limitation. Enter as a positive number	2	
3	Nonbusiness capital gains (without regard to any section 1202 exclusion)	3	
4	If line 2 is more than line 3, enter the difference; otherwise, enter -0-	4	
5	If line 3 is more than line 2, enter the difference; otherwise, enter -0-	5	
6	Nonbusiness deductions (see page 7 of the instructions)	6	
7	Nonbusiness income other than capital gains (see page 7 of the instructions)	7	
8	Add lines 5 and 7	8	
9	If line 6 is more than line 8, enter the difference; otherwise, enter -0-		9
10	If line 8 is more than line 6, enter the difference; otherwise, enter -0-. But do not enter more than line 5	10	
11	Business capital losses before limitation. Enter as a positive number	11	
12	Business capital gains (without regard to any section 1202 exclusion)	12	
13	Add lines 10 and 12	13	
14	Subtract line 13 from line 11. If zero or less, enter -0-	14	
15	Add lines 4 and 14	15	
16	Enter the loss, if any, from line 16 of your 2009 Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 15, 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 16 through 21 and enter on line 22 the amount from line 15	16	
17	Section 1202 exclusion. Enter as a positive number		17
18	Subtract line 17 from line 16. If zero or less, enter -0-	18	
19	Enter the loss, if any, from line 21 of your 2009 Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 16 of Schedule D (Form 1041).) Enter as a positive number	19	
20	If line 18 is more than line 19, enter the difference; otherwise, enter -0-	20	
21	If line 19 is more than line 18, enter the difference; otherwise, enter -0-		21
22	Subtract line 20 from line 15. If zero or less, enter -0-		22
23	Domestic production activities deduction from your 2009 Form 1040, line 35, or Form 1040NR, line 33 (or included on Form 1041, line 15a)		23
24	NOL deduction for losses from other years. Enter as a positive number		24
25	NOL. Combine lines 1, 9, 17, and 21 through 24. 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		25

Schedule B—NOL Carryover (see page 7 of the instructions)

Complete one column before going to the next column. Start with the earliest carryback year.

	_____ preceding tax year ended ▶	_____ preceding tax year ended ▶	_____ preceding tax year ended ▶
1 NOL deduction (see page 7 of the instructions). Enter as a positive number			
2 Taxable income before 2009 NOL carryback (see page 8 of the instructions). Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction			
3 Net capital loss deduction (see page 8 of the instructions)			
4 Section 1202 exclusion. Enter as a positive number			
5 Domestic production activities deduction			
6 Adjustment to adjusted gross income (see page 8 of the instructions) . .			
7 Adjustment to itemized deductions (see page 8 of the instructions) . .			
8 Individuals, enter deduction for exemptions (minus any amount on Form 8914, line 6, for 2006; line 2 for 2005 and 2008). Estates and trusts, enter exemption amount . .			
9 Modified taxable income. Combine lines 2 through 8. If zero or less, enter -0-			
10 NOL carryover (see page 8 of the instructions).			
Adjustment to Itemized Deductions (Individuals Only) Complete lines 11 through 38 for the carryback year(s) for which you itemized deductions only if line 3, 4, or 5 above is more than zero.			
11 Adjusted gross income before 2009 NOL carryback			
12 Add lines 3 through 6 above . . .			
13 Modified adjusted gross income. Add lines 11 and 12			
14 Medical expenses from Sch. A (Form 1040), line 4 (or as previously adjusted)			
15 Medical expenses from Sch. A (Form 1040), line 1 (or as previously adjusted)			
16 Multiply line 13 by 7.5% (.075) . .			
17 Subtract line 16 from line 15. If zero or less, enter -0-			
18 Subtract line 17 from line 14 . . .			
19 Qualified mortgage insurance premiums from Sch. A (Form 1040), line 13 (or as previously adjusted) .			
20 Refigured qualified mortgage insurance premiums (see instructions)			
21 Subtract line 20 from line 19 . . .			

Schedule B—NOL Carryover (Continued)

Complete one column before going to the next column. Start with the earliest carryback year.

	_____ preceding tax year ended ▶	_____ preceding tax year ended ▶	_____ preceding tax year ended ▶
22 Modified adjusted gross income from line 13 on page 3 of the form			
23 Enter as a positive number any NOL carryback from a year before 2009 that was deducted to figure line 11 on page 3 of the form			
24 Add lines 22 and 23			
25 Charitable contributions from Sch. A (Form 1040), line 18 (line 19 for 2007 and 2008), or Sch. A (Form 1040NR), line 7 (or as previously adjusted)			
26 Refigured charitable contributions (see page 9 of the instructions)			
27 Subtract line 26 from line 25			
28 Casualty and theft losses from Form 4684, line 18 (line 20 for 2005 and 2006; line 23 for 2008) (or as previously adjusted)			
29 Casualty and theft losses from Form 4684, line 16 (line 18 for 2005 and 2006; line 21 for 2008) (or as previously adjusted)			
30 Multiply line 22 by 10% (.10)			
31 Subtract line 30 from line 29. If zero or less, enter -0-			
32 Subtract line 31 from line 28			
33 Miscellaneous itemized deductions from Sch. A (Form 1040), line 26 (line 27 for 2007 and 2008), or Sch. A (Form 1040NR), line 15 (or as previously adjusted)			
34 Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (line 24 for 2007 and 2008), or Sch. A (Form 1040NR), line 12 (or as previously adjusted)			
35 Multiply line 22 by 2% (.02)			
36 Subtract line 35 from line 34. If zero or less, enter -0-			
37 Subtract line 36 from line 33			
38 Complete the worksheet on page 9 of the instructions if line 22 is more than the applicable amount shown below (more than one-half that amount if married filing separately for that year). <ul style="list-style-type: none"> ● \$126,600 for 1999. ● \$128,950 for 2000. ● \$132,950 for 2001. ● \$137,300 for 2002. ● \$139,500 for 2003. ● \$142,700 for 2004. ● \$145,950 for 2005. ● \$150,500 for 2006. ● \$156,400 for 2007. ● \$159,950 for 2008. Otherwise, combine lines 18, 21, 27, 32, and 37; enter the result here and on line 7 (page 3)			

Amended U.S. Individual Income Tax Return

See separate instructions.

Your first name and middle initial	Your last name	Your social security number
If a joint return, your spouse's first name and middle initial	Your spouse's last name	Your spouse's social security number
Your current home address (number and street). If you have a P.O. box, see page 5 of the instructions.	Apt. no.	Your phone number
Your city, town or post office, state, and ZIP code. If you have a foreign address, see page 5 of instructions.		

All filers must complete lines A, B, and C.

A Amended return filing status. You must check one box even if you are not changing your filing status. **Caution.** You cannot change your filing status from joint to separate returns after the due date.

- Single Married filing jointly Married filing separately
 Qualifying widow(er) Head of household (If the qualifying person is a child but not your dependent, see page 5 of instructions.)

B This return is for calendar year 2009 2008 2007 2006

Other year. Enter one: calendar year _____ or fiscal year (month and year ended): _____

C Explanation of changes. In the space provided below, tell us why you are filing Form 1040X.

		Correct Amount
1 Adjusted gross income (see page 6 of instructions). If net operating loss (NOL) carryback is included, check here <input type="checkbox"/>	1	
2 Itemized deductions or standard deduction (see page 6 of instructions)	2	
3 Subtract line 2 from line 1	3	
4 Exemptions. If changing, complete the Exemptions section on the back and enter the amount from line 30 (see page 6 of instructions)	4	
5 Taxable income. Subtract line 4 from line 3	5	

Tax Liability

6 Tax (see page 7 of instructions). Enter method used to figure tax:		
7 Credits (see page 8 of instructions). If general business credit carryback is included, check here <input type="checkbox"/>	7	
8 Subtract line 7 from line 6. If the result is zero or less, enter -0-	8	
9 Other taxes (see page 8 of instructions)	9	
10 Total tax. Add lines 8 and 9	10	

Payments

11 Federal income tax withheld and excess social security and tier 1 RRTA tax withheld (if changing, see page 8 of instructions)		
12 Estimated tax payments, including amount applied from prior year's return (see page 8 of instructions)	12	
13 Earned income credit (EIC) (see page 8 of instructions)	13	
14 Refundable credits from <input type="checkbox"/> Schedule M or Form(s) <input type="checkbox"/> 2439 <input type="checkbox"/> 4136 <input type="checkbox"/> 5405 <input type="checkbox"/> 8801 <input type="checkbox"/> 8812 <input type="checkbox"/> 8863 <input type="checkbox"/> 8885 or <input type="checkbox"/> other (specify):	14	
15 Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed (see page 9 of instructions)	15	
16 Total payments. Add lines 11 through 15	16	

Refund or Amount You Owe (Note. Allow 8-12 weeks to process Form 1040X.)

17 Overpayment, if any, as shown on original return or as previously adjusted by the IRS (see page 9 of instructions)		
18 Subtract line 17 from line 16 (If less than zero, see page 9 of instructions)	18	
19 Amount you owe. If line 10 is more than line 18, enter the difference (see page 9 of instructions)	19	
20 If line 10 is less than line 18, enter the difference. This is the amount overpaid on this return	20	
21 Amount of line 20 you want refunded to you	21	
22 Amount of line 20 you want applied to your (enter year): _____ estimated tax 22 _____		

Complete and sign this form on Page 2.

Exemptions

Complete this part **only** if you are:

- Increasing or decreasing the number of exemptions (personal and dependents) claimed on line 6d of the return you are amending, or
- Increasing or decreasing the exemption amount for housing individuals displaced by Hurricane Katrina or a Midwestern disaster.

See Form 1040 or Form 1040A instructions and page 10 of Form 1040X instructions.

		Correct Number or Amount
23	Yourself and spouse. Caution. If someone can claim you as a dependent, you cannot claim an exemption for yourself	23
24	Your dependent children who lived with you	24
25	Your dependent children who did not live with you due to divorce or separation	25
26	Other dependents	26
27	Total number of exemptions. Add lines 23 through 26	27
28	Multiply the number of exemptions claimed on line 27 by the exemption amount shown in the instructions for line 28 for the year you are amending (see page 10 of instructions)	28
29	If you are claiming an exemption amount for housing individuals displaced by Hurricane Katrina, enter the amount from Form 8914, line 6 for 2006. If you are claiming an exemption amount for housing individuals displaced by a Midwestern disaster, enter the amount from Form 8914, line 2 for 2008, or line 6 for 2009	29
30	Add lines 28 and 29. Enter the result here and on line 4 on page 1 of this form	30
31	List ALL dependents (children and others) claimed on this amended return. If more than 4 dependents, see page 10 instructions.	

(a) First name	Last name	(b) Dependent's social security number	(c) Dependent's relationship to you	(d) Check box if qualifying child for child tax credit (see page 10 of instructions)
				<input type="checkbox"/>

Presidential Election Campaign Fund

Checking below will not increase your tax or reduce your refund.

- Check here if you did not previously want \$3 to go to the fund, but now do.
- Check here if this is a joint return and your spouse did not previously want \$3 to go to the fund, but now does.

Checklist

Before mailing this form, remember to

- Complete name, address, and social security number
- Complete lines A, B, and C on page 1
- Complete lines 1 through 22 on page 1
- Complete lines 23 through 31 on page 2, if required
- Attach any supporting documents and new or changed forms and schedules
- Sign and date this form

Sign Here

Remember to keep a copy of this form for your records.

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

--	--	--	--

Your signature

Date

Spouse's signature. If a joint return, **both** must sign.

Date

Paid Preparer's Use Only

--	--	--

Preparer's signature

Date

Firm's name (or yours if self-employed), address, and ZIP code

	<input type="checkbox"/> Check if self-employed		
Preparer's SSN or PTIN		Phone number	EIN

Instructions for Form 1040X



Department of the Treasury
Internal Revenue Service

(Rev. January 2010)

Amended U.S. Individual Income Tax Return

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

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General Instructions

Form 1040X will be your new tax return, changing your original return to include new information. The entries you make on Form 1040X under the columns headed *Correct Amount* and *Correct Number or Amount* are the entries you would have made on your original return had it been done correctly.



Many find the easiest way to figure the entries for Form 1040X is to first make the changes in the margin of the return you are amending.

To complete Form 1040X, you will need:

- Form 1040X and these separate instructions;
- A copy of the return you are amending (for example, 2008 Form 1040A), including supporting forms, schedules, and any worksheets you completed;
- Notices from the IRS on any adjustments to that return; and
- Instructions for the return you are amending. If you don't have the instructions, you can order them by calling 1-800-TAX-FORM (1-800-829-3676) or find them online at www.irs.gov. If you are amending a prior year return, click on "Forms and Publications," then "Previous years."

Purpose of Form

Use Form 1040X to do the following.

- Correct Forms 1040, 1040A, 1040EZ, 1040EZ-T, 1040NR, or 1040NR-EZ.
 - Make certain elections after the prescribed deadline (see Regulations sections 301.9100-1 through -3 for details).
 - Change amounts previously adjusted by the IRS.
- However, do not include any interest or penalties on Form 1040X; they will be adjusted accordingly.
- Make a claim for a carryback due to a loss or unused credit. However, you may be able to use Form 1045, Application for Tentative Refund, instead of Form 1040X. For more information, see *Loss or credit carryback* on page 2 and the discussion on carryback claims on pages 2 and 3.

File a separate Form 1040X for each year you are amending. If you are changing your federal return, you also may need to change your state return.

Note. Allow 8 to 12 weeks to process Form 1040X.



If you file Form 1040X claiming a refund or credit for more than the allowable amount, you may be subject to a penalty of 20% of the disallowed amount. See Penalty for erroneous refund claim or credit on page 2.

Do not file Form 1040X if you are requesting a refund of penalties and interest or an addition to tax that you have already paid. Instead, file Form 843, Claim for Refund and Request for Abatement.

Do not file Form 1040X for an injured spouse claim. Instead, file Form 8379, Injured Spouse Allocation. But if you are filing Form 1040X to request an additional refund after filing Form 8379, see *Injured spouse claim* on page 3.

Interest and Penalties

Interest. The IRS will charge you interest on taxes not paid by their due date, even if you had an extension of time to file. We will also charge you interest on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements. Interest is charged on the penalty from the due date of the return (including extensions).

Penalty for late payment of tax. If you do not pay the additional tax due on Form 1040X within 21 calendar days from the date of notice and demand for payment (10 business days from that date if the amount of tax is \$100,000 or more), the penalty is usually $\frac{1}{2}$ of 1% of the unpaid amount for each month or part of a month the tax is not paid. The penalty can be as much as 25% of the unpaid amount and applies to any unpaid tax on the return. This penalty is in addition to interest charges on late payments. You will not have to pay the penalty if you can show reasonable cause for not paying your tax on time.

Penalty for erroneous refund claim or credit. If you file a claim for refund or credit in excess of the amount allowable, you may have to pay a penalty equal to 20% of the disallowed amount, unless you can show a reasonable basis for the way you treated an item. The penalty will not be figured on any part of the disallowed amount of the claim that relates to the earned income credit or on which accuracy-related or fraud penalties are charged.

Penalty for frivolous return. In addition to any other penalties, the law imposes a penalty of \$5,000 for filing a frivolous return. A frivolous return is one that does not contain information needed to figure the correct tax or shows a substantially incorrect tax because you take a frivolous position or desire to delay or interfere with the tax laws. This includes altering or striking out the preprinted language above the space where you sign. For a list of positions identified as frivolous, see Notice 2008-14, 2008-4 I.R.B. 310, available at www.irs.gov/irb/2008-04_IRB/ar12.html.

Other penalties. Other penalties can be imposed for negligence, substantial understatement of tax, reportable transaction understatements, and fraud. See Pub. 17, Your Federal Income Tax, for more information.

When To File

File Form 1040X only after you have filed your original return. Generally, for a credit or refund, you must file Form 1040X within 3 years (including extensions) after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later. If you filed your original return early (for example, March 1 for a calendar year return), your return is considered filed on the due date (April 15). If you had an extension to file until October 15 but you filed July 1, your return is considered filed on the extended due date (October 15).

Note. The time limit for filing Form 1040X can be suspended for certain people who are physically or mentally unable to manage their financial affairs. For details, see Pub. 556, Examination of Returns, Appeal Rights, and Claims for Refund.



Do not file more than one original return for the same year, even if you have not received your refund or have not heard from the IRS since you filed. Filing more than one original return for the same year, or sending in more than one copy of the same return (unless we ask you to do so), could delay your refund.

Bad debt or worthless security. A Form 1040X based on a bad debt or worthless security generally must be filed within 7 years after the due date of the return for the tax year in which the debt or security became worthless. For more details, see section 6511.

Foreign tax credit or deduction. A Form 1040X to claim or change a foreign tax credit or deduction for foreign taxes generally must be filed within 10 years from the due date for filing the return (without regard to any extension of time to file) for the year in which the foreign taxes were actually paid or accrued. For details, see Pub. 514, Foreign Tax Credit for Individuals.

Note. This extended period for filing Form 1040X applies **only** to amounts affected by changes in your foreign tax credit or deduction.

If you are filing Form 1040X to carry back your unused foreign tax credit, see *Loss or credit carryback* next.

Loss or credit carryback. File **either** Form 1045 or Form 1040X to apply for a refund based on the carryback of a net operating loss, an unused general business credit, or a net section 1256 contracts loss; or an overpayment of tax due to a claim of right adjustment under section 1341(b)(1). If you use Form 1040X, see the special instructions for carryback claims on pages 2 and 3 of these instructions. A Form 1040X based on a net operating loss or capital loss carryback or a credit carryback generally must be filed within 3 years after the due date of the return (including extensions) for the tax year of the net operating loss, capital loss, or unused credit. If you use Form 1045, you must file the claim within 1 year after the end of the year in which the loss, credit, or claim of right adjustment arose. For more details, see the Instructions for Form 1045.

Reducing a casualty loss deduction after receiving hurricane-related grant. You must file Form 1040X by the due date (as extended) for filing your tax return for the tax year in which you received the grant. For more information, see *Reimbursement received for hurricane-related casualty loss* on page 4.

Retroactive determination of nontaxable disability pay. Retired members of the uniformed services whose retirement pay, in whole or in part, is retroactively determined by the Department of Veterans Affairs to be nontaxable disability pay can file claims for credits or refunds using Form 1040X. You have until the **later** of (a) 1 year after the determination date, or (b) the normal deadline for filing a claim for refund or credit. The normal deadline is the later of 3 years after filing the original return or 2 years after paying the tax.

Special Situations

Many amended returns deal with situations that have special qualifications or special rules that must be followed. The items that follow give you this specialized information so your amended return can be filed and processed correctly.



Only the special procedures are given here. Unless otherwise stated, you still must complete all appropriate lines on Form 1040X, as discussed under Line Instructions beginning on page 5.

Carryback claim—net operating loss (NOL). Enter “Carryback Claim” at the top of page 1 of Form 1040X. Attach a computation of your NOL using Schedule A (Form 1045) and a computation of any NOL carryover using

Schedule B (Form 1045). A refund based on an NOL does not include a refund of self-employment tax reported on Form 1040X, line 9. For details, see Pub. 536.

Carryback for 2008 or 2009 NOL. If you are an eligible small business filing Form 1040X to make an election to carry back a 2008 or 2009 NOL under the provisions of Revenue Procedure 2009-52 (see Rev. Proc. 2009-52, 2009-49 I.R.B. 744, available at www.irs.gov/irb/2009-49_IRB/ar11.html), attach a statement that states the following.

- You are electing to apply section 172(b)(1)(H) under Rev. Proc. 2009-52.
- You are not a TARP recipient nor, in 2008 or 2009, an affiliate of a TARP recipient.
- The length of the NOL carryback period you elect (3, 4, or 5 years).

You must make this election on or before the due date (including extensions) for filing your 2009 tax return.

If you are filing Form 1040X to apply the 2008 or 2009 NOL to the carryback year(s) under Rev. Proc. 2009-52, attach a copy of this election statement to each Form 1040X.

Carryback claim—credits and other losses. Enter “Carryback Claim” at the top of page 1 of Form 1040X. Attach copies of the following.

- Both pages of Form 1040 and Schedules A and D, if applicable, for the year in which the loss or credit originated. Enter “Attachment to Form 1040X—Copy Only—Do Not Process” at the top of these forms.
- Any Schedules K-1 you received from any partnership, S corporation, estate, or trust for the year of the loss or credit that contributed to the loss or credit carryback.
- Any form or schedule from which the carryback results, such as Form 3800, General Business Credit; Form 1116, Foreign Tax Credit; Form 6781, Gains and Losses From Section 1256 Contracts and Straddles; Form 4684, Casualties and Thefts; or Schedule C or F (Form 1040).
- Forms or schedules for items refigured in the carryback year, such as Form 6251, Alternative Minimum Tax—Individuals; Form 3800; or Schedule A (Form 1040).



You must attach all appropriate forms and schedules to Form 1040X or it will be returned.

Note. If you were married and you did not have the same filing status (married filing jointly or married filing separately) for all of the years involved in figuring the loss or credit carryback, you may have to allocate income, deductions, and credits. For details, see the publication for the type of carryback you are claiming. For example, see Pub. 536, Net Operating Losses (NOLs) for Individuals, Estates, and Trusts, or Pub. 514.

Deceased taxpayer. If filing Form 1040X for a deceased taxpayer, enter “Deceased,” the deceased taxpayer’s name, and the date of death across the top of Form 1040X, page 1.

If you are filing a joint return as a surviving spouse, enter “Filing as surviving spouse” in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

Claiming a refund for a deceased taxpayer. If you are filing a joint return as a surviving spouse, you only need to file Form 1040X to claim the refund. If you are a court-appointed personal representative or any other person claiming the refund, file Form 1040X and attach Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, and any other information required by its instructions. For more details, see Pub. 559, Survivors, Executors, and Administrators.

Federal telephone excise tax (2006 only). If you are filing Form 1040X only to claim a refund of the federal telephone excise tax, do the following.

1. Fill in the top portion of Form 1040X through line **B**.
2. Enter “Federal Telephone Excise Tax” on line **C**.
3. On line 14, enter the amount being claimed, check the box for “other (specify),” and write “FTET.”
4. Sign Form 1040X (both spouses must sign if filing jointly) and mail it to the address shown on page 5 that applies to you.

Note. If you are claiming the actual amount of the federal telephone excise tax you paid, you must also attach Form 8913, Credit for Federal Telephone Excise Tax Paid, to your Form 1040X.

First-time homebuyer credit. If you meet the requirements for the first-time homebuyer credit, you can amend your return to take the credit in the prior year.

Homes purchased in 2009. If you purchased your home in 2009, you can choose to claim the credit on your 2008 return. To amend your 2008 return, file Form 1040X with a completed Form 5405.

For homes purchased before November 7, 2009, you can use either the 2008 or the December 2009 revision of Form 5405 to claim the credit. If you use the 2008 revision, you must check the box in Part I, line C. If you use the December 2009 revision, you must check the box in Part I, line F, and attach any required documentation (see the Instructions for Form 5405).

For homes purchased after November 6, 2009, you must use the December 2009 revision of Form 5405.

Note. If you made this election before the February 2009 revision of Form 5405 was released, you can file Form 1040X with a new Form 5405 to claim the additional \$500 credit for homes purchased in 2009.

Homes purchased in 2010. You can choose to claim the credit on your 2009 return for a home you purchase:

- After December 31, 2009, and before May 1, 2010, or
- After April 30, 2010, and before July 1, 2010, **and** you entered into a binding contract before May 1, 2010, to purchase the property before July 1, 2010.

Note. Members of the uniformed services or Foreign Service and employees of the intelligence community who are on qualified official extended duty outside the United States may have until December 31, 2010, to purchase a home and qualify for the credit. See the Instructions for Form 5405 to find out how to qualify.

Household employment taxes. If you are correcting the amount of employment taxes you paid to household employees, attach Schedule H (Form 1040) and include on line **C** of Form 1040X the date the error was discovered. For errors discovered after December 31, 2008, any additional employment taxes owed must be paid with this return. If you are changing the wages paid to an employee for whom you filed Form W-2, you must also file Form W-2c, Corrected Wage and Tax Statement, and Form W-3c, Transmittal of Corrected Wage and Tax Statements, with the Social Security Administration. For more information, see Pub. 926, Household Employer’s Tax Guide, for the appropriate year.

Injured spouse claim. If you file Form 1040X to request an additional refund and you do not want your portion of the overpayment to be applied (offset) against your spouse’s past-due obligation(s), complete and attach another Form 8379 to allocate the additional refund.

Qualified reservist distributions. Reservists called to active duty after September 11, 2001, can claim a refund of any 10% additional tax paid on an early distribution from a qualified pension plan.

To make this claim:

- You must have been ordered or called to active duty after September 11, 2001, for more than 179 days or for an indefinite period,
- The distribution from a qualified pension plan must have been made on or after the date you were ordered or called to active duty and before the close of your active duty period, and
- The distribution must have been from an IRA, or from amounts attributable to elective deferrals under a section 401(k) or 403(b) plan or a similar arrangement.

Eligible reservists should enter "Active Duty Reservist" at the top of page 1 of Form 1040X. On line **C**, include the date called to active duty, the amount of the retirement distribution, and the amount of the early distribution tax paid. For more information on these distributions, see Pub. 590, Individual Retirement Arrangements (IRAs).

Recovery rebate credit (2008 only). You can use Form 1040X to claim this credit if you did not claim it or if you did not claim the correct amount on your original 2008 Form 1040, 1040A, or 1040EZ. For information on how to claim the credit, see the 2008 instructions for the form you are amending.

Reimbursement received for hurricane-related casualty loss. If you claimed a casualty loss on your main home resulting from Hurricanes Katrina, Rita, or Wilma, and later received a qualified grant as reimbursement for that loss, you can file an amended return for the year the casualty loss deduction was claimed (and for any tax year to which the deduction was carried) to reduce the casualty loss deduction (but not below zero) by the amount of the reimbursement. To qualify, your grant must have been issued under Public Law 109-148, 109-234, or 110-116. Examples of qualified grants are the Louisiana Road Home Grants and the Mississippi Development Authority Hurricane Katrina Homeowner Grants.

At the top of page 1 of Form 1040X, enter "Hurricane Grant Relief" in dark, bold letters. Include the following materials with your amended return.

1. Proof of the amount of any hurricane relief grant received.
2. A completed Form 2848, Power of Attorney and Declaration of Representative, if you wish to have your designated representative speak with us. (Do not include this if a valid Form 2848 is already on file with the IRS that covers the same tax year and tax matters.)



Do not include on Form 1040X any adjustments other than the reduction of the casualty loss deduction if the period of limitations on assessment is closed for the tax year in which you claimed the casualty loss deduction. Generally, this period is closed if it is more than 3 years after the return was filed and more than 2 years after the tax was paid. If you filed the return earlier than the due date of the return (including appropriate extensions), your return is considered filed on the due date of the return (including extensions).

Waiver of penalties and interest. If you pay the entire balance due on your amended return within 1 year of timely

filing your amended return, no interest or penalties will be charged on the balance due. Payments made after you file Form 1040X should clearly designate that the payment is to be applied to reduce the balance due shown on the Form 1040X per IRS Notice 2008-95.

Special rule for previously filed amended returns. In order to receive the benefits discussed in this section, you must notify the IRS if you previously filed an amended return based on receiving one of the grants mentioned earlier. For instructions on how to notify the IRS, see Pub. 547, Casualties, Disasters, and Thefts; or Notice 2008-95, 2008-44 I.R.B. 1076, available at www.irs.gov/irb/2008-44_IRB/ar09.html.

Resident and nonresident aliens. Use Form 1040X to amend Form 1040NR or Form 1040NR-EZ. Also, use Form 1040X if you should have filed Form 1040, 1040A, or 1040EZ instead of Form 1040NR or 1040NR-EZ, or vice versa. For details, see Pub. 519, U.S. Tax Guide for Aliens.

To amend Form 1040NR or 1040NR-EZ or to file the correct return, fill in your name, address, and social security number (SSN) or IRS individual taxpayer identification number (ITIN) on Form 1040X. Also complete line **C**, explaining why you are making the change.

Attach the corrected return (Form 1040, Form 1040NR, etc.) to Form 1040X. Across the top of the corrected return, enter "Amended."

Signing your child's return. If your child cannot sign the return, either parent can sign the child's name in the space provided. Then, enter "By (your signature), parent for minor child."

Tax shelters. If you are amending your return to disclose information for a reportable transaction in which you participated, attach Form 8886, Reportable Transaction Disclosure Statement.

Where To File

If you are amending your return because of any of the situations listed below, use the corresponding address.

IF you are filing Form 1040X:	THEN mail Form 1040X and attachments to:
In response to a notice you received from the IRS	The address shown in the notice
Because you received reimbursement for a hurricane-related loss	Department of the Treasury Internal Revenue Service Center Austin, TX 73301-0255
With Form 1040NR or 1040NR-EZ	Department of the Treasury Internal Revenue Service Center Austin, TX 73301-0215 USA

If none of the situations listed above apply to you, mail your return to the Internal Revenue Service Center shown on page 5 that applies to you.

IF you live in:**THEN mail Form 1040X
and attachments to:**

Florida, Georgia, North
Carolina, South CarolinaDepartment of the Treasury
Internal Revenue Service Center
Atlanta, GA 39901

Alaska, Arizona, California,
Colorado, Hawaii, Idaho,
Illinois, Indiana, Iowa,
Kansas, Michigan,
Minnesota, Montana,
Nebraska, Nevada, New
Mexico, North Dakota,
Oklahoma, Oregon, South
Dakota, Utah, Washington,
Wisconsin, WyomingDepartment of the Treasury
Internal Revenue Service Center
Fresno, CA 93888-0422

Arkansas, Connecticut,
Delaware, District of
Columbia, Maine, Maryland,
Massachusetts, Missouri,
New Hampshire, New Jersey,
New York, Ohio,
Pennsylvania, Rhode Island,
Vermont, Virginia, West
VirginiaDepartment of the Treasury
Internal Revenue Service Center
Kansas City, MO 64999

Alabama, Kentucky,
Louisiana, Mississippi,
Tennessee, TexasDepartment of the Treasury
Internal Revenue Service Center
Austin, TX 73301

Guam: Permanent residents—Department of Revenue and Taxation,
Government of Guam, P.O. Box 23607, GMF, GU 96921

Virgin Islands: Permanent residents—V.I. Bureau of Internal Revenue,
9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802

American Samoa or Puerto Rico (or exclude income under section
933); are a nonpermanent resident of Guam or the Virgin Islands; have
an APO or FPO or foreign address; are a dual-status alien; or file Form
2555, 2555-EZ, or 4563—Department of the Treasury, Internal
Revenue Service Center, Austin, TX 73301-0215, USA

Line Instructions

Name, Address, and Social Security Number (SSN)

If you and your spouse are amending a joint return, list your names and SSNs in the same order as shown on the original return. If you are changing from separate to a joint return and your spouse did not file an original return, enter your name and SSN first.

P.O. box. Enter your box number only if your post office does not deliver mail to your home.

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. Do not abbreviate the country name.

Line A—Amended Return Filing Status

Check the box that corresponds to your filing status on this return. If this is a change from the filing status on your original return, the following information may apply to you.

Changing from separate to a joint return. Generally, if you file a joint return, both you and your spouse (or former spouse) have joint and several liability. This means both of you are responsible for the tax and any interest or penalties due on the return, as well as any understatement of tax that

may become due later. If one spouse does not pay the tax due, the other may have to. However, you may qualify for innocent spouse relief. For details, see Form 8857 or Pub. 971 (both relating to innocent spouse relief).

Changing to head of household filing status. If the qualifying person is a child but not your dependent, enter the child's name and "QND" on line **C**.



Generally, married people cannot file as head of household. But for an exception, see Pub. 501, Exemptions, Standard Deduction, and Filing Information.

Line C—Explanation of Changes

The IRS needs to know **why** you are filing Form 1040X. For example, you:

- Received another Form W-2 after you filed your return,
- Forgot to claim the child tax credit,
- Discovered you could claim a tuition and fees deduction,
- Changed your filing status from qualifying widow(er) to head of household,
- Did not add the sales tax on your new car to your 2009 standard deduction, or
- Are carrying an unused NOL or credit to an earlier year.

Lines 1 Through 31—Which Lines To Complete

Before looking at the instructions for specific lines, the following information may point you in the right direction for completing Form 1040X.

You need information about income, deductions, etc. If you have questions such as what income is taxable or what expenses are deductible, the instructions for the form you are amending should help. Also use those instructions to find the method you should use to figure the correct tax. To get prior year forms, schedules, and instructions, call 1-800-TAX-FORM (1-800-829-3676) or download them from the IRS website at www.irs.gov.

You are providing only additional information. If you are not changing any dollar amounts you originally reported, but are sending in only additional information, do the following.

- Complete name, address, and SSN.
- Complete lines **B** and **C**.
- Check a box, if applicable, for the Presidential Election Campaign Fund.

You are changing from separate to a joint return. If you and your spouse are changing from separate returns to a joint return, begin by combining the amounts from your return as originally filed or as previously adjusted (either by you or the IRS) and the amounts from your spouse's return as originally filed or as previously adjusted. Then make your changes to the combined amounts. If your spouse did not file an original return, include your spouse's income, deductions, credits, other taxes, etc., to determine the amounts to enter on the appropriate lines of this form.

Both of you must sign and date Form 1040X.

You are changing amounts on your original return or as previously adjusted by the IRS. Because Form 1040X can be used for so many purposes, it is sometimes difficult to know which part(s) of the form to fill out. Unless instructions elsewhere in this booklet tell you otherwise, follow the rules below.

- Always complete the top of page 1 through line **C**.
- Complete the lines shown in the following chart according to what you are changing.
- Check a box, if applicable, for the Presidential Election Campaign Fund.
- Sign and date the form.

IF you are changing only...*	THEN complete...
Filing status	Lines 1–22
Exemptions	Lines 1–31
Income 1040 lines 7–21 1040A lines 7–14b 1040EZ lines 1–3	Lines 1–22
Adjustments to income 1040 lines 23–35** 1040A lines 16–19	Lines 1–22
Itemized or standard deductions 1040 line 40 (2009 line 40a) 1040A line 24 (2009 line 24a) 1040EZ line 5	Lines 1–22
Tax before credits 1040 lines 44–45 1040A line 28 1040EZ line 11	Lines 5–22
Nonrefundable credits 1040 lines 47–55 (2008 lines 47–54, 2009 lines 47–53) 1040A lines 29–33	Lines 6–22
Other taxes 1040 lines 58–62** (2008 lines 57–60,** 2009 lines 56–59**) 1040A line 36	Lines 6–22
Payments and refundable credits 1040 lines 64–71 (2008 lines 62–70, 2009 lines 61–70) 1040A lines 38–42** (2007 lines 38–41,** 2009 lines 38–43**) 1040EZ lines 7–9** (2007 lines 7–8a**)	Lines 10–22

* This column gives line numbers for 2006 through 2009 returns. Where the same lines do not apply to all years, those that are different are shown in parentheses.

** Plus any write-in amounts shown on the total line for the lines indicated.

Income and Deductions

Line 1—Adjusted Gross Income

Enter your adjusted gross income (AGI), which is the total of your income minus certain deductions (adjustments). Any change to the income or adjustments on the return you are amending will be reflected on this line.

Use the chart below to find the corresponding line.

IF you are amending tax year...	THEN the corresponding line on Form...		
	1040 is:	1040A is:	1040EZ is:
2009, 2008, 2007, or 2006	37	21	4

A change you make to your AGI can cause other amounts to increase or decrease. For example, changing your AGI can change your:

- Miscellaneous itemized deductions, credit for child and dependent care expenses, child tax credit, education credits, retirement savings contributions credit, or making work pay credit;
- Allowable charitable contributions deduction or the taxable amount of social security benefits; or
- Total itemized deductions or deduction for exemptions (see the instructions for line 4 on this page).

If you change your AGI, refigure these items—those listed above, and any other deduction or credit you are claiming that has a limit based on AGI.

Correcting your wages or other employee compensation.

Attach a copy of all additional or corrected Forms W-2 you received after you filed your original return. Also attach any additional or corrected Forms 1099-R that show federal income tax withheld.

Changing your IRA deduction. On line **C** of Form 1040X, enter “IRA deduction” and the amount of the increase or decrease. If changing from a deductible to a nondeductible IRA contribution, also complete and attach Form 8606, Nondeductible IRAs.

Line 2—Itemized Deductions or Standard Deduction

If you are itemizing your deductions, enter the total from Schedule A (Form 1040). If you are now itemizing your deductions instead of using the standard deduction, or have changed the amount of any deduction, or your new AGI limitations have changed any deduction, attach a copy of the corrected Schedule A to this amended return.

If you are using the standard deduction, enter the amount for your filing status for the year you are amending. If you are amending Form 1040EZ, see *Form 1040EZ Filers—Lines 2 and 4* on page 7 for the amount to enter. Remember that the standard deduction for all years can be increased for the age and/or blindness of the taxpayer(s). Also, for 2008 or 2009, the standard deduction can be increased by certain other amounts. See the form instructions for the year you are amending. None of these additions to the standard deduction appear on Form 1040EZ, so for more information see the instructions for Form 1040 or 1040A.

Line 4—Exemptions

Enter on line 4 the amount from:

- The return you are amending (Form 1040, line 42, or Form 1040A, line 26),
- The corrected amount from Form 1040X, line 30, or
- The amount indicated under *Form 1040EZ Filers—Lines 2 and 4*, if the return you are amending is Form 1040EZ.

Changing the number of exemptions claimed. You must complete the *Exemptions* section on page 2 of Form 1040X if:

- You are increasing or decreasing the number of dependents you claim,
- You are claiming a personal exemption for you or your spouse that you did not previously claim, or
- You are eliminating a personal exemption for you or your spouse that you previously claimed, but were not entitled to claim.

If any of these situations apply to you, complete Form 1040X, lines 23 through 31.

Multiply the total number of exemptions claimed by the amount shown in the table below for the year you are amending. However, if the amount on line 1 of Form 1040X is more than \$112,875, first see *Who must use the Deduction for Exemptions Worksheet* on page 7.

IF you are amending your...	THEN the amount for one exemption is...
2009 return	\$3,650
2008 return	\$3,500
2007 return	\$3,400
2006 return	\$3,300

Note. Special instructions apply if you are claiming or changing a 2006 exemption amount for housing individuals displaced by Hurricane Katrina or a 2008 or 2009 exemption amount for housing Midwestern displaced individuals. If you are not changing the number of exemptions previously claimed, or if you are claiming or changing a Hurricane Katrina or Midwestern displaced individual exemption amount in addition to changing the number of exemptions previously claimed, see *Claiming or changing a Hurricane Katrina exemption amount* or *Claiming or changing an exemption amount for a Midwestern displaced individual* under the line 29 instructions on page 10.

Who must use the Deduction for Exemptions Worksheet.

If you increased the amount on line 1, you may not be allowed the full deduction for your exemptions. However, if you reduced the amount on line 1, you now may be allowed the full deduction. Use the following chart to find out if you must use this worksheet to figure a reduced amount to enter on line 4 and, if applicable, line 28. Be sure to use the Deductions for Exemptions Worksheet in the instructions for the form and year you are amending.

You must use the Deduction for Exemptions Worksheet if—		And the amount on line 1 is over:
You are amending your:	And your filing status is:	
2009 return	Married filing separately	\$125,100
	Married filing jointly or Qualifying widow(er)	250,200
	Single	166,800
	Head of household	208,500
2008 return	Married filing separately	\$119,975
	Married filing jointly or Qualifying widow(er)	239,950
	Single	159,950
	Head of household	199,950
2007 return	Married filing separately	\$117,300
	Married filing jointly or Qualifying widow(er)	234,600
	Single	156,400
	Head of household	195,500
2006 return	Married filing separately	\$112,875
	Married filing jointly or Qualifying widow(er)	225,750
	Single	150,500
	Head of household	188,150

Form 1040EZ Filers—Lines 2 and 4

Did someone claim you as a dependent on his or her return? (One or both boxes on line 5 of Form 1040EZ will be checked.)

- Yes.** On Form 1040X, **line 2**, enter the amount from line E of the worksheet on the back of Form 1040EZ. On Form 1040X, **line 4**, enter -0- (or, if married filing jointly, the amount from line F of the 1040EZ worksheet).
- No.** Use the chart below to find the amounts to enter on lines 2 and 4.

IF you are amending your...	AND your filing status is...	THEN enter on Form 1040X,	
		line 2...	line 4...
2009 return	Single	\$ 5,700	\$3,650
	Married filing jointly	11,400	7,300
2008 return	Single	\$ 5,450	\$3,500
	Married filing jointly	10,900	7,000
2007 return	Single	\$ 5,350	\$3,400
	Married filing jointly	10,700	6,800
2006 return	Single	\$ 5,150	\$3,300
	Married filing jointly	10,300	6,600

Tax Liability

Line 6—Tax

Figure the tax on your taxable income shown on line 5. Generally, you should use the tax table or other method you used to figure the tax on your original return. However, you may need to change to a different method if, for example, you amend your return to include or change the amount of certain types of income, such as capital gains or qualified dividends.

See the instructions for the income tax return you are amending to find the appropriate method, tax table, and worksheet, if necessary. Indicate the method you used to figure the tax entered on line 6, as shown in the chart below.

IF you figured the corrected tax using...	THEN enter in the blank area on line 6...
Tax Table	Table
Tax Computation Worksheet	TCW
Schedule D Tax Worksheet	Sch D
Schedule J (Form 1040)	Sch J
Qualified Dividends and Capital Gain Tax Worksheet	QDCGTW
Foreign Earned Income Tax Worksheet	FEITW

Example. The taxable income on your original 2008 Form 1040A was \$49,650. You used the Tax Table in the 2008 Instructions for Form 1040A to find the tax, \$8,763. You are amending your 2008 Form 1040A to add \$160 of interest income, which you add in on line 1 of Form 1040X. There are no other changes. According to the 2008 Form 1040A instructions for line 28 (Tax), you should use the Tax Table to look up the tax on your corrected taxable income (\$49,810). The revised tax shown in the Tax Table is \$8,800. Below is your completed Form 1040X, line 6.

6 Tax (see page 5 of instructions). Enter method used to figure tax:	Table	6	8,800
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Once you have figured the tax on the line 5 amount, add to it any additional taxes from Form 4972, Tax on Lump-Sum Distributions; Form 8814, Parents' Election To Report Child's Interest and Dividends; and any recapture of education credits. Also include any alternative minimum tax from Form 6251, Alternative Minimum Tax—Individuals, or the Alternative Minimum Tax Worksheet in the Form 1040A instructions.



Any changes you made to Form 1040X, lines 1 through 4, may affect the amount of or cause you to owe alternative minimum tax. See the instructions for the form and year you are amending.

Attach the schedule or form(s), if any, that you used to figure your revised tax. Do not attach worksheets.

Line 7—Credits

Enter your total nonrefundable credits. Nonrefundable credits are those that reduce your tax, but any excess is not refunded to you. Use the chart below to find the corresponding lines.

IF you are amending tax year...	THEN the corresponding lines on Form...		
	1040 are:	1040A are:	1040EZ are:
2009	47–53	29–33	N/A
2008	47–54	29–33	N/A
2007 or 2006	47–55	29–33	N/A

If you made any changes to Form 1040X, lines 1 through 6, be sure to refigure your original credits. Attach the appropriate forms for the credits you are adding or changing.

Line 9—Other Taxes

Enter other taxes you paid. Use the chart below to find the corresponding lines.

IF you are amending tax year...	THEN the corresponding line(s) on Form...		
	1040 are:	1040A is:	1040EZ is:
2009	56–59 (plus any write-in amounts shown on Form 1040, line 60)	36	N/A
2008	57–60 (plus any write-in amounts shown on Form 1040, line 61)	36	N/A
2007 or 2006	58–62 (plus any write-in amounts shown on Form 1040, line 63)	36	N/A

If you made any changes to Form 1040X, lines 1 through 6, you may need to refigure other taxes that were included in the same section on your original return.

Payments

Line 11—Withholding

If you are changing your federal income tax withheld or any excess social security and tier 1 RRTA tax withheld (SS/RRTA), attach to the front of Form 1040X a copy of all additional or corrected Forms W-2 you received after you filed your original return. Also attach additional or corrected Forms 1099-R that showed any federal income tax withheld.

IF you are amending tax year...	THEN the corresponding line(s) on Form...		
	1040 are:	1040A are:	1040EZ is:
2009	61 and 69	38 and 44 (write-in for excess SS/RRTA)	7
2008	62 and 65	38 and 43 (write-in for excess SS/RRTA)	7
2007	64 and 67	38 and 42 (write-in for excess SS/RRTA)	7
2006	64 and 67	38 and 43 (write-in for excess SS/RRTA)	7

Line 12—Estimated Tax Payments

Enter the estimated tax payments you claimed on your original return. If you filed Form 1040-C, U.S. Departing Alien Income Tax Return, include on this line the amount you paid as the balance due with that return. Also include any of your prior year's overpayment that you elected to apply to estimated tax payments for the year you are amending.

IF you are amending tax year...	THEN the corresponding line on Form...		
	1040 is:	1040A is:	1040EZ is:
2009	62	39	N/A
2008	63	39	N/A
2007	65	39	N/A
2006	65	39	N/A

Line 13—Earned Income Credit (EIC)

If you are amending your return to claim the EIC and you have a qualifying child, attach Schedule EIC (Form 1040A or 1040).

If you changed the amount on line 1 or line 5, the amount of any EIC you claimed on your original return may change.

If you are amending your EIC based on a nontaxable combat pay election, enter "nontaxable combat pay" and the amount on line C of Form 1040X. If you are amending your 2008 EIC to elect to use your 2007 earned income instead of your 2008 earned income, enter "PYEI" and the amount of your 2007 earned income on line C of Form 1040X.



If your EIC was reduced or disallowed for the tax year you are amending, see the Instructions for Form 8862, Information To Claim Earned Income Credit After Disallowance, to find out if you must also file that form to claim the credit.

IF you are amending tax year...	THEN the corresponding line on Form...		
	1040 is:	1040A is:	1040EZ is:
2009	64a	41a	9a
2008	64a	40a	8a
2007	66a	40a	8a
2006	66a	40a	8a

Line 14—Refundable Credits

A refundable credit can give you a refund for any part of a credit that is more than your total tax.

If you are amending your return to claim or change a refundable credit, attach the appropriate form(s).

In addition to the credits listed on this line, refundable credits also include the federal telephone excise tax and recovery rebate credits. Specify these credits in the blank area after “other (specify):” and include the amount(s) in the line 14 total. If you are claiming the actual amount (instead of the standard amount) of federal telephone excise tax, complete and attach Form 8913.

Note. The following credits apply only to the specific years noted.

- The federal telephone excise tax credit applies only to 2006.
- The recovery rebate credit applies only to 2008.
- The refundable portion of the American opportunity credit applies only to 2009.

IF you are amending tax year...	THEN the corresponding line(s) on Form...		
	1040 are:	1040A are:	1040EZ is:
2009	63, 65–67, and 70	40, 42, and 43	8
2008	66 and 68–70	41 and 42	9
2007	68, 70, and 71	41	N/A
2006	68, 70, and 71	41 and 42	9

Line 15—Amount Paid With Extension or Tax Return

On this line enter the total of the following amounts.

- Any amount paid with your request for an extension on Forms 4868 or 2350 (use the following chart to find the corresponding line). Also include any amount paid with a credit or debit card used to get an extension of time to file, but do not include the convenience fee you were charged. Also include any amount paid by electronic funds withdrawal.

IF you are amending tax year...	THEN the corresponding line on Form...		
	1040 is:	1040A is:	1040EZ is:
2009	68	44 (write-in amount)	10 (write-in amount)
2008	67	43 (write-in amount)	10 (write-in amount)
2007	69	42 (write-in amount)	9 (write-in amount)
2006	69	43 (write-in amount)	10 (write-in amount)

- The amount of the check or money order you sent with your original return, or the amount paid with a credit or debit card or by electronic funds withdrawal. Also include any additional payments you made after it was filed. However, do not include payments of interest or penalties, or the convenience fee you were charged for paying with a credit or debit card.

Line 16—Total Payments

Include in the total on this line any payments shown on Form 8689, Allocation of Individual Income Tax to the U.S. Virgin Islands, lines 40 and 44. Enter “USVI” and the amount on the line to the left of line 16.

Refund or Amount You Owe

The purpose of this section is to figure the additional tax you owe or excess amount you have paid (overpayment). All of your payments (for the tax year you are amending) received up to the date of this amended return are taken into account, as well as any overpayment on your original return or after adjustment by the IRS. It is as if you were using the new information to complete your original return. If the results show a larger overpayment than before, the difference between the two becomes your new overpayment. You can choose to receive the refund or apply it to your estimated tax for the following year. In either case, it can be used by the IRS to pay other federal or state debts that still exist. If the results show that you owe, it is because you do not have enough additional withholding or because filing your original return with the information you have now would have resulted in a smaller overpayment.

Line 17—Overpayment

Enter the overpayment from your original return. Use the chart below to find the corresponding line.

IF you are amending tax year...	THEN the corresponding line on Form...		
	1040 is:	1040A is:	1040EZ is:
2009	72	45	12a
2008	72	44	12a
2007	73	43	11a
2006	73	44	12a

If your original return was changed by the IRS and the result was an additional overpayment of tax, also include that amount on line 17. Do not include interest you received on any refund.

Any additional refund you are entitled to on Form 1040X will be sent separately from any refund you have not yet received from your original return.

Line 18—Amount Available To Pay Additional Tax

If line 17 is larger than line 16, line 18 will be negative. You will owe additional tax. To figure the amount owed, treat the amount on line 18 as positive and add it to the amount on line 10. Enter the result on line 19.

Line 19—Amount You Owe

You can pay by check, money order, or credit or debit card.

To pay by check or money order. Send your signed Form 1040X with a check or money order for the full amount payable to the “United States Treasury.” Do not send cash. Do not attach your payment to Form 1040X. Instead, enclose it in the envelope with your amended return.

On your payment, put your name, address, daytime phone number, and SSN. If you are filing a joint Form

1040X, enter the SSN shown first on the return. Also, enter the tax year and type of return you are amending (for example, "2007 Form 1040A"). The IRS will figure any interest due and send you a bill.

To help process your payment, enter the amount on the right side of the check like this: \$ XXX.XX. Do not use dashes or lines (for example, do not enter "\$ XXX—" or "\$ XXX ^{XX}/₁₀₀").

To pay by credit or debit card. To pay by credit or debit card, call toll-free or visit the website for one of the service providers listed below and follow the instructions. A convenience fee will be charged by the service provider. This fee may be deductible as a miscellaneous itemized deduction for the tax year in which it is paid. Fees may vary among the providers. You will be told what the fee is during the transaction and you will have the option to either continue or cancel the transaction. You can also find out what the fee will be by calling the provider's toll-free automated customer service number or visiting the provider's website shown below.

Link2Gov Corporation
1-888-PAY-1040™ (1-888-729-1040)
1-888-658-5465 (Customer Service)
www.PAY1040.com

RBS WorldPay, Inc.
1-888-9-PAY-TAX™ (1-888-972-9829)
1-877-517-4881 (Customer Service)
www.payUSAtax.com

Official Payments Corporation
1-888-UPAY-TAX™ (1-888-872-9829)
1-877-754-4413 (Customer Service)
www.officialpayments.com

What if you cannot pay. If you cannot pay the full amount shown on line 19, you can ask to make monthly installment payments. Generally, you can have up to 60 months to pay.

To ask for an installment agreement, apply online or use Form 9465, Installment Agreement Request. To apply online, go to www.irs.gov, use the pull down menu under "I Need To..." and select "Set Up a Payment Plan." If you use Form 9465, see its instructions.

Note. If you elected to apply any part of an overpayment on your original return to your next year's estimated tax, you cannot reverse that election on your amended return.

Line 21—Overpayment Received as Refund

If the IRS does not use your overpayment to pay past due federal or state debts, the refund amount on line 21 will be sent separately from any refund you claimed on your original return (see the instructions for line 17). We will figure any interest and include it in your refund.

Note. You will receive a check for any refund due to you. A refund on an amended return **cannot** be deposited directly to your bank account.

Line 22—Overpayment Applied to Estimated Tax

Enter on line 22 the amount, if any, from line 20 you want applied to your estimated tax for next year. Also, enter that tax year in the box indicated. No interest will be paid on this amount.

You will be notified if any of your overpayment was used to pay past due federal or state debts so that you will know how much was applied to your estimated tax.



You cannot change your election to apply part or all of the overpayment on line 20 to next year's estimated tax.

Exemptions

If you are changing the number of exemptions claimed on your return, complete lines 23 through 30, and line 31, if necessary. Enter the new exemption amount on line 30 and line 4.

Line 28—Exemption Amount

To figure the amount to enter on line 28, you may need to use the Deduction for Exemptions Worksheet in the Form 1040 or Form 1040A instructions for the year you are amending. To find out if you do, see *Who must use the Deduction for Exemptions Worksheet* on page 7. If you do not have to use that worksheet, multiply the applicable dollar amount shown in the table below by the number of exemptions on line 27.

IF you are amending your...	THEN the amount for one exemption is...
2009 return	\$3,650
2008 return	\$3,500
2007 return	\$3,400
2006 return	\$3,300

Line 29—Additional Exemption Amount for Disaster Housing

Claiming or changing a Hurricane Katrina exemption amount. If you are claiming or changing a 2006 exemption amount for housing individuals displaced by Hurricane Katrina, complete lines 1 through 6 of the 2006 Form 8914, Exemption Amount for Taxpayers Housing Individuals Displaced by Hurricane Katrina. Enter the amount from Form 8914, line 6, on Form 1040X, line 29. Complete line 30. Be sure to attach Form 8914 to Form 1040X.

Claiming or changing an exemption amount for a Midwestern displaced individual. If you are claiming or changing a 2008 or 2009 exemption amount for housing Midwestern displaced individuals, complete lines 1 and 2 of the 2008 Form 8914 (or lines 1 through 6 of the 2009 Form 8914), Exemption Amount for Taxpayers Housing Midwestern Displaced Individuals. Enter the amount from Form 8914, line 2 for 2008 (line 6 for 2009), on Form 1040X, line 29. Complete line 30. Be sure to attach Form 8914 to Form 1040X.

Line 31—Dependents

List **all** dependents claimed on this amended return. This includes:

- Dependents claimed on your original return who are still being claimed on this return, and
- Dependents not claimed on your original return who are being added to this return.

If you are now claiming more than four dependents, attach a separate statement with the required information.

Column (b). You must enter each dependent's social security number (SSN). If your dependent child was born and died in the tax year you are amending and you do not have an SSN for the child, enter "Died" in column (b), and attach a copy of the child's birth certificate, death certificate, or hospital medical records. The document must show the child was born alive.

Be sure the name and SSN entered agree with the dependent's social security card. Otherwise, at the time we process your return, we may disallow the exemption claimed for the dependent and reduce or disallow any other tax benefits (such as the child tax credit) based on that dependent.

Note. For details on how to get an SSN or correct a name or number, see the 2009 Form 1040, 1040A, or 1040EZ instructions.

Column (d). Check the box in column (d) if your dependent is also a qualifying child for the child tax credit. See the Form 1040 or 1040A instructions for the year you are amending to find out who is a qualifying child.

Children who did not live with you due to divorce or separation. If you are claiming a child who did not live with you under the rules for children of divorced or separated parents, you must attach certain forms or statements to Form 1040X. For more information, see Pub. 501 or the instructions for Form 1040 or 1040A for the tax year you are amending.

Presidential Election Campaign Fund

You can use Form 1040X to have \$3 go to the Presidential Election Campaign Fund if you (or your spouse on a joint return) did not do so on your original return. This must be done within 20½ months after the original due date for filing the return. For calendar year 2009, this period ends on January 3, 2012. A previous designation of \$3 to the fund cannot be changed.

Paid Preparer

Generally, anyone you pay to prepare your return must sign it in the space provided. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign.

Assembling Your Return

Assemble any schedules and forms behind Form 1040X in order of the "Attachment Sequence No." shown in the upper right corner of the schedule or form. If you have supporting statements, arrange them in the same order as the schedules or forms they support and attach them last. Do not attach correspondence or other items unless required to do so.

Attach to the front of Form 1040X:

- A copy of any Forms W-2, W-2c (a corrected Form W-2), and 2439 that support changes made on this return; and
- A copy of any Form W-2G and 1099-R that support changes made on this return, but only if tax was withheld.

If you owe tax, enclose (do not attach) your check or money order in the envelope with your amended return. See the instructions for line 19 beginning on page 9.

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.

We welcome comments on forms. If you have comments or suggestions for making this form simpler, we would be happy to hear from you. You can email us at **taxforms@irs.gov*. (The asterisk must be included in the address.) Enter "Forms Comment" on the subject line. Or you can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see *Where To File* on page 4.

Estimates of Taxpayer Burden

The table below shows burden estimates for taxpayers filing a Form 1040X. Time spent and out-of-pocket costs are estimated separately. Out-of-pocket costs include any expenses incurred by taxpayers to prepare and submit their tax returns. Examples of out-of-pocket costs include tax return preparation and submission fees, postage, tax preparation software costs, photocopying costs, and phone calls (if not toll-free).

Both time and cost burdens are national averages and do not necessarily reflect a "typical" case. The averages include all associated forms and schedules, across all preparation methods and all taxpayer activities. Within each of these estimates, there is significant variation in taxpayer activity. Similarly, tax preparation fees vary extensively depending on the taxpayer's situation and issues, the type of professional preparer, and the geographic area.

The data shown are the best estimates available as of October 19, 2007, from tax returns filed for 2006. The method used to estimate taxpayer burden incorporates results from a taxpayer burden survey conducted in 2000 and 2001. The estimates are subject to change as new forms and data become available. The estimates do not include burden associated with post-filing activities. However, operational IRS data indicate that electronically prepared and e-filed returns have fewer errors, implying a lower overall post-filing burden.

If you have comments concerning the time and cost estimates below, you can contact us at either one of the addresses shown under *We welcome comments on forms* above.

Estimated Average Taxpayer Burden

The average time and costs required to complete and file Form 1040X, its schedules, and accompanying forms will vary depending on individual circumstances. The estimated averages are:

Average Time Burden (Hours)	Average Cost (Dollars)
3.5	\$28

Certain Cash Contributions for Haiti Relief Can Be Deducted on Your 2009 Tax Return

A new law allows you to choose to deduct certain charitable contributions of money on your 2009 tax return instead of your 2010 return. The contributions must have been made after January 11, 2010, and before March 1, 2010, for the relief of victims in areas affected by the January 12, 2010, earthquake in Haiti. Contributions of money include contributions made by cash, check, money order, credit card, charge card, debit card, or via cell phone.

The new law was enacted after the 2009 forms, instructions, and publications had already been printed. When preparing your 2009 tax return, you may complete the forms as if these contributions were made on December 31, 2009, instead of in 2010. To deduct your charitable contributions, you must itemize deductions on Schedule A (Form 1040) or Schedule A (Form 1040NR).

The contribution must be made to a qualified organization and meet all other requirements for charitable contribution deductions. However, if you made the contribution by phone or text message, a telephone bill showing the name of the donee organization, the date of the contribution, and the amount of the contribution will satisfy the recordkeeping requirement. Therefore, for example, if you made a \$10 charitable contribution by text message that was charged to your telephone or wireless account, a bill from your telecommunications company containing this information satisfies the recordkeeping requirement.

**SCHEDULE A
(Form 1040)**

Itemized Deductions

OMB No. 1545-0074

2009

Department of the Treasury
Internal Revenue Service (99)

Attach to Form 1040.

See Instructions for Schedule A (Form 1040).

Attachment
Sequence No. **07**

Name(s) shown on Form 1040

Your social security number

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see page A-1)	1		
	2	Enter amount from Form 1040, line 38	2		
	3	Multiply line 2 by 7.5% (.075)	3		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4
Taxes You Paid <small>(See page A-2.)</small>	5 State and local (check only one box):		5		
	a	<input type="checkbox"/> Income taxes, or			
	b	<input type="checkbox"/> General sales taxes			
	6	Real estate taxes (see page A-5)	6		
	7	New motor vehicle taxes from line 11 of the worksheet on back. Skip this line if you checked box 5b	7		
	8	Other taxes. List type and amount _____	8		
	9	Add lines 5 through 8			9
Interest You Paid <small>(See page A-6.)</small>	10	Home mortgage interest and points reported to you on Form 1098	10		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-7 and show that person's name, identifying no., and address _____	11		
	Note.	Personal interest is not deductible.			
	12	Points not reported to you on Form 1098. See page A-7 for special rules	12		
	13	Qualified mortgage insurance premiums (see page A-7)	13		
	14	Investment interest. Attach Form 4952 if required. (See page A-8.)	14		
	15	Add lines 10 through 14			15
Gifts to Charity <small>If you made a gift and got a benefit for it, see page A-8.</small>	16	Gifts by cash or check. If you made any gift of \$250 or more, see page A-8	16		
	17	Other than by cash or check. If any gift of \$250 or more, see page A-8. You must attach Form 8283 if over \$500	17		
	18	Carryover from prior year	18		
	19	Add lines 16 through 18			19
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See page A-10.)			20
Job Expenses and Certain Miscellaneous Deductions <small>(See page A-10.)</small>	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-10.) _____	21		
	22	Tax preparation fees	22		
	23	Other expenses—investment, safe deposit box, etc. List type and amount _____	23		
	24	Add lines 21 through 23	24		
	25	Enter amount from Form 1040, line 38	25		
	26	Multiply line 25 by 2% (.02)	26		
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27
Other Miscellaneous Deductions	28	Other—from list on page A-11. List type and amount _____			28
Total Itemized Deductions	29	Is Form 1040, line 38, over \$166,800 (over \$83,400 if married filing separately)? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40a. <input type="checkbox"/> Yes. Your deduction may be limited. See page A-11 for the amount to enter.			29
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>			

**Worksheet
for Line 7—
New motor
vehicle
taxes**

Before you begin: ✓ You cannot take this deduction if the amount on Form 1040, line 38, is equal to or greater than \$135,000 (\$260,000 if married filing jointly).
 ✓ See the instructions for line 7 on page A-6.

Use this worksheet to figure the amount to enter on line 7.

(Keep a copy for your records.)

1	Enter the state and local sales and excise taxes you paid in 2009 for the purchase of any new motor vehicle(s) after February 16, 2009 (see page A-6)				
2	Enter the purchase price (before taxes) of the new motor vehicle(s)				
3	Is the amount on line 2 more than \$49,500? <input type="checkbox"/> No. Enter the amount from line 1. <input type="checkbox"/> Yes. Figure the portion of the tax from line 1 that is attributable to the first \$49,500 of the purchase price of each new motor vehicle and enter it here (see page A-6).				3
4	Enter the amount from Form 1040, line 38				
5	Enter the total of any— Amounts from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15, and Exclusion of income from Puerto Rico				
6	Add lines 4 and 5				
7	Enter \$125,000 (\$250,000 if married filing jointly)				
8	Is the amount on line 6 more than the amount on line 7? <input type="checkbox"/> No. Enter the amount from line 3 above on Schedule A, line 7. Do not complete the rest of this worksheet. <input type="checkbox"/> Yes. Subtract line 7 from line 6				8
9	Divide the amount on line 8 by \$10,000. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000				9
10	Multiply line 3 by line 9				10
11	Deduction for new motor vehicle taxes. Subtract line 10 from line 3. Enter the result here and on Schedule A, line 7				11



2009 Instructions for Schedule A (Form 1040)

Itemized Deductions

Use Schedule A (Form 1040) to figure your itemized deductions. In most cases, your federal income tax will be less if you take the larger of your itemized deductions or your standard deduction.

If you itemize, you can deduct a part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You can also deduct certain casualty and theft losses.

If you and your spouse paid expenses jointly and are filing separate returns for 2009, see Pub. 504 to figure the portion of joint expenses that you can claim as itemized deductions.



Do not include on Schedule A items deducted elsewhere, such as on Form 1040 or Schedule C, C-EZ, E, or F.

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

What's New

Schedule B. Schedule B, Interest and Ordinary Dividends, is no longer associated with Schedule A. Schedules A and B are now separate schedules.

New motor vehicle taxes. You can deduct certain state and local sales and excise taxes you paid in 2009 for the purchase of a new motor vehicle. If your state does not have a sales tax, you may be able to deduct certain other fees or taxes. See the instructions for line 7 on page A-6.

Increase in personal casualty and theft loss limit. Generally, each personal casualty or theft loss is limited to the excess of the loss over \$500. In addition, the 10%-of-adjusted-gross-income (AGI) limit continues to apply to the net loss.

Credit or debit card convenience fees. If you pay your income tax (including estimated tax payments) by credit or debit card, you may be able to deduct the convenience fee you are charged by the card processor to pay using your credit or debit card. See the instructions for line 23 that begins on page A-10.

Standard mileage rates. The 2009 rate for use of your vehicle to get medical care is 24 cents a mile. The special rate for charitable use of your vehicle to provide relief related to a Midwestern disaster area has expired.

Medical and Dental Expenses

You can deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 38.

Pub. 502 discusses the types of expenses you can and cannot deduct. It also explains when you can deduct capital expenses and special care expenses for disabled persons.



If you received a distribution from a health savings account or a medical savings account in 2009, see Pub. 969 to figure your deduction.

Examples of Medical and Dental Payments You Can Deduct

To the extent you were not reimbursed, you can deduct what you paid for:

- Insurance premiums for medical and dental care, including premiums for qualified long-term care contracts as defined in Pub. 502. But see *Limit on long-term care premiums you can deduct* on page A-2. Reduce the insurance premiums by any self-employed health insurance deduction you claimed on Form 1040, line 29. You cannot deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your Form(s) W-2. If you are a retired public safety officer, you cannot deduct any premiums you paid to the extent they were paid for with a tax-free distribution from your retirement plan.



If, during 2009, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, reemployment TAA (RTAA) recipient, or Pension Benefit Guaranty Corporation pension recipient, you must reduce your insurance premiums by any amounts used to figure the health coverage tax credit. See the instructions for line 1 on page A-2.

- Prescription medicines or insulin.
- Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists.
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Diagnostic tests, such as a full-body scan, pregnancy test, or blood sugar test kit.
- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you can deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs, and lab fees.
- Qualified long-term care services (see Pub. 502).
- The supplemental part of Medicare insurance (Medicare B).
- The premiums you pay for Medicare Part D insurance.
- A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal.

- A weight-loss program as treatment for a specific disease (including obesity) diagnosed by a doctor.

- Medical treatment at a center for drug or alcohol addiction.

- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.

- Surgery to improve defective vision, such as laser eye surgery or radial keratotomy.

- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel. Do not deduct more than \$50 a night for each eligible person.

- Ambulance service and other travel costs to get medical care. If you used your own car, you can claim what you spent for gas and oil to go to and from the place you received the care; or you can claim 24 cents a mile. Add parking and tolls to the amount you claim under either method.

Note. Certain medical expenses paid out of a deceased taxpayer's estate can be claimed on the deceased taxpayer's final return. See Pub. 502 for details.

Limit on long-term care premiums you can deduct. The amount you can deduct for qualified long-term care contracts (as defined in Pub. 502) depends on the age, at the end of 2009, of the person for whom the premiums were paid. See the chart below for details.

IF the person was, at the end of 2009, age . . .	THEN the most you can deduct is . . .
40 or under	\$ 320
41–50	\$ 600
51–60	\$ 1,190
61–70	\$ 3,180
71 or older	\$ 3,980

Examples of Medical and Dental Payments You Cannot Deduct

- The cost of diet food.
- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.
- Life insurance or income protection policies.
- The Medicare tax on your wages and tips or the Medicare tax paid as part of the

self-employment tax or household employment taxes.



If you were age 65 or older but not entitled to social security benefits, you can deduct premiums you voluntarily paid for Medicare A coverage.

- Nursing care for a healthy baby. But you may be able to take a credit for the amount you paid. See the instructions for Form 1040, line 48.

- Illegal operations or drugs.
- Imported drugs not approved by the U.S. Food and Drug Administration (FDA). This includes foreign-made versions of U.S.-approved drugs manufactured without FDA approval.

- Nonprescription medicines (including nicotine gum and certain nicotine patches).

- Travel your doctor told you to take for rest or a change.

- Funeral, burial, or cremation costs.

Line 1 Medical and Dental Expenses

Enter the total of your medical and dental expenses (see page A-1), after you reduce these expenses by any payments received from insurance or other sources. See *Reimbursements* on this page.



Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed

health insurance deduction on Form 1040, line 29, reduce the premiums by the amount on line 29.

Note. If, during 2009, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, re-employment TAA (RTAA) recipient, or Pension Benefit Guaranty Corporation pension recipient, you must complete Form 8885 before completing Schedule A, line 1. When figuring the amount of insurance premiums you can deduct on Schedule A, do not include:

- Any amounts you included on Form 8885, line 4,
- Any qualified health insurance premiums you paid to "U.S. Treasury — HCTC," or
- Any health coverage tax credit advance payments shown in box 1 of Form 1099-H.

Whose medical and dental expenses can you include? You can include medical and dental bills you paid for anyone who was one of the following either when the services were provided or when you paid for them.

- Yourself and your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules for children of divorced or separated parents.
- Any person you could have claimed as a dependent on your return except that person received \$3,650 or more of gross income or filed a joint return.
- Any person you could have claimed as a dependent except that you, or your spouse if filing jointly, can be claimed as a dependent on someone else's 2009 return.

Example. You provided over half of your mother's support but cannot claim her as a dependent because she received wages of \$3,650 in 2009. You can include on line 1 any medical and dental expenses you paid in 2009 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 only the amount you paid. If you received a reimbursement in 2009 for medical or dental expenses you paid in 2009, reduce your 2009 expenses by this amount. If you received a reimbursement in 2009 for prior year medical or dental expenses, do not reduce your 2009 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See Pub. 502 for details on how to figure the amount to include.

Cafeteria plans. Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your Form(s) W-2. Also, do not include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your Form(s) W-2.

Taxes You Paid Taxes You Cannot Deduct

- Federal income and most excise taxes.
- Social security, Medicare, federal unemployment (FUTA), and railroad retirement (RRTA) taxes.
- Customs duties.
- Federal estate and gift taxes. But see the instructions for line 28 on page A-11.
- Certain state and local taxes, including: tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

Line 5



You can elect to deduct state and local general sales taxes instead of state and local income taxes. You cannot deduct both.

State and Local Income Taxes

If you deduct state and local income taxes, check **box a** on line 5. Include on this line the state and local income taxes listed below.

- State and local income taxes withheld from your salary during 2009. Your Form(s) W-2 will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.

- State and local income taxes paid in 2009 for a prior year, such as taxes paid with your 2008 state or local income tax return. Do not include penalties or interest.

- State and local estimated tax payments made during 2009, including any part of a prior year refund that you chose to have credited to your 2009 state or local income taxes.

- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

- Mandatory contributions to the Alaska, New Jersey, or Pennsylvania state unemployment fund.

Do not reduce your deduction by any:

- State or local income tax refund or credit you expect to receive for 2009, or

- Refund of, or credit for, prior year state and local income taxes you actually received in 2009. Instead, see the instructions for Form 1040, line 10.

State and Local General Sales Taxes

If you elect to deduct state and local general sales taxes, you **must** check **box b** on line 5. To figure your deduction, you can use either your actual expenses or the optional sales tax tables.



You cannot deduct new motor vehicle taxes on line 7 of Schedule A if you make this election.

Actual Expenses

Generally, you can deduct the actual state and local general sales taxes (including compensating use taxes) you paid in 2009 if the tax rate was the same as the general sales tax rate. However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate. If you paid sales tax

on a motor vehicle at a rate higher than the general sales tax rate, you can deduct only the amount of tax that you would have paid at the general sales tax rate on that vehicle. Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, sport utility vehicles, trucks, vans, and off-road vehicles. Also include any state and local general sales taxes paid for a leased motor vehicle. Do not include sales taxes paid on items used in your trade or business.



You must keep your actual receipts showing general sales taxes paid to use this method.

Refund of general sales taxes. If you received a refund of state or local general sales taxes in 2009 for amounts paid in 2009, reduce your **actual** 2009 state and local general sales taxes by this amount. If you received a refund of state or local general sales taxes in 2009 for prior year purchases, do not reduce your 2009 state and local general sales taxes by this amount. But if you deducted your **actual** state and local general sales taxes in the earlier year and the deduction reduced your tax, you may have to include the refund in income on Form 1040, line 21. See *Recoveries* in Pub. 525 for details.

Optional Sales Tax Tables

Instead of using your actual expenses, you can use the tables on pages A-12 through A-14 to figure your state and local general sales tax deduction. You may also be able to add the state and local general sales taxes paid on certain specified items.

To figure your state and local general sales tax deduction using the tables, complete the worksheet on page A-4 or use the 2009 Sales Tax Deduction Calculator on the IRS website. To use the 2009 Sales Tax Deduction Calculator, go to www.irs.gov and enter "Sales tax deduction calculator" in the search box.



If your filing status is married filing separately, both you and your spouse elect to deduct sales taxes, **and** your spouse elects to use the optional sales tax tables, you also must use the tables to figure your state and local general sales tax deduction.

Instructions for Line 5b Worksheet

Line 1. If you lived in the same state for all of 2009, enter the applicable amount, based on your 2009 income and exemptions, from the optional state sales tax table for your state on page A-12 or A-13. Read down the "At least–But less than" columns for your state and find the line that includes your 2009 income. If married filing separately, do not include your spouse's income. Your 2009 income is the amount shown on your Form 1040, line 38, **plus** any nontaxable items, such as the following.

- Tax-exempt interest.

- A voucher received or payment made for such voucher under the CARS "cash for clunkers" program.

- Veterans' benefits.
- Nontaxable combat pay.
- Workers' compensation.
- Nontaxable unemployment compensation.
- Nontaxable part of social security and railroad retirement benefits.
- Nontaxable part of IRA, pension, or annuity distributions. Do not include rollovers.
- Public assistance payments.
- Economic recovery payments.

The exemptions column refers to the number of exemptions claimed on Form 1040, line 6d.

What if you lived in more than one state? If you lived in more than one state during 2009, look up the table amount for each state using the above rules. If there is no table for your state, the table amount is considered to be zero. Multiply the table amount for each state you lived in by a fraction. The numerator of the fraction is the number of days you lived in the state during 2009 and the denominator is the total number of days in the year (365). Enter the total of the prorated table amounts for each state on line 1. However, if you also lived in a locality during 2009 that imposed a local general sales tax, do not enter the total on line 1. Instead, complete a separate worksheet for each state you lived in and enter the prorated amount for that state on line 1.

Example. You lived in State A from January 1 through August 31, 2009 (243 days), and in State B from September 1 through December 31, 2009 (122 days). The table amount for State A is \$500. The table amount for State B is \$400. You would figure your state general sales tax as follows.

State A:	$500 \times 243/365 =$	\$333
State B:	$400 \times 122/365 =$	134
Total		= \$467

If none of the localities in which you lived during 2009 imposed a local general sales tax, enter \$467 on line 1 of your worksheet. Otherwise, complete a separate worksheet for State A and State B. Enter \$333 on line 1 of the State A worksheet and \$134 on line 1 of the State B worksheet.

Line 2. If you checked the "No" box, enter -0- on line 2, and go to line 3. If you checked the "Yes" box and lived in the same locality for all of 2009, enter the applicable amount, based on your 2009 income and exemptions, from the optional local sales tax table for your locality on page A-14. Read down the "At least–But less than" columns for your locality and find the line that includes your 2009 income. See the line 1 instructions on this page to figure your 2009 income. The ex-

Locality 1:	$\$100 \times 243/365 =$	$\$ 67$
Locality 2:	$\$150 \times 122/365 =$	$\underline{50}$
Total		$= \$117$

Line 3. If you lived in California, check the “No” box if your combined state and local general sales tax rate is 8.0034%. Otherwise, check the “Yes” box and include on line 3 only the part of the combined rate that is more than 8.0034%.

If you lived in Nevada, check the “No” box if your combined state and local general sales tax rate is 6.6764%. Otherwise, check the “Yes” box and include on line 3 only the part of the combined rate that is more than 6.6764%.

What if your local general sales tax rate changed during 2009? If you checked the “Yes” box and your local general sales tax rate changed during 2009, figure the rate to enter on line 3 as follows. Multiply each tax rate for the part of the period it was in effect by a fraction. The numerator of the fraction is the number of days the rate was in effect during 2009 and the denominator is the total number of days in the year (365). Enter the total of the prorated tax rates on line 3.

Example. Locality 1 imposed a 1% local general sales tax from January 1 through September 30, 2009 (273 days). The rate increased to 1.75% for the period from October 1 through December 31, 2009 (92 days). You would enter “1.189” on line 3, figured as follows.

January 1 –		
September 30:	$1.00 \times 273/365 =$	0.748
October 1 –		
December 31:	$1.75 \times 92/365 =$	$\underline{0.441}$
Total		$= 1.189$

What if you lived in more than one locality in the same state during 2009? Complete a separate worksheet for lines 2 through 6 for each locality in your state if you lived in more than one locality in the same state during 2009 and either of the following applies.

- Each locality did not have the same local general sales tax rate.
- You lived in Los Angeles County, CA.

To figure the amount to enter on line 3 of the worksheet for each locality in which you lived (except a locality for which you used the table on page A-14 to figure your local general sales tax deduction), multiply the local general sales tax rate by a fraction. The numerator of the fraction is the number of days you lived in the locality during 2009 and the denominator is the total number of days in the year (365).

Example. You lived in Locality 1 from January 1 through August 31, 2009 (243 days), and in Locality 2 from September 1 through December 31, 2009 (122 days). The local general sales tax rate for Locality 1 is 1%. The rate for Locality 2 is 1.75%. You would enter “0.666” on line 3 for the Locality 1 worksheet and “0.585” for the Locality 2 worksheet, figured as follows.

Locality 1:	$1.00 \times 243/365 =$	0.666
Locality 2:	$1.75 \times 122/365 =$	0.585

Line 6. If you lived in more than one locality in the same state during 2009, you should have completed line 1 only on the first worksheet for that state and separate worksheets for lines 2 through 6 for any other locality within that state in which you lived during 2009. If you checked the “Yes” box on line 6 of any of those worksheets, multiply line 5 of that worksheet by the amount that you entered on line 1 for that state on the first worksheet.

Line 7. Enter on line 7 any state and local general sales taxes paid on the following specified items. If you are completing more than one worksheet, include the total for line 7 on only one of the worksheets.

1. A motor vehicle (including a car, motorcycle, motor home, recreational vehicle, sport utility vehicle, truck, van, and off-road vehicle). Also include any state and local general sales taxes paid for a leased motor vehicle. If the state sales tax rate on these items is higher than the general sales tax rate, only include the amount of tax you would have paid at the general sales tax rate.

2. An aircraft or boat, if the tax rate was the same as the general sales tax rate.

3. A home (including a mobile home or prefabricated home) or substantial addition to or major renovation of a home, but only if the tax rate was the same as the general sales tax rate and any of the following applies.

a. Your state or locality imposes a general sales tax directly on the sale of a home or on the cost of a substantial addition or major renovation.

b. You purchased the materials to build a home or substantial addition or to perform a major renovation and paid the sales tax directly.

c. Under your state law, your contractor is considered your agent in the construction of the home or substantial addition or the performance of a major renovation. The contract must state that the contractor is authorized to act in your name and must follow your directions on construction decisions. In this case, you will be considered to have purchased any items subject to a sales tax and to have paid the sales tax directly.

Do not include sales taxes paid on items used in your trade or business. If you received a refund of state or local general sales taxes in 2009, see *Refund of general sales taxes* on page A-3.

Line 6 Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you own that was not

used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. Pub. 530 explains the deductions homeowners can take.

Do not include the following amounts on line 6.

- Itemized charges for services to specific property or persons (for example, a \$20 monthly charge per house for trash collection, a \$5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance).

- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you can deduct only the amount the mortgage company actually paid to the taxing authority in 2009.

If you sold your home in 2009, any real estate tax charged to the buyer should be shown on your settlement statement and in box 5 of any Form 1099-S you received. This amount is considered a refund of real estate taxes. See *Refunds and rebates* below. Any real estate taxes you paid at closing should be shown on your settlement statement.



You must look at your real estate tax bill to decide if any non-deductible itemized charges, such as those listed above, are included in the bill. If your taxing authority (or lender) does not furnish you a copy of your real estate tax bill, ask for it.

Refunds and rebates. If you received a refund or rebate in 2009 of real estate taxes you paid in 2009, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 2009 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. See *Recoveries* in Pub. 525 for details on how to figure the amount to include in income.

Line 7

New Motor Vehicle Taxes



If you elected to deduct state and local general sales taxes on line 5b, you cannot deduct new motor vehicle taxes on line 7.

You may be able to deduct state and local sales and excise taxes (or certain other taxes or fees in a state without a sales tax) paid after February 16, 2009, for the purchase of any new motor vehicle(s). To figure the amount you can deduct, you will need to complete the *Worksheet for Line 7* on the back of Schedule A.

If the amount on Form 1040, line 38, is equal to or greater than \$135,000 (\$260,000 if married filing jointly), you cannot deduct these taxes.

Instructions for Worksheet for Line 7

Line 1. Enter the state or local sales and excise taxes from your sales invoice(s) relating to any new motor vehicle(s) (defined below) you purchased after February 16, 2009.

States with no sales tax. The states of Alaska, Delaware, Hawaii, Montana, New Hampshire, and Oregon do not have a sales tax. However, you may be charged other taxes or fees on the purchase of a new motor vehicle in one of these six states that is similar to a sales tax. The taxes or fees that qualify must be assessed on the purchase of the vehicle and must be based on the vehicle's sales price or as a per unit fee. You can include these taxes and fees on line 1 of the *Worksheet for Line 7*.

One example of a fee you can include on line 1 of the worksheet is the 3.75% document fee when registering a title with the Delaware Division of Motor Vehicles. The fee is 3.75% of the purchase price.

New motor vehicle. A new motor vehicle is any of the following. The original use of the vehicle must begin with you.

- A passenger automobile or light truck that is self propelled, designed to transport people or property on a street or highway, and the gross vehicle weight rating of the vehicle is not more than 8,500 pounds.
- A motorcycle (defined below) with a gross vehicle weight rating of not more than 8,500 pounds.
- A motor home (defined below).

Motorcycle. A vehicle with motive power having a seat or saddle for the use of the rider and designed to travel on not more than three wheels in contact with the ground.

Motor home. A multi-purpose vehicle with motive power that is designed to provide temporary residential accommodations, as evidenced by the presence of at least four of the following facilities.

- Cooking.
- Refrigeration or ice box.

- Self-contained toilet.
- Heating and/or air conditioning.
- Potable water supply system including a faucet and sink.
- Separate 110-125 volt electrical power supply and/or propane.

Line 2. Enter on line 2 the cost of the new motor vehicle(s). Do not include on line 2 any state or local sales or excise taxes you entered on line 1.

Line 3. If you check the "Yes" box, the amount you can include for state or local sales and excise taxes is limited to the taxes imposed on the first \$49,500 of the purchase price of each new motor vehicle. To figure the amount to enter on line 3, you will need to know the rate(s) of tax that apply in the state and locality where you purchased each new motor vehicle. If the state and locality where you purchased a new motor vehicle imposes a fixed rate, multiply the combined state and local rate by the **smaller** of \$49,500 or the purchase price (**before taxes**) of the new motor vehicle. See *Example 1* below.

Some taxing jurisdictions may provide for a sales tax that is limited to a certain dollar amount per purchase. One example is Manatee County, Florida. Manatee County charges an additional ½% (.005) discretionary sales tax that is collected on the first \$5,000 of a purchase, not to exceed \$25. See *Example 2* below.

Example 1. You purchased a new motor vehicle on April 3, 2009, for \$56,500 before taxes. The state where you purchased the vehicle imposes a fixed sales tax rate of 5% and the locality also charges a fixed rate of 1%, for a combined fixed sales tax rate of 6%. The amount of sales tax you can include on line 3 is \$2,970 ($\$49,500 \times 6\%$ (.06)).

Example 2. You purchased a new motor vehicle in Manatee County, Florida, on April 16, 2009, for \$60,000 before taxes. The state of Florida has a fixed sales tax rate of 6%. The amount of sales tax you can include on line 3 is \$2,995 ($\$49,500 \times 6\%$ (.06) + \$25). In this example, \$2,970 represents the 6% Florida sales tax and the \$25 is for the Manatee County discretionary sales tax on the first \$5,000 of the purchase price.

Line 8

Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line:

- State and local personal property taxes you paid, if the taxes were based on value alone and were imposed on a yearly basis; and
- Income tax you paid to a foreign country or U.S. possession.



You may want to take a credit for the foreign tax instead of a deduction. See the instructions for Form 1040, line 47, for details.

Interest You Paid

Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. See Pub. 535 for details.

In general, if you paid interest in 2009 that applies to any period after 2009, you can deduct only amounts that apply for 2009.

Lines 10 and 11

Home Mortgage Interest

A home mortgage is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A home can be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

Limit on home mortgage interest. If you took out any mortgages after October 13, 1987, your deduction may be limited. Any additional amounts borrowed after October 13, 1987, on a line-of-credit mortgage you had on that date are treated as a mortgage taken out after October 13, 1987. If you refinanced a mortgage you had on October 13, 1987, treat the new mortgage as taken out on or before October 13, 1987. But if you refinanced for more than the balance of the old mortgage, treat the excess as a mortgage taken out after October 13, 1987.

See Pub. 936 to figure your deduction if either (1) or (2) below applies. If you had more than one home at the same time, the dollar amounts in (1) and (2) apply to the total mortgages on both homes.

1. You took out any mortgages after October 13, 1987, and used the proceeds for purposes other than to buy, build, or improve your home, and all of these mortgages totaled over \$100,000 at any time during 2009. The limit is \$50,000 if married filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.

2. You took out any mortgages after October 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over \$1 million at any time during

2009. The limit is \$500,000 if married filing separately.



If the total amount of all mortgages is more than the fair market value of the home, additional limits apply. See

Pub. 936.

Line 10

Enter on line 10 mortgage interest and points reported to you on Form 1098 under your social security number (SSN). If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21. If you and at least one other person (other than your spouse if filing jointly) were liable for and paid interest on the mortgage, and the interest was reported on Form 1098 under the other person's SSN, report your share of the interest on line 11 (as explained in the line 11 instructions below).

If you paid more interest to the recipient than is shown on Form 1098, see Pub. 936 to find out if you can deduct the additional interest. If you can, attach a statement explaining the difference and enter "See attached" to the right of line 10.



If you are claiming the mortgage interest credit (for holders of qualified mortgage credit certificates issued by state or local governmental units or agencies), subtract the amount shown on Form 8396, line 3, from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

Line 11

If you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recipient, be sure to show that recipient's name, identifying number, and address on the dotted lines next to line 11. If the recipient is an individual, the identifying number is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient or let the recipient know your SSN, you may have to pay a \$50 penalty.

If you and at least one other person (other than your spouse if filing jointly) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. To the right of line 11, enter "See attached."

Line 12

Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid only to borrow money are generally deductible over the life of the loan. See Pub. 936 to figure the amount you can deduct. Points paid for other purposes, such as for a lender's services, are not deductible.

Refinancing. Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. This is true even if the new mortgage is secured by your main home.

If you used part of the proceeds to improve your main home, you may be able to deduct the part of the points related to the improvement in the year paid. See Pub. 936 for details.



If you paid off a mortgage early, deduct any remaining points in the year you paid off the mortgage.

Line 13

Qualified Mortgage Insurance Premiums

Enter the qualified mortgage insurance premiums you paid under a mortgage insurance contract issued after December 31, 2006, in connection with home acquisition debt that was secured by your first or second home. See *Prepaid mortgage insurance premiums* on this page if you paid any premiums allocable to any period after the close of the tax year. Box 4 of Form 1098 may show the amount of premiums you paid in 2009. If you and at least one other

person (other than your spouse if filing jointly) were liable for and paid the premiums in connection with the loan, and the premiums were reported on Form 1098 under the other person's SSN, report your share of the premiums on line 13.

Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Mortgage insurance provided by the Department of Veterans Affairs and the Rural Housing Service is commonly known as a funding fee and guarantee fee respectively. These fees can be deducted fully in 2009 if the mortgage insurance contract was issued in 2009. Contact the mortgage insurance issuer to determine the deductible amount if it is not included in box 4 of Form 1098.

Prepaid mortgage insurance premiums. If you paid qualified mortgage insurance premiums that are allocable to periods after the close of the tax year, you must allocate them over the shorter of:

- The stated term of the mortgage, or
- 84 months, beginning with the month the insurance was obtained.

The premiums are treated as paid in the year to which they are allocated. If the mortgage is satisfied before its term, no deduction is allowed for the unamortized balance. See Pub. 936 for details.

Exception for certain mortgage insurance. The allocation rules, explained above, do not apply to qualified mortgage insurance provided by the Department of Veterans Affairs or the Rural Housing Service.

Limit on amount you can deduct. You cannot deduct your mortgage insurance premiums if the amount on Form 1040, line 38, is more than \$109,000 (\$54,500 if married filing separately). If the amount on Form 1040, line 38, is more than \$100,000 (\$50,000 if married filing separately), your deduction is limited and you must use the worksheet on page A-8 to figure your deduction.

Qualified Mortgage Insurance Premiums Deduction Worksheet— Line 13

Keep for Your Records



Before you begin: ✓ See the instructions for line 13 on page A-7 to see if you must use this worksheet to figure your deduction.

1. Enter the total premiums you paid in 2009 for qualified mortgage insurance for a contract issued after December 31, 2006	1.	<input type="text"/>
2. Enter the amount from Form 1040, line 38	2.	<input type="text"/>
3. Enter \$100,000 (\$50,000 if married filing separately)	3.	<input type="text"/>
4. Is the amount on line 2 more than the amount on line 3? <input type="checkbox"/> No. Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 13. Do not complete the rest of this worksheet. <input type="checkbox"/> Yes. Subtract line 3 from line 2. If the result is not a multiple of \$1,000 (\$500 if married filing separately), increase it to the next multiple of \$1,000 (\$500 if married filing separately). For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; or if married filing separately, increase \$425 to \$500, increase \$2,025 to \$2,500, etc.	4.	<input type="text"/>
5. Divide line 4 by \$10,000 (\$5,000 if married filing separately). Enter the result as a decimal. If the result is 1.0 or more, enter 1.0	5.	<input type="text"/>
6. Multiply line 1 by line 5	6.	<input type="text"/>
7. Qualified mortgage insurance premiums deduction. Subtract line 6 from line 1. Enter the result here and on Schedule A, line 13	7.	<input type="text"/>

Line 14

Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income.

Complete and attach Form 4952 to figure your deduction.

Exception. You do not have to file Form 4952 if all three of the following apply.

1. Your investment interest expense is not more than your investment income from interest and ordinary dividends minus any qualified dividends.
2. You have no other deductible investment expenses.
3. You have no disallowed investment interest expense from 2008.



Alaska Permanent Fund dividends, including those reported on Form 8814, are not investment income.

For more details, see Pub. 550.

Gifts to Charity

You can deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You can also deduct what

you gave to organizations that work to prevent cruelty to children or animals. Certain whaling captains may be able to deduct expenses paid in 2009 for Native Alaskan subsistence bowhead whale hunting activities. See Pub. 526 for details.

To verify an organization's charitable status, you can:

- Check with the organization to which you made the donation. The organization should be able to provide you with verification of its charitable status.
- See Pub. 78 for a list of most qualified organizations. You can access Pub. 78 on the IRS website at www.irs.gov under *Charities and Non-Profits* then *Contributors*.
- Call our Tax Exempt/Government Entities Customer Account Services at 1-877-829-5500.

Examples of Qualified Charitable Organizations

- Churches, mosques, synagogues, temples, etc.
- Boy Scouts, Boys and Girls Clubs of America, CARE, Girl Scouts, Goodwill Industries, Red Cross, Salvation Army, United Way, etc.
- Fraternal orders, if the gifts will be used for the purposes listed earlier on this page.
- Veterans' and certain cultural groups.
- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral

palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

- Federal, state, and local governments if the gifts are solely for public purposes.

Contributions You Can Deduct

Contributions can be in cash, property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you can take the actual cost of gas and oil or 14 cents a mile. Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

Gifts from which you benefit. If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you can generally only deduct the amount that is more than the value of the benefit. But this rule does not apply to certain membership benefits provided in return for an annual payment of \$75 or less or to certain items or benefits of token value. For details, see Pub. 526.

Example. You paid \$70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was \$40. You can deduct only \$30.

Gifts of \$250 or more. You can deduct a gift of \$250 or more only if you have a statement from the charitable organization showing the information in (1) and (2) next.

1. The amount of any money contributed and a description (but not value) of any property donated.

2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if you gave your church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. See Pub. 526 if you made a separate gift of \$250 or more through payroll deduction.



You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. Do not attach the statement to your return. Instead, keep it for your records.

Limit on the amount you can deduct. See Pub. 526 to figure the amount of your deduction if any of the following applies.

1. Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 38.

2. Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 38.

3. You gave gifts of property that increased in value or gave gifts of the use of property.

Contributions You Cannot Deduct

- Travel expenses (including meals and lodging) while away from home, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.

- Political contributions.

- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

- Cost of raffle, bingo, or lottery tickets. But you may be able to deduct these expenses on line 28. See the instructions on page A-11 for details.

- Cost of tuition. But you may be able to deduct this expense on line 21 (see page A-10), or Form 1040, line 34, or take a credit for this expense (see Form 8863).

- Value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

- Gifts to individuals and groups that are run for personal profit.

- Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian, Israeli, and Mexican charities. See Pub. 526 for details.

- Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See section 170(f)(9).

- Gifts to groups whose purpose is to lobby for changes in the laws.

- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.

- Value of benefits received in connection with a contribution to a charitable organization. See Pub. 526 for exceptions.

Line 16

Gifts by Cash or Check

Enter on line 16 the total gifts you made in cash or by check (including out-of-pocket expenses).

Recordkeeping. For any contribution made in cash, regardless of the amount, you must maintain as a record of the contribution a bank record (such as a canceled check or credit card statement) or a written record from the charity. The written record must include the name of the charity, date, and amount of the contribution. If you made contributions through payroll deduction, see Pub. 526 for information on the records you must keep. Do not attach the record to your tax return. Instead, keep it with your other tax records.

Line 17

Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. For more details on determining the value of donated property, see Pub. 561.

If the amount of your deduction is more than \$500, you must complete and attach

Form 8283. For this purpose, the “amount of your deduction” means your deduction before applying any income limits that could result in a carryover of contributions. If you deduct more than \$500 for a contribution of a motor vehicle, boat, or airplane, you must also attach a statement from the charitable organization to your return. The organization may use Form 1098-C to provide the required information. If your total deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. This amount is \$500 for certain contributions of clothing and household items (see below). See Form 8283 and its instructions for details.

Contributions of clothing and household items. A deduction for these contributions will be allowed only if the items are in good used condition or better. However, this rule does not apply to a contribution of any single item for which a deduction of more than \$500 is claimed and for which you include a qualified appraisal and Form 8283 with your tax return.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization’s name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property’s value at the time you gave it. If the value was determined by an appraisal, keep a signed copy of the appraisal.

- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

- Any conditions attached to the gift.



If your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property, or you made a “qualified conservation contribution,” your records should contain additional information. See Pub. 526 for details.

Line 18

Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details.

Casualty and Theft Losses

Line 20

Complete and attach Form 4684 to figure the amount of your loss to enter on line 20.

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You can deduct personal casualty or theft losses only to the extent that:

1. The amount of each separate casualty or theft loss is more than \$500, and
2. The total amount of all losses during the year (reduced by the \$500 limit discussed in (1) above) is more than 10% of the amount on Form 1040, line 38.

Exception for disaster losses. The 10% of AGI limitation does not apply to a casualty loss that occurred in an area determined by the President of the United States to warrant federal disaster assistance.

For information on disaster losses, see Pub. 547.

Special rules apply if you had both gains and losses from casualties or thefts. See Form 4684 and its instructions for details.

Use Schedule A, line 23, to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

Job Expenses and Certain Miscellaneous Deductions

You can deduct only the part of these expenses that exceeds 2% of the amount on Form 1040, line 38.

Pub. 529 discusses the types of expenses that can and cannot be deducted.

Examples of Expenses You Cannot Deduct

- Political contributions.
- Legal expenses for personal matters that do not produce taxable income.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Commuting expenses. See Pub. 529 for the definition of commuting.

- Travel expenses for employment away from home if that period of employment exceeds 1 year. See Pub. 529 for an exception for certain federal employees.

- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.
- Club dues.
- Expenses of adopting a child. But you may be able to take a credit for adoption expenses. See Form 8839 for details.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Line 21

Unreimbursed Employee Expenses

Enter the total ordinary and necessary job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your Form W-2 are not considered reimbursements.)

An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

But you must fill in and attach Form 2106 if either (1) or (2) below applies.

1. You claim any travel, transportation, meal, or entertainment expenses for your job.
2. Your employer paid you for any of your job expenses that you would otherwise report on line 21.



If you used your own vehicle, are using the standard mileage rate, and (2) above does not apply, you may be able to file Form 2106-EZ instead.

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted line next to line 21. If you need more space, attach a statement showing the type and amount of each expense. Enter the total of all these expenses on line 21.



Do not include on line 21 any educator expenses you deducted on Form 1040, line 23.

Examples of other expenses to include on line 21 are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.

- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.

- Physical examinations required by your employer.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 93 of the Form 1040 instructions) or see Pub. 587.
- Certain educational expenses. For details, use TeleTax topic 513 (see page 93 of the Form 1040 instructions) or see Pub. 970. Reduce your educational expenses by any tuition and fees deduction you claimed on Form 1040, line 34.



You may be able to take a credit for your educational expenses instead of a deduction. See Form 8863 for details.

Line 22

Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically. If you paid your tax by credit or debit card, include the convenience fee you were charged on line 23 instead of this line.

Line 23

Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or protect property held for earning income. But do not include any personal expenses. List the type and amount of each expense on the dotted lines next to line 23. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 23.

Examples of expenses to include on line 23 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits that apply, see Pub. 529.
- Casualty and theft losses of property used in performing services as an employee

from Form 4684, lines 36 and 42b, or Form 4797, line 18a.

- Deduction for repayment of amounts under a claim of right if \$3,000 or less.
- Convenience fee charged by the card processor for paying your income tax (including estimated tax payments) by credit or debit card. The deduction is claimed for the year in which the fee was charged to your card.

Other Miscellaneous Deductions

Line 28

Only the expenses listed next can be deducted on this line. List the type and amount of each expense on the dotted lines next to line 28. If you need more space, attach a statement showing the type and

amount of each expense. Enter one total on line 28.

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Casualty and theft losses of income-producing property from Form 4684, lines 36 and 42b, or Form 4797, line 18a.
- Loss from other activities from Schedule K-1 (Form 1065-B), box 2.
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if over \$3,000. See Pub. 525 for details.
- Certain unrecovered investment in a pension.
- Impairment-related work expenses of a disabled person.

For more details, see Pub. 529.

Total Itemized Deductions

Line 29

Use the worksheet below to figure the amount to enter on line 29 if the amount on Form 1040, line 38, is over \$166,800 (\$83,400 if married filing separately).

Line 30

If you elect to itemize for state tax or other purposes even though your itemized deductions are less than your standard deduction, check the box on line 30.

Itemized Deductions Worksheet—Line 29

Keep for Your Records



1. Enter the total of the amounts from Schedule A, lines 4, 9, 15, 19, 20, 27, and 28	1.	_____
2. Enter the total of the amounts from Schedule A, lines 4, 14, and 20, plus any gambling and casualty or theft losses included on line 28	2.	_____
 Be sure your total gambling and casualty or theft losses are clearly identified on the dotted lines next to line 28.		
3. Is the amount on line 2 less than the amount on line 1? <input type="checkbox"/> No.  Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 29. <input type="checkbox"/> Yes. Subtract line 2 from line 1	3.	_____
4. Multiply line 3 by 80% (.80)	4.	_____
5. Enter the amount from Form 1040, line 38	5.	_____
6. Enter \$166,800 (\$83,400) if married filing separately)	6.	_____
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> No.  Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 29. <input type="checkbox"/> Yes. Subtract line 6 from line 5	7.	_____
8. Multiply line 7 by 3% (.03)	8.	_____
9. Enter the smaller of line 4 or line 8	9.	_____
10. Divide line 9 by 1.5	10.	_____
11. Subtract line 10 from line 9	11.	_____
12. Total itemized deductions. Subtract line 11 from line 1. Enter the result here and on Schedule A, line 29	12.	_____

2009 Optional State and Certain Local Sales Tax Tables

Income	Exemptions						Exemptions						Exemptions						Exemptions						Exemptions											
	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5
At least	Alabama						Arizona						Arkansas						California ^{1,2}						Colorado											
But less than	4.0000%						5.6000%						6.0000%						8.0034%						2.9000%											
\$0	203	239	264	282	298	319	219	237	249	258	265	274	287	319	340	356	368	386	285	309	323	334	343	355	105	114	119	123	127	131	171	184	193	200	205	212
20,000	310	362	397	424	446	477	364	393	412	425	436	451	475	526	559	584	604	631	482	519	542	559	573	591	206	223	233	240	246	254	239	257	268	276	283	292
30,000	413	479	524	558	586	626	514	553	577	596	610	630	662	731	775	809	835	872	686	736	767	790	808	833	269	288	301	310	317	327	351	375	390	401	410	422
40,000	458	530	578	615	645	688	579	623	650	670	686	708	742	818	867	904	934	975	776	831	865	891	911	939	324	347	361	372	380	392	376	401	417	429	438	451
50,000	500	576	627	667	700	746	641	688	718	739	757	781	816	899	952	992	1025	1069	862	921	958	986	1008	1038	351	375	390	401	410	422	411	438	454	467	477	491
60,000	540	621	675	717	752	800	702	752	783	807	825	851	887	976	1034	1077	1111	1159	945	1009	1049	1078	1102	1134	382	406	421	432	441	454	441	468	484	497	507	521
70,000	578	663	720	764	801	852	759	812	846	871	890	917	954	1049	1110	1156	1193	1243	1025	1092	1135	1166	1191	1226	411	438	454	467	477	491	461	490	506	521	532	547
80,000	615	704	763	809	848	901	815	871	906	932	953	982	1017	1118	1183	1231	1270	1324	1102	1174	1218	1251	1278	1314	441	468	484	497	507	521	491	520	536	551	562	577
90,000	666	759	822	870	910	967	891	951	988	1016	1039	1069	1103	1211	1280	1332	1374	1431	1208	1284	1332	1367	1395	1434	461	490	506	521	532	547	511	540	556	571	582	597
100,000	707	806	873	925	968	1035	939	1004	1045	1075	1109	1149	1222	1339	1415	1472	1518	1580	1358	1441	1493	1531	1562	1604	511	540	556	571	582	597	561	590	606	621	633	650
120,000	831	939	1010	1075	1129	1201	1098	1167	1210	1242	1288	1303	1327	1454	1535	1596	1645	1712	1496	1584	1639	1680	1713	1758	561	590	606	621	633	650	611	640	656	671	683	701
140,000	868	978	1053	1110	1158	1225	1200	1273	1319	1353	1380	1418	1434	1569	1656	1721	1774	1846	1638	1731	1790	1834	1869	1916	561	590	606	621	633	650	661	690	706	721	733	751
160,000	930	1045	1122	1183	1232	1302	1295	1372	1420	1456	1485	1524	1532	1675	1767	1835	1891	1967	1771	1869	1931	1977	2014	2064	561	590	606	621	633	650	711	740	756	771	783	801
180,000	1271	1407	1499	1571	1630	1713	1816	1910	1970	2014	2050	2099	2039	2221	2337	2424	2495	2591	2504	2624	2701	2757	2803	2865	561	590	606	621	633	650	811	840	856	871	883	901
200,000 or more	1930	2147	2257	2332	2392	2452	2452	2669	2789	2854	2914	2974	2974	3291	3427	3514	3591	3667	3667	3884	4004	4081	4157	4233	561	590	606	621	633	650	1011	1040	1056	1071	1083	1101

(Continued on next page)

2009 Optional State and Certain Local Sales Tax Tables (Continued)

Income		Exemptions					Exemptions					Exemptions					Exemptions					Exemptions									
		1	2	3	4	Over 5	1	2	3	4	Over 5	1	2	3	4	Over 5	1	2	3	4	Over 5	1	2	3	4	Over 5					
		Nevada^{1,3} 6.6764%					New Jersey⁴ 7.0000%					New Mexico 5.0000%					New York 4.0000%					North Carolina¹ 4.8973%									
\$0	\$20,000	239	262	276	287	296	307	244	260	271	278	284	292	212	236	248	256	263	273	145	154	159	163	166	171	206	225	237	246	253	263
20,000	30,000	389	423	445	462	475	493	418	444	460	472	481	494	372	402	421	435	446	461	247	261	270	276	281	288	340	371	390	404	415	430
30,000	40,000	470	510	536	555	571	592	514	544	563	577	588	603	455	491	513	530	543	561	303	320	330	338	344	352	412	448	471	487	501	519
40,000	50,000	543	588	617	638	656	679	600	634	656	671	684	701	528	569	595	614	629	650	353	372	384	393	399	409	476	516	542	561	576	597
50,000	60,000	611	660	692	715	734	760	679	717	741	759	773	791	595	641	670	691	708	731	399	421	434	443	451	461	534	579	607	628	645	668
60,000	70,000	675	728	762	787	808	836	754	796	821	840	856	876	658	708	739	763	781	807	443	466	480	491	499	510	589	637	668	691	709	734
70,000	80,000	737	794	830	857	879	909	827	872	899	919	936	958	718	772	806	831	851	879	486	510	526	537	546	558	641	693	726	751	770	797
80,000	90,000	797	857	895	924	947	978	897	944	973	994	1012	1035	774	832	869	896	917	947	526	552	568	580	590	603	690	746	781	807	828	856
90,000	100,000	855	918	958	988	1013	1045	964	1013	1044	1067	1085	1110	828	890	929	958	981	1012	565	593	610	622	632	646	738	796	833	861	883	913
100,000	120,000	934	1001	1044	1071	1101	1136	1055	1107	1140	1165	1184	1211	901	968	1009	1040	1065	1099	618	647	666	679	690	704	801	864	904	933	957	989
120,000	140,000	1048	1120	1166	1200	1227	1265	1183	1241	1276	1303	1324	1353	1003	1076	1122	1156	1183	1220	693	725	745	759	771	787	890	959	1002	1035	1061	1096
140,000	160,000	1151	1227	1276	1312	1342	1382	1300	1361	1399	1427	1450	1481	1093	1172	1222	1258	1288	1327	760	794	816	831	844	861	970	1044	1090	1125	1153	1190
160,000	180,000	1258	1339	1390	1429	1460	1502	1419	1484	1525	1555	1579	1611	1185	1270	1323	1362	1394	1436	829	866	888	905	918	936	1051	1130	1179	1216	1246	1286
180,000	200,000	1359	1443	1497	1537	1570	1614	1530	1598	1641	1673	1698	1732	1270	1360	1416	1458	1491	1536	894	932	956	973	987	1006	1125	1209	1261	1300	1332	1374
200,000 or more		1915	2017	2082	2131	2170	2224	2125	2210	2263	2302	2333	2376	1708	1824	1897	1951	1994	2052	1238	1286	1315	1337	1355	1378	1517	1623	1690	1739	1779	1833
Income		North Dakota 5.0000%					Ohio 5.5000%					Oklahoma 4.5000%					Pennsylvania 6.0000%					Rhode Island 7.0000%									
\$0	\$20,000	168	191	206	217	226	239	225	242	253	261	268	277	223	259	282	300	315	336	203	218	227	234	239	246	239	258	269	278	285	294
20,000	30,000	276	311	334	351	365	385	376	404	422	434	445	459	356	411	447	474	497	529	340	362	376	386	395	406	387	415	433	446	457	471
30,000	40,000	335	376	403	423	440	463	459	491	512	527	539	556	427	491	533	565	592	628	414	440	457	469	479	492	466	499	520	536	548	564
40,000	50,000	389	434	464	487	506	531	532	569	592	610	623	642	490	561	608	644	674	715	481	510	529	542	553	568	535	573	596	614	628	646
50,000	60,000	439	489	521	546	567	595	600	641	667	686	701	721	548	626	677	717	749	795	543	575	595	610	622	639	599	641	666	685	701	721
60,000	70,000	486	540	575	602	624	654	664	708	736	757	773	795	602	686	741	784	819	868	601	636	658	674	687	704	659	704	731	752	768	791
70,000	80,000	533	590	628	656	680	712	725	773	803	825	843	867	655	744	803	849	886	938	657	695	718	735	749	768	716	764	794	816	834	857
80,000	90,000	577	638	677	708	732	767	784	834	866	890	909	934	705	799	862	910	950	1005	711	751	775	794	808	828	770	821	853	876	895	920
90,000	100,000	621	684	726	758	784	820	840	894	927	952	972	999	754	853	918	969	1010	1068	763	805	831	850	865	886	823	876	909	934	954	980
100,000	120,000	681	748	792	826	853	892	916	974	1010	1036	1058	1086	820	924	994	1048	1092	1154	834	878	905	926	942	964	893	950	985	1011	1032	1061
120,000	140,000	767	839	887	923	953	994	1024	1087	1126	1155	1178	1209	913	1026	1102	1160	1207	1274	934	981	1011	1033	1051	1075	991	1053	1091	1120	1143	1173
140,000	160,000	846	923	973	1011	1043	1086	1121	1188	1230	1261	1286	1319	999	1119	1199	1260	1311	1382	1024	1075	1106	1130	1149	1174	1079	1145	1186	1217	1241	1274
160,000	180,000	929	1010	1062	1103	1136	1182	1221	1292	1337	1370	1396	1432	1087	1214	1298	1363	1417	1492	1117	1171	1204	1229	1249	1276	1168	1239	1283	1315	1341	1376
180,000	200,000	1008	1091	1146	1189	1224	1272	1313	1389	1435	1470	1498	1536	1170	1303	1391	1455	1515	1594	1203	1259	1295	1321	1342	1370	1251	1325	1372	1406	1433	1470
200,000 or more		1448	1547	1613	1664	1705	1763	1808	1902	1961	2004	2039	2087	1627	1786	1893	1976	2044	2140	1668	1736	1779	1811	1837	1871	1686	1780	1838	1881	1915	1961
Income		South Carolina 6.0000%					South Dakota 4.0000%					Tennessee 7.0000%					Texas 6.2500%					Utah 4.7000%									
\$0	\$20,000	244	263	274	283	290	299	227	261	283	300	314	333	341	393	427	454	475	505	259	284	300	312	322	335	226	256	276	291	303	319
20,000	30,000	408	438	457	470	481	496	363	415	449	475	496	526	541	619	671	711	743	789	438	479	505	525	541	562	369	416	446	469	488	514
30,000	40,000	497	532	554	570	583	601	433	494	534	565	590	624	646	737	798	844	882	934	534	584	615	638	657	683	446	500	536	563	585	616
40,000	50,000	575	615	640	658	673	693	495	563	608	642	671	710	739	841	909	960	1002	1061	620	676	712	738	760	789	513	575	615	645	670	705
50,000	60,000	647	691	719	739	756	778	551	626	675	713	744	786	825	936	1010	1066	1112	1177	698	761	800	830	854	886	575	643	687	721	748	786
60,000	70,000	713	762	792	814	832	856	602	683	737	777	811	857	905	1024	1103	1164	1214	1283	771	839	882	915	941	976	633	707	750	791	820	861
70,000	80,000	778	830	863	887	906	932	651	738	795	839	874	924	981	1109	1193	1258	1311	1384	841	915	961	996	1024	1063	689	768	819	858	889	933
80,000	90,000	839	895	929	955	975	1003	697	789	850	896	934	986	1054	1188	1277	1346	1402	1480	907	985	1035	1073	1103	1144	742	825	880	921	954	1001
90,000	100,000	897	956	993	1020	1042	1071	741	838	902	950	990	1046	1124	1265	1358	1430	1489	1571	970	1054	1107	1146	1178	1221	793	881	938	982	1017	1066
100,000	120,000	976	1039	1079	1108	1131	1162	800	903	971	1023	1065	1124	1218	1368	1467	1543	1606	1692	1055	1145	1202	1244	1278	1325	862	955	1016	1063	1100	1153
120,000	140,000	1086	1155	1199	1231	1256	1290	881	993	1067	1123	1169	1233	1350	1512	1619	1701	1768	1862	1173	1272	1334	1381	1418							

Which Optional Local Sales Tax Table Should I Use?

IF you live in the state of...	AND you live in...	THEN use Local Table...
Alaska	Any locality	C
Arizona	Mesa, Phoenix, or Tucson	A
	Chandler, Gilbert, Glendale, Peoria, Scottsdale, Tempe, Yuma, or any other locality	B
Arkansas	Any locality	C
California	Los Angeles County	A
Colorado	Arvada, Aurora, City of Boulder, Fort Collins, Greeley, Longmont, Thornton, or Westminster	B
	Adams County, Arapahoe County, Boulder County, Centennial, Colorado Springs, Denver City/Denver County, El Paso County, Jefferson County, Lakewood, Larimer County, City of Pueblo, Pueblo County, or any other locality	A
Georgia	Any locality	B
Illinois	Any locality	A
Louisiana	Any locality	C
Missouri	Any locality	C
New York	New York City, or one of the following counties: Albany, Allegany, Cattaraugus, Cayuga, Chemung, Clinton, Cortland, Erie, Essex, Franklin, Fulton, Genesee, Herkimer, Jefferson, Lewis, Livingston, Monroe, Montgomery, Nassau, Niagara, Oneida, Onondaga, Ontario, Orange, Orleans, Oswego, Otsego, Putnam, Rensselaer, Rockland, St. Lawrence, Saratoga, Schenectady, Schoharie, Seneca, Steuben, Suffolk, Sullivan, Tompkins, Ulster, Warren, Washington, Westchester, Wyoming, or Yates	A
	Any other locality	D
North Carolina	Any locality	A
South Carolina	Cherokee, Chesterfield, Darlington, Dillon, Horry, Jasper, Lee, Lexington, or Myrtle Beach	B
	Any other locality	C
Tennessee	Any locality	C
Utah	Any locality	B
Virginia	Any locality	B

2009 Optional Local Sales Tax Tables for Certain Local Jurisdictions

(Based on a local sales tax rate of 1 percent)

Income At least	But less than	Local Table A					Local Table B					Local Table C					Local Table D								
		Exemptions					Exemptions					Exemptions					Exemptions								
		1	2	3	4	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	
\$0	\$20,000	37	41	44	46	47	49	45	51	55	59	61	65	56	64	69	73	76	81	36	39	40	41	42	43
20,000	30,000	61	67	71	74	76	79	72	82	88	93	96	102	89	101	109	115	120	126	62	65	68	69	70	72
30,000	40,000	74	81	85	89	91	95	86	98	105	110	115	121	106	120	129	136	142	150	76	80	83	85	86	88
40,000	50,000	85	93	98	102	105	109	99	112	120	126	131	138	121	137	147	155	162	170	88	93	96	98	100	102
50,000	60,000	96	105	110	114	117	122	111	124	133	140	146	153	135	152	164	172	179	189	100	105	109	111	113	115
60,000	70,000	106	115	121	126	129	134	122	136	146	153	159	168	148	167	179	188	196	206	111	117	120	123	125	128
70,000	80,000	116	126	132	137	141	146	132	148	158	166	172	181	160	180	193	203	211	222	122	128	132	134	137	140
80,000	90,000	125	136	142	147	151	157	142	159	170	178	185	194	172	193	207	217	226	237	132	138	142	145	148	151
90,000	100,000	134	145	152	157	162	167	152	170	181	190	197	207	183	205	219	230	239	252	141	148	153	156	158	162
100,000	120,000	147	158	166	171	176	182	165	184	196	205	213	223	198	221	237	248	258	271	155	162	167	170	173	176
120,000	140,000	164	177	185	191	196	202	184	204	217	227	235	246	219	244	261	273	284	298	173	181	186	190	193	197
140,000	160,000	180	194	202	209	214	221	201	222	236	247	255	267	237	264	282	296	307	322	190	199	204	208	211	215
160,000	180,000	197	211	220	227	232	240	218	241	256	267	276	289	256	285	304	318	330	346	207	217	222	226	230	234
180,000	200,000	213	227	237	244	249	257	235	258	274	285	295	308	274	304	323	339	351	368	224	233	239	243	247	252
200,000	or more	298	316	327	336	343	352	323	351	370	385	397	413	365	402	427	445	461	482	310	322	329	334	339	345

General Instructions

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

What's New

Form 1040A. Form 1040A filers will now file Schedule B to report interest and ordinary dividends. Schedule 1 (Form 1040A), Interest and Ordinary Dividends for Form 1040A Filers, is now obsolete. For any prior year returns (before 2009) that need to be filed, still use Schedule 1.

Schedule A. Schedule A, Itemized Deductions, is no longer associated with Schedule B. Schedules A and B are now separate schedules.

Purpose of Form

Use Schedule B if any of the following applies.

- You had over \$1,500 of taxable interest or ordinary dividends.
- You received interest from a seller-financed mortgage and the buyer used the property as a personal residence.
- You have accrued interest from a bond.
- You are reporting original issue discount (OID) in an amount less than the amount shown on Form 1099-OID.
- You are reducing your interest income on a bond by the amount of amortizable bond premium.
- You are claiming the exclusion of interest from series EE or I U.S. savings bonds issued after 1989.
- You received interest or ordinary dividends as a nominee.
- You had a foreign account or you received a distribution from, or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

Specific Instructions

TIP You can list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate statements that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the statements and attach them at the end of your return.

Part I. Interest

Line 1. Report on line 1 all of your taxable interest. Taxable interest should be shown on your Forms 1099-INT, Forms 1099-OID, or substitute statements. Include interest from series EE, H, HH, and I U.S. savings bonds. List each payer's name and show the amount. Do not report on this line any tax-exempt interest from box 8 or box 9 of Form 1099-INT. Instead, report the amount from box 8 on line 8b of Form 1040A or 1040. If an amount is shown in box 9 of Form 1099-INT, you generally must report it on line 13 of Form 6251. See the Instructions for Form 6251 for more details.

Seller-financed mortgages. If you sold your home or other property and the buyer used the property as a personal residence, list first any interest the buyer paid you on a mortgage or other form of seller financing. Be sure to show the buyer's name, address, and SSN. You must also let the buyer know your SSN. If you do not show the buyer's name, address, and SSN, or let the buyer know your SSN, you may have to pay a \$50 penalty.

Nominees. If you received a Form 1099-INT that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, enter "Nominee Distribution" and show the total interest you received as a nominee. Subtract this amount from the subtotal and enter the result on line 2.



If you received interest as a nominee, you must give the actual owner a Form 1099-INT unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-INT with the IRS.

For more details, see the General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G and the Instructions for Forms 1099-INT and 1099-OID.

Accrued interest. When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a Form 1099 for interest as a purchaser of a bond with accrued interest, follow the rules earlier under *Nominees* to see how to report the accrued interest. But identify the amount to be subtracted as "Accrued Interest."

Original issue discount (OID). If you are reporting OID in an amount less than the amount shown on Form 1099-OID, follow the rules earlier under *Nominees* to see how to report the OID. But identify the amount to be subtracted as "OID Adjustment."

Amortizable bond premium. If you are reducing your interest income on a bond by the amount of amortizable bond premium, follow the rules earlier under *Nominees* to see how to report the interest. But identify the amount to be subtracted as "ABP Adjustment."

Line 3. If, during 2009, you cashed series EE or I U.S. savings bonds issued after 1989 and you paid qualified higher education expenses for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See Form 8815 for details.

Part II. Ordinary Dividends



You may have to file Form 5471 if, in 2009, you were an officer or director of a foreign corporation. You may also have to file Form 5471 if, in 2009, you owned 10% or more of the total (a) value of a foreign corporation's stock, or (b) combined voting power of all classes of a foreign corporation's stock with voting rights. For details, see Form 5471 and its instructions.

Line 5. Report on line 5 all of your ordinary dividends. This amount should be shown in box 1a of your Forms 1099-DIV or substitute statements. List each payer's name and show the amount.

Nominees. If you received a Form 1099-DIV that includes ordinary dividends you received as a nominee (that is, in your name, but the ordinary dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all ordinary dividends listed on line 5. Below this subtotal, enter "Nominee Distribution" and show the total ordinary dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.



If you received dividends as a nominee, you must give the actual owner a Form 1099-DIV unless the owner is your spouse. You must also

file a Form 1096 and a Form 1099-DIV with the IRS. For more details, see the General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G and the Instructions for Form 1099-DIV.

Part III. Foreign Accounts and Trusts

Line 7a. Check the "Yes" box on line 7a if either (1) or (2) below applies.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.
2. At any time during 2009 you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).



For line 7a, item (2) does not apply to foreign securities held in a U.S. securities account.

Exceptions. Check the "No" box if any of the following applies to you.

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; and you did not have a personal financial interest in the account.
- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$10 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See Form TD F 90-22.1 to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). You can get Form TD F 90-22.1 by visiting the IRS website at www.irs.gov/pub/irs-pdf/f90221.pdf.

If you checked the "Yes" box on line 7a, file Form TD F 90-22.1 by June 30, 2010, with the Department of the Treasury at the address shown on that form. Do not attach it to Form 1040.



If you are required to file Form TD F 90-22.1 but do not do so, you may have to pay a penalty of up to \$10,000 (more in some cases).

Line 7b. If you checked the "Yes" box on line 7a, enter the name of the foreign country or countries in the space provided on line 7b. Attach a separate statement if you need more space.

Line 8. If you received a distribution from a foreign trust, you must provide additional information. For this purpose, a loan of cash or marketable securities generally is considered to be a distribution. See Form 3520 for details.

If you were the grantor of, or transferor to, a foreign trust that existed during 2009, you may have to file Form 3520.

Do not attach Form 3520 to Form 1040. Instead, file it at the address shown in its instructions.

If you were treated as the owner of a foreign trust under the grantor trust rules, you are also responsible for ensuring that the foreign trust files Form 3520-A. Form 3520-A is due on March 15, 2010, for a calendar year trust. See the instructions for Form 3520-A for more details.

Change of Address

▶ Please type or print.

▶ See instructions on back.

▶ Do not attach this form to your return.

Part I Complete This Part To Change Your Home Mailing Address

Check **all** boxes this change affects:

- 1 Individual income tax returns (Forms 1040, 1040A, 1040EZ, 1040NR, etc.)
 ▶ If your last return was a joint return and you are now establishing a residence separate from the spouse with whom you filed that return, check here
- 2 Gift, estate, or generation-skipping transfer tax returns (Forms 706, 709, etc.)
 ▶ For Forms 706 and 706-NA, enter the decedent's name and social security number below.
- ▶ Decedent's name ▶ Social security number

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

<p>Sign Here ▶ _____ Your signature Date</p> <p>▶ _____ If joint return, spouse's signature Date</p>	<p>▶ _____ If Part II completed, signature of owner, officer, or representative Date</p> <p>▶ _____ Title</p>
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Purpose of Form

You can 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.

"In Care of" Address

If you receive your mail in care of a third party (such as an accountant or attorney), enter "C/O" followed by the third party's name and street address or P.O. box.

Signature

If you are completing Part I, the taxpayer, executor, donor, or an authorized representative must sign. If your last return was a joint return, your spouse must also sign (unless you have indicated by checking the box on line 1 that you are establishing a separate residence).

If you are completing Part II, an officer, owner, general partner or LLC member manager, plan administrator, fiduciary, or an authorized representative must sign. An officer is the president, vice president, treasurer, chief accounting officer, etc.



If you are a representative signing on behalf of the taxpayer, you must attach to Form 8822 a copy of your power of attorney. To do this, you can use Form 2848. The Internal Revenue Service will not complete an address change from an "unauthorized" third party.

Where To File

Send this form to the Department of the Treasury, Internal Revenue Service Center,

and the address shown next that applies to you. Generally, it takes 4 to 6 weeks to process your change of address.

Note. If you checked the box on line 2, or you checked the box on both lines 1 and 2, send this form to: Cincinnati, OH 45999-0023.

Filers Who Completed Part I (You checked the box on line 1 only)

IF your old home mailing address was in . . . **THEN use this address . . .**

District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, Vermont Andover, MA
05501-0023

Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia Atlanta, GA
39901-0023

Kentucky, Louisiana, Mississippi, Tennessee, Texas Austin, TX
73301-0023

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming Fresno, CA
93888-0023

Arkansas, Connecticut, Delaware, Indiana, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, West Virginia Kansas City, MO
64999-0023

APO and FPO Addresses
American Samoa
Guam:

Nonpermanent residents
Puerto Rico (or if excluding income under Internal Revenue Code section 933) Austin, TX
73301-0023
USA
Virgin Islands:

Nonpermanent residents
Nonresident aliens and dual-status aliens
Foreign country:
U.S. citizens and those filing Form 2555, Form 2555-EZ, or Form 4563

Guam: Department of Revenue and Taxation
Government of Guam
P.O. Box 23607
GMF, GU 96921

Virgin Islands: V.I. Bureau of Internal Revenue
9601 Estate Thomas
Charlotte Amalie
St. Thomas, VI 00802

Filers Who Completed Part II

IF your old business address was in . . . **THEN use this address . . .**

Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin Cincinnati, OH
45999-0023

Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming, any place outside the United States

Ogden, UT
84201-0023

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. 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.

Generally, tax returns and return information are confidential, as required by section 6103. However, 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 also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

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.

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.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form 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 Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see *Where To File* on this page.

Internal Revenue Service

NDC

2402 East Empire

Bloomington, IL 61799

OFFICIAL BUSINESS

Penalty for Private Use, \$300

PRSRT STD
Postage & Fees Paid
IRS
Permit No. G-48