Disaster Losses Kit

for Businesses

Help from the IRS

Publication 2194-B (Rev. 8-2010) Catalog Number 31161M Department of the Treasury **Internal Revenue Service** www.irs.gov

Table of Contents

Help Us To

Picture Them Home

Emexeh Gatson

Male, Age Now: 10
Ht:5'1 Wt:115 lbs.
Brown eyes, Black hair

Additional Photo

Missing From: Kansas City, MO on 11/24/2009

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

Proud Partners With
Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

Disaster Losses Kit for Businesses

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 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

Jennifer Martin

Female, Age Now: 34
Ht:4'6 Wt:49 lbs.
Blue eyes, Brown hair

Age Enhanced Photo

Missing From: Reno, NV on 6/28/1987

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

Help Us To Picture Them Home

Richard Mitchell

Male, Age Now: 2
Ht:3'0 Wt:30 lbs.
Brown eyes, Brown hair

Missing From: Tampa, FL on 07/19/2010

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

Internal Revenue Service

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

IRS
Department of the Treasury
Internal Revenue Service
publish.no.irs.gov
Pub.3067(EN/SP) (1-2009)
Catalog Number 52704Z

Internal Revenue Service

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…
  - 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.
  - 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
  - *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.

IRS
Department of the Treasury
Internal Revenue Service
Publication 3932 (Rev. 12-2005)
Catalog Number 32903Y
www.irs.gov

Help Us To

Picture Them Home

Arkadiy Tashman

Male, Age Now: 22
Ht:6'2 Wt:170 lbs.
Gray eyes, Lt. Brown hair

Age Progression By NCMEC

Missing From: Staten Island, NY on 1/26/2005 2:45:00 AM

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

Proud Partners With
Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

Help Us To

Picture Them Home

Madyson Jamison

Female, Age Now: 7
Ht:3'10 Wt:50 lbs.
Brown eyes, Blonde hair

Additional Photo

Missing From: Red Oak, OK on 10/8/2009 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

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

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).

IRS

Publication 4758 (3-2009) Catalog Number 53057P
Department of the Treasury **Internal Revenue Service** www.irs.gov

Form **4506**

(Rev. January 2010)

Department of the Treasury
Internal Revenue Service

Request for Copy of Tax Return

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

OMB No. 1545-0429

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.*

Telephone number of taxpayer on line 1a or 2a

Sign Here

Signature (see instructions) Date

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

Spouse's signature Date

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 41721E Form **4506** (Rev. 1-2010)

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 RAIVS 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.

Form **4506-T**

(Rev. January 2010)

Department of the Treasury
Internal Revenue Service

Request for Transcript of Tax Return

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

OMB No. 1545-1872

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.*

Telephone number of taxpayer on line 1a or 2a

Sign Here

Signature (see instructions) Date

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 RAIVS 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.

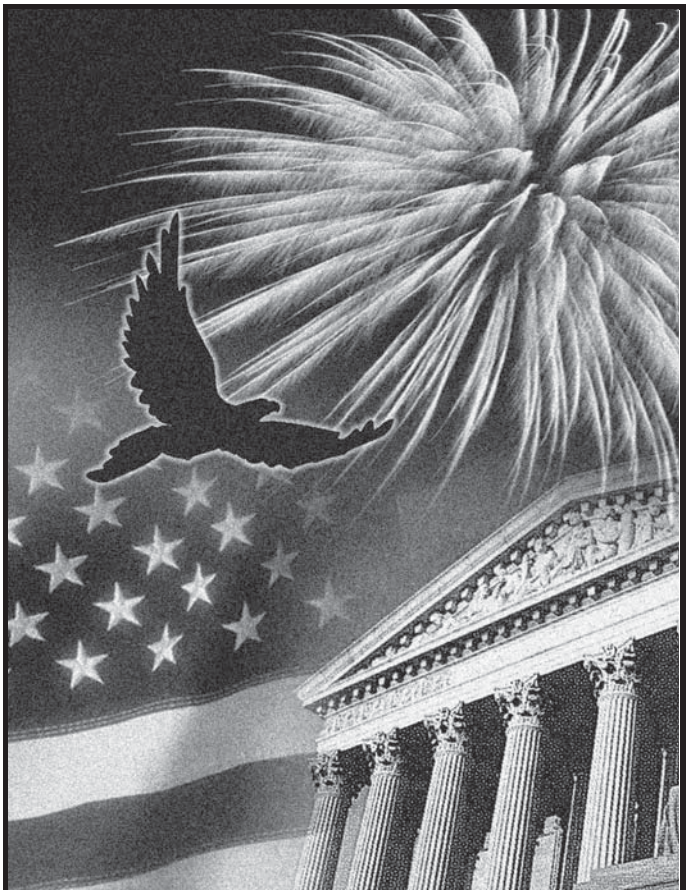
Department
of the
Treasury

**Internal
Revenue
Service**

Publication 584-B
(Rev. December 2010)

Cat. No. 31749K

Business Casualty, Disaster, and Theft Loss Workbook



Get forms and other information faster and easier by:

Internet IRS.gov

Introduction

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

How To Use This Workbook

You can use this workbook by following these five steps.

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

Use the chart below to find out how to use Schedules 1 through 6 to fill out Form 4684.

Take what's in each row of...	And enter it on Form 4684...
Column 1	Line 22
Column 2	Line 23
Column 3	Line 24
Column 4	Line 25
Column 5	Line 26
Column 6	Line 27
Column 7	Line 28
Column 8	Line 29
Column 9	Line 30

Adjusted basis. Adjusted basis usually means original cost plus improvements, minus depreciation allowed or allowable (including any section 179 expense deduction), amortization, depletion, etc. If you did not acquire the property by purchasing it, your basis is determined as discussed in Publication 551, Basis of Assets. If you inherited the property from someone who died in 2010, see Publication 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, available in early 2011.

Fair market value. Fair market value is the price for which you could sell your property to a willing buyer, when neither of you has to sell or buy and both of you know all the relevant facts. When filling out Schedules 1 through 6, you need to know the fair market value of the property immediately before and immediately after the disaster or casualty.

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

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

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. You can also send us comments from *www.irs.gov/formspubs/*, select "Comment on Tax Forms and Publications" under "Information about."

Although we cannot respond individually to each comment received, 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 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. We help taxpayers who are experiencing economic harm, such as not being able to provide necessities like housing, transportation, or food; taxpayers who are seeking help in resolving tax problems with the IRS; and those who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- The Taxpayer Advocate Service is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for our 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.
- We help taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- Our employees know the IRS and how to navigate it. If you qualify for our help, we'll assign your case to an advocate who 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.
- We have 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*. You can get updates on hot tax topics by visiting our YouTube channel at *www.youtube.com/tasnta* and our Facebook page at *www.facebook.com/YourVoiceAtIRS*, or by following our tweets at *www.twitter.com/YourVoiceAtIRS*.

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 IRS.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. Publication 910, IRS Guide to Free Tax Services, is your guide to IRS services and resources. Learn about free tax information from the IRS, including publications, services, and education and assistance programs. The publication also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on the telephone. The majority of the information and services listed in this publication are available to you free of charge. If there is a fee associated with a resource or service, it is listed in the publication.

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 IRS.gov and enter keyword "VITA" in the upper right-hand corner.

Internet. You can access the IRS website at 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 2010 refund. Go to 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 2010 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, including talking tax 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 2010 refund, call 1-800-829-1954 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 2010 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. 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 1-800-829-1040.

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 2011.
  – The final release will ship the beginning of March 2011.

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).

Schedule 1. **Office Furniture and Fixtures**

(1) Item	(2) Cost or other basis	(3) Insurance or other reimbursement	(4) Gain from casualty or theft [1]	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Column (5) minus column (6)	(8) Smaller of column (2) or column (7) [2]	(9) Casualty/Theft Loss (column (8) minus column (3)) [3]
Example								
Bookcase	*250.00*	*50.00*	*.00*	*150.00*	*.00*	*150.00*	*250.00*	*200.00*
Chair	*695.00*	*375.00*	*.00*	*500.00*	*200.00*	*300.00*	*300.00*	*-0-*
Desk	*425.00*	*480.00*	*55.00*					
Bookcase								
Book								
Chair								
Desk								
File cabinet								
Lamp								
Partition								
Sofa								
Table								

[1] If column (3) is greater than column (2), enter the difference here and skip columns (5) through (9) for that item.
[2] If the property was completely destroyed or stolen, enter in column (8) the amount from column (2).
[3] If zero or less, enter -0-.

Schedule 2. **Information Systems**

(1) Item	(2) Cost or other basis	(3) Insurance or other reimbursement	(4) Gain from casualty or theft [1]	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Column (5) minus column (6)	(8) Smaller of column (2) or column (7) [2]	(9) Casualty/Theft Loss (column (8) minus column (3)) [3]
Computer								
Disc drive								
Disc file								
Fax machine								
Hub								
Keyboard								
Modem								
Monitor								
Mouse								
Optical character reader								
Printer								
Router								
Scanner								
Server								
Software								
Surge protector								
Tape drive								

[1] If column (3) is greater than column (2), enter the difference here and skip columns (5) through (9) for that item.
[2] If the property was completely destroyed or stolen, enter in column (8) the amount from column (2).
[3] If zero or less, enter -0-.

Schedule 3. **Motor Vehicles**

(1) Vehicle (year, make, and model)	(2) Cost or other basis	(3) Insurance or other reimbursement	(4) Gain from casualty or theft [1]	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Column (5) minus column (6)	(8) Smaller of column (2) or column (7) [2]	(9) Casualty/Theft Loss (column (8) minus column (3)) [3]

[1] If column (3) is greater than column (2), enter the difference here and skip columns (5) through (9) for that item.
[2] If the property was completely destroyed or stolen, enter in column (8) the amount from column (2).
[3] If zero or less, enter -0-.

Schedule 4. **Office Supplies**

(1) Item	(2) Cost or other basis	(3) Insurance or other reimbursement	(4) Gain from casualty or theft [1]	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Column (5) minus column (6)	(8) Smaller of column (2) or column (7) [2]	(9) Casualty/Theft Loss (column (8) minus column (3)) [3]
Calendar								
Correction fluid								
Envelopes								
File folders								
Glue								
Hole puncher								
Paper								
Paperclips								
Pencils								
Pens								
Ruler								
Scissors								
Stamp pad								
Stapler								
Staples								
Tape								

[1] If column (3) is greater than column (2), enter the difference here and skip columns skip columns (5) through (9) for that item.

[2] If the property was completely destroyed or stolen, enter in column (8) the amount from column (2).

[3] If zero or less, enter -0-.

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

(1) Item	(2) Cost or other basis	(3) Insurance or other reimbursement	(4) Gain from casualty or theft [1]	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Column (5) minus column (6)	(8) Smaller of column (2) or column (7) [2]	(9) Casualty/Theft Loss (column (8) minus column (3)) [3]
Air conditioning unit								
Building								
Central air conditioning								
Fan								
Fence								
Generator								
Heating system								
Heating unit								
Landscaping								
Lighting system								
Plumbing system								
Roof								
Security System								
Wall-to-wall carpet								

[1] If column (3) is greater than column (2), enter the difference here and skip columns (5) through (9) for that item.
[2] If the property was completely destroyed or stolen, enter in column (8) the amount from column (2).
[3] If zero or less, enter -0-.

Schedule 6. **Equipment**

(1) Item	(2) Cost or other basis	(3) Insurance or other reimbursement	(4) Gain from casualty or theft [1]	(5) Fair market value before casualty	(6) Fair market value after casualty	(7) Column (5) minus column (6)	(8) Smaller of column (2) or column (7) [2]	(9) Casualty/Theft Loss (column (8) minus column (3)) [3]
Accounting machine								
Calculator								
Clock								
Copier								
Duplicating equipment								
DVD								
Microwave oven								
Paper shredder								
Radio								
Safe								
Telephone								
Television								
Typewriter								

[1] If column (3) is greater than column (2), enter the difference here and skip columns (5) through (9) for that item.
[2] If the property was completely destroyed or stolen, enter in column (8) the amount from column (2).
[3] If zero or less, enter -0-.

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 2011
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
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 2011
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
17(SP) El Impuesto Federal sobre los Ingresos Para Personas Fisicas
547(SP) Hechos Fortuitos Desastres y Robos
584(SP) Registro de Pérdidas por Hechos Fortuitos (Imprevistos), Desastres y Robos (Propiedad de Uso Personal)
594SP El Proceso de Cobro del IRS
596SP Crédito por Ingreso del Trabajo
850(EN/SP) English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544(SP) 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
- **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
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts

Form Number and Title

2441 Child and Dependent Care Expenses
2848 Power of Attorney and Declaration of Representative
2848(SP) Poder Legal y Declaración del Representante
3903 Moving Expenses
4562 Depreciation and Amortization
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4868(SP) Solicitud de Prórroga Automática para Presentar la Declaración del Impuesto sobre el Ingreso Personal de los Estados Unidos
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, and Lifetime Learning Credits)
9465 Installment Agreement Request
9465(SP) Solicitud para un Plan de Pagos a Plazos

Help Us To Picture Them Home

Elizabeth O'Lee

Female, Age Now: 15
Ht:5'6 Wt:160 lbs.
Blue eyes, Red hair

Missing From: Yorkville, TN on 5/2/2010 9:30:00 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

Help Us To Picture Them Home

Stacy Rudolph

Female, Age Now: 22
Ht:5'7 Wt:125 lbs.
Brown eyes, Brown hair

Age Enhanced Photo

Missing From: Medford, WI on 12/02/2000 3:30:00 PM

National Center for Missing and Exploited Children

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

Proud Partners With

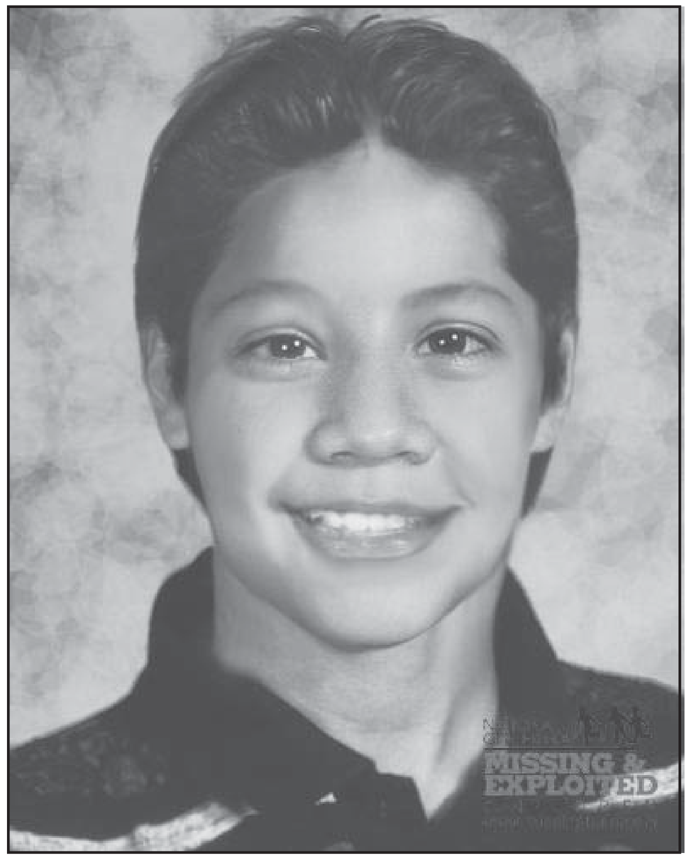
Internal Revenue Service

www.missingkids.com

Help Us To

Picture Them Home

Guillermo Rodriguez Cardona



Male, Age Now: 10
Ht:4'0 Wt:45 lbs.
Brown eyes, Black hair

Age Progression By NCMEC

Missing From: Tarzana, CA on 3/26/2006 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

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN®

www.missingkids.com

Help Us To

Picture Them Home

Celina Mays

Female, Age Now: 26
Ht:5'0 Wt:120 lbs.
Brown eyes, Black hair

Age Progression By NCMEC

Missing From: Willingboro, NJ on 12/16/1996

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

Proud Partners With
Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

Department of the Treasury

Internal Revenue Service

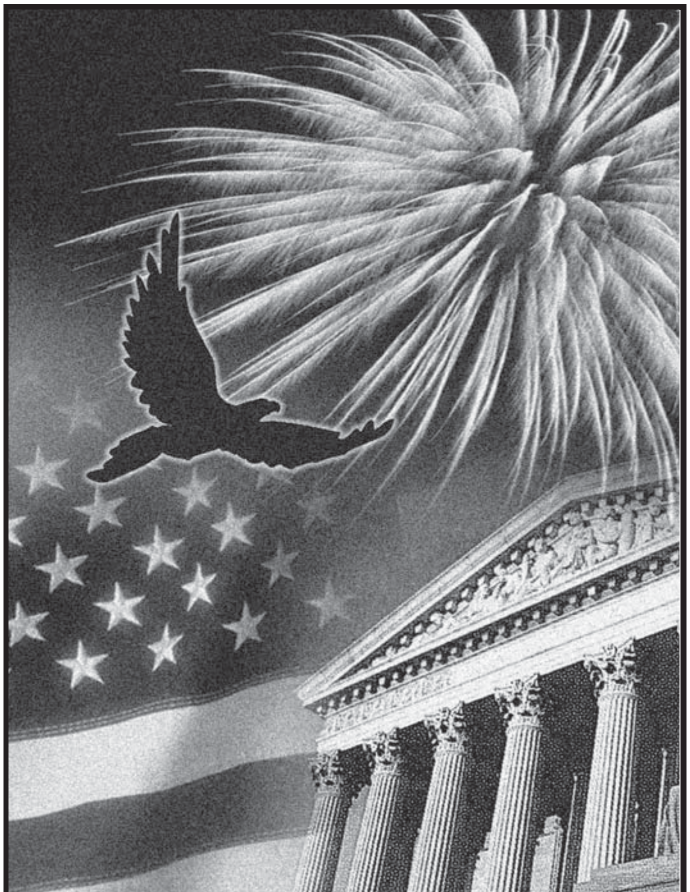
Publication 547

Cat. No. 15090K

Casualties, Disasters, and Thefts

For use in preparing

2010 Returns



Get forms and other information faster and easier by:

Internet IRS.gov

Contents

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. In addition, the 10%-of-AGI limit continues to apply to the net loss.

Damage from corrosive drywall. Under a special procedure, you may be able to claim a casualty loss deduction for amounts you paid to repair damage to your home and household appliances that resulted from corrosive drywall. For details, see *Special Procedure for Damage From Corrosive Drywall* later.

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 are subject to the 10%-of-AGI limit and are deductible only if you itemize your deductions. These losses are subject to the $100-per-loss limit. The special rules do apply to a loss you are deducting in 2010 from a disaster that was declared a federal disaster in tax years beginning after 2007 and that occurred before 2010. For details, see the Form 4684 instructions.

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:

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. You can also send us comments from *www.irs.gov/formspubs*, select "Comment on Tax Forms and Publications" under "Information about."

Although we cannot respond individually to each comment received, 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 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 by the bursting of a water heater does qualify as a casualty.
- Most losses of property caused by droughts. To be deductible, a

drought-related loss generally must be incurred in a trade or business or in a transaction entered into for profit.

- Termite or moth damage.
- The damage or destruction of trees, shrubs, or other plants by a fungus, disease, insects, worms, or similar pests. However, a sudden destruction due to an unexpected or unusual infestation of beetles or other insects may result in a casualty loss.

Special Procedure for Damage From Corrosive Drywall

Under a special procedure, you can deduct the amounts you paid to repair damage to your home and household appliances due to corrosive drywall. Under this procedure, you treat the amounts paid for repairs as a casualty loss in the year of payment. For example, amounts you paid for repairs in 2010 are deductible on your 2010 tax return and amounts you paid for repairs in 2009 are deductible on your 2009 tax return.

Note. If you paid for any repairs before 2010 and you choose to follow this special procedure, you can amend your return for the earlier year by filing Form 1040X, Amended U.S. Individual Income Tax Return, and attaching a completed Form 4684 for the appropriate year. Form 4684 for the appropriate year can be found at IRS.gov. Generally, Form 1040X must be filed within 3 years after the date the original return was filed or within 2 years after the date the tax was paid, whichever is later.

Corrosive drywall. For purposes of this special procedure, "corrosive drywall" means drywall that is identified as problem drywall under the two-step identification method published by the Consumer Product Safety Commission (CPSC) and the Department of Housing and Urban Development (HUD) in their interim guidance dated January 28, 2010, as revised by the CPSC and HUD. The revised identification guidance and remediation guidelines are available at *www.cpsc.gov/info/drywall/index.html.*

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

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

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

Line 2. Skip this line.

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

Lines 4–7. Skip these lines.

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

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

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

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

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

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

Lines 10–21. Complete these lines according to the instructions for Form 4684.

Choosing not to follow this special procedure. If you choose ***not*** to follow this special procedure, you are subject to all of the provisions that apply to the deductibility of casualty losses, and you must complete lines 1–9 according to the instructions for Form 4684. This means, for example, that you must establish that the damage, destruction, or loss of property resulted from an identifiable event as defined earlier under *Casualty*. Furthermore, you must have proof that shows the following.

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

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.

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).

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.

RECORDS It is important that you have records that will prove your deduction. If you do not have the actual records to support your deduction, you can use other satisfactory evidence to support 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. If you inherited the property from someone who died in 2010, see Publication 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010.

Adjustments to basis. While you own the property, various events may take place that change your basis. Some events, such as additions or permanent improvements to the property, increase basis. Others, such as earlier casualty losses and depreciation deductions, decrease basis. When you add the increases to the basis and subtract the decreases from the basis, the result is your adjusted basis. See 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 $100 and 10% rules, discussed later). This is true, even if you do not file an insurance claim, because your insurance policy would never have reimbursed you for the deductible.

Types of Reimbursements

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

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

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

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

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

Insurance payments for living expenses. You do not reduce your casualty loss by insurance payments you receive to cover living expenses in either of the following situations.

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

Inclusion in income. If these insurance payments are more than the temporary increase in your living expenses, you must include the excess in your income. Report this amount on 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*.

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

		$100 Rule	**10% Rule***	**2% Rule**
General Application		You must reduce each casualty or theft loss by $100 when figuring your deduction. Apply this rule to personal-use property after you have figured the amount of your loss.	You must reduce your total casualty or theft loss by 10% of your adjusted gross income. Apply this rule to personal-use property after you reduce each loss by $100 (the $100 rule).	You must reduce your total casualty or theft loss by 2% of your adjusted gross income. Apply this rule to property you used in performing services as an employee after you have figured the amount of your loss and added it to your job expenses and most other miscellaneous itemized deductions.
Single Event		Apply this rule only once, even if many pieces of property are affected.	Apply this rule only once, even if many pieces of property are affected.	Apply this rule only once, even if many pieces of property are affected.
More Than One Event		Apply to the loss from each event.	Apply to the total of all your losses from all events.	Apply to the total of all your losses from all events.
More Than One Person— With Loss From the Same Event (other than a married couple filing jointly)		Apply separately to each person.	Apply separately to each person.	Apply separately to each person.
Married Couple— With Loss From the Same Event	Filing Joint Return	Apply as if you were one person.	Apply as if you were one person.	Apply as if you were one person.
	Filing Separate Return	Apply separately to each spouse.	Apply separately to each spouse.	Apply separately to each spouse.
More Than One Owner (other than a married couple filing jointly)		Apply separately to each owner of jointly owned property.	Apply separately to each owner of jointly owned property.	Apply separately to each owner of jointly owned property.

*The 10% rule does not apply to a net disaster loss from a disaster declared a federal disaster in tax years beginning after 2007 that occurred before 2010.

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

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

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

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

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

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

Example. Your main home was destroyed by a tornado in August 2008. You regained use of your home in November 2009. The insurance payments you received in 2008 and 2009 were $1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 2009 Form 1040. If, in 2010, you receive further payments to cover the living expenses you had in 2008 and 2009, you must include those payments in income on your 2010 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 2009. The accident was due to the negligence of the other driver. At the end of 2009, 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 2009.

In January 2010, 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 2010 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 2009, 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 2009 return, so you could not deduct the loss. When the insurance company reimburses you for the loss, you do not report any of the reimbursement as income. This is true even if it is for the full $3,000 because you did not deduct the loss on your 2009 return. The loss did not reduce your tax.

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

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

Example. In December 2010, 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 2010.

Due to the $100 rule, you cannot deduct the $100 you paid as the deductible. When you receive the $850 from the insurance company in 2011, 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 $100 and 10% rules, discussed later. The 2%, $100, and 10% rules are also summarized in *Table 2.*

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

2% Rule

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

$100 Rule

After you have figured your casualty or theft loss on personal-use property, as discussed earlier, you must reduce that loss by $100. This reduction applies to each total casualty or theft loss. It does not matter how many pieces of property are involved in an event. Only a single $100 reduction applies.

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

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

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

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

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

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

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

Example. Your family car was damaged in an accident in January. Your loss after the insurance reimbursement was $75. In February, your car was damaged in another accident. This time your loss after the insurance reimbursement was $90. Apply the $100 rule to each separate casualty loss. Since neither accident resulted in a loss of over $100, you are not entitled to any deduction for these accidents.

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

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

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

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

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

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

10% Rule

You must reduce the total of all your casualty or theft losses on personal-use property by 10% of your adjusted gross income. Apply this rule after you reduce each loss by $100. The 10% rule does not apply to a disaster declared a federal disaster in tax years beginning after 2007 and that occurred before 2010, which may be deductible on your 2010 tax return. For more information, see the Form 4684 instructions. If you have both gains and losses from casualties or thefts, see *Gains and losses*, later in this discussion.

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

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

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

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

Example. In March, you had a car accident that totally destroyed your car. You did not have collision insurance on your car, so you did not receive any insurance reimbursement. Your loss on the car was $1,800. 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.

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

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

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

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

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

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

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

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

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

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

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

Figuring the Deduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. **Deductible business loss** . . .	**$10,000**	
14. **Deductible personal loss** . . .		**$ -0-**

Figuring a Gain

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

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

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

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

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

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

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.

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 stolen from your home. You discovered the theft when you returned home on August 10, 2010. Your insurance company investigated the theft and did not settle your claim until January 4, 2011, when they paid you $3,000. You first realized a gain from the reimbursement for the theft during 2011, so you have until December 31, 2013, 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 2010. In December 2010, 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 2010, so you have until December 31, 2012, to replace the property. If your home had been in a federally declared disaster area, you would have until December 31, 2014, 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 2009. Your insurance company reimbursed you $10,000, of which $5,000 was a gain. You reported the $5,000 gain on your return for 2009 (the year you realized the gain) and paid the tax due. In 2010 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 2009 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. See the Form 4684 instructions if you are deducting a loss of personal use property from a disaster declared a federal disaster in tax years beginning after 2007 that occurred before 2010.

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 2010 is available at the Federal Emergency Management Agency (FEMA) web site at* www.fema.gov.

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. See the Form 4684 instructions if you are deducting a loss of personal use property from a disaster declared a federal disaster in tax years beginning after 2007 that occurred before 2010.

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 18, 2011, to amend your 2009 tax return to claim a casualty loss that occurred during 2010.

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 2010. 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 2009 return to claim your casualty loss for the disaster. You figure your deductible net disaster loss as follows:

	House	Furnishings
1. Cost	$134,000	$10,000
2. FMV before disaster	$147,500	$8,000
3. FMV after disaster	100,000	5,000
4. Decrease in FMV (line 2 – line 3)	$47,500	$3,000
5. Smaller of line 1 or line 4	$47,500	$3,000
6. Subtract estimated insurance	-0-	-0-
7. Loss after reimbursement	$ 47,500	$3,000
8. Total loss		$50,500
9. Subtract $500		500
10. Loss after $500 rule		$50,000
11. Subtract personal casualty gains		0
12. **Amount of deductible net disaster loss**		**$50,000**

You can deduct the net disaster loss as an itemized deduction or as part of your standard deduction for 2009.

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 disaster loss as an itemized deduction on Schedule A (Form 1040) or Form 1040NR, Schedule A. If you amend your 2009 return you can claim the net disaster loss 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 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, “Connecticut Severe Storms and Flooding”).

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 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.

CAUTION *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.*
- *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.

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

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

OMB No. 1545-0177

2010

Attachment Sequence No. 26

Name(s) shown on tax return | Identifying number

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

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

10 Casualty or theft loss. Add the amounts on line 9 in columns A through D	10		
11 Enter the **smaller** of line 10 or $100	11		
12 Subtract line 11 from line 10	12		
Caution: *Use only one Form 4684 for lines 13 through 21.*			
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 Does the amount on line 12 include a loss from a disaster declared a federal disaster in tax years beginning after 2007 that occurred before 2010? ☐ **Yes.** Enter the amount from line 3 of the Worksheet for Line 17, in the instructions. If you are filing Schedule A (Form 1040), go to line 18. Otherwise, enter this amount on Schedule L (Form 1040A or 1040). Do not complete the rest of Section A. Form 1040NR filers, see instructions. ☐ **No.** Enter -0- and go to line 18	17		
18 Subtract line 17 from line 16	18		
19 Enter 10% of your adjusted gross income from Form 1040, line 38, or Form 1040NR, line 36. Estates and trusts, see instructions	19		
20 Subtract line 19 from line 18. If zero or less, enter -0-	20		
21 Add lines 17 and 20. 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	21		

For Paperwork Reduction Act Notice, see page 5 of the instructions. Cat. No. 12997O Form **4684** (2010)

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.)

22 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 A		Properties B		Properties C		Properties D	
23 Cost or adjusted basis of each property	23								
24 Insurance or other reimbursement (whether or not you filed a claim). See the instructions for line 3	24								
Note: *If line 23 is* ***more*** *than line 24, skip line 25.*									
25 Gain from casualty or theft. If line 24 is **more** than line 23, enter the difference here and on line 32 or line 37, column (c), except as provided in the instructions for line 36. Also, skip lines 26 through 30 for that column. See the instructions for line 4 if line 24 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	25								
26 Fair market value **before** casualty or theft	26								
27 Fair market value **after** casualty or theft	27								
28 Subtract line 27 from line 26	28								
29 Enter the **smaller** of line 23 or line 28	29								
Note: *If the property was totally destroyed by casualty or lost from theft, enter on line 29 the amount from line 23.*									
30 Subtract line 24 from line 29. If zero or less, enter -0-	30								

31 Casualty or theft loss. Add the amounts on line 30. Enter the total here and on line 32 **or** line 37 (see instructions) . . **31**

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

		(b) Losses from casualties or thefts		**(c)** Gains from casualties or thefts includible in income
(a) Identify casualty or theft		*(i)* Trade, business, rental or royalty property	*(ii)* Income-producing and employee property	
Casualty or Theft of Property Held One Year or Less				
32		( )	( )	
		( )	( )	
33 Totals. Add the amounts on line 32	33	( )	( )	
34 Combine line 33, columns (b)(i) and (c). Enter the net gain or (loss) here and on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions			34	
35 Enter the amount from line 33, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 28, or Form 1040NR, Schedule A, line 16, and enter the amount from property used as an employee on Schedule A (Form 1040), line 23, or Form 1040NR, Schedule A, line 11. Estates and trusts, partnerships, and S corporations, see instructions			35	
Casualty or Theft of Property Held More Than One Year				
36 Casualty or theft gains from Form 4797, line 32			36	
37		( )	( )	
		( )	( )	
38 Total losses. Add amounts on line 37, columns (b)(i) and (b)(ii)	38	( )	( )	
39 Total gains. Add lines 36 and 37, column (c)			39	
40 Add amounts on line 38, columns (b)(i) and (b)(ii)			40	

41 If the loss on line 40 is **more** than the gain on line 39:

a Combine line 38, column (b)(i) and line 39, and enter the net gain or (loss) here. Partnerships (except electing large partnerships) and S corporations, see the note below. All others, enter this amount on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions . . . **41a**

b Enter the amount from line 38, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 28, or Form 1040NR, Schedule A, line 16, and enter the amount from property used as an employee on Schedule A (Form 1040), line 23, or Form 1040NR, Schedule A, line 11. Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships (except electing large partnerships) and S corporations, see the note below. Electing large partnerships, enter on Form 1065-B, Part II, line 11 . . . **41b**

42 If the loss on line 40 is **less** than or **equal** to the gain on line 39, combine lines 39 and 40 and enter here. Partnerships (except electing large partnerships), see the note below. All others, enter this amount on Form 4797, line 3 . . . **42**

Note: *Partnerships, enter the amount from line 41a, 41b, or line 42 on Form 1065, Schedule K, line 11. S corporations, enter the amount from line 41a or 41b on Form 1120S, Schedule K, line 10.*

2010 Instructions for Form 4684

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

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

General Instructions

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-adjusted-gross-income (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 are subject to the 10%-of-AGI limit and are deductible only if you itemize your deductions. These losses are subject to the $100-per-loss limit. The special rules do apply to a loss you are deducting in 2010 from a disaster that was declared a federal disaster in tax years beginning after 2007 and that occurred before 2010. For details, see the instructions for line 17 on page 4.

Damage from corrosive drywall. Under a special procedure, you may be able to claim a casualty loss deduction for amounts you paid to repair damage to your home and household appliances that resulted from corrosive drywall. For details, see Pub. 547, Casualties, Disasters, and Thefts.

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 of property 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.

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. See the instructions for line 17 on page 4 if you are deducting a loss of personal use property from a disaster declared a federal disaster in tax years beginning after 2007 that occurred before 2010.

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*.

A disaster loss that occurred in 2010 is subject to the 10%-of-AGI limit. Special rules apply to a loss you are deducting in 2010 from a disaster that was declared a federal disaster in tax years beginning after 2007 and that occurred before 2010. For details, see the instructions for line 17 on page 4.

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.

Home made unsafe by disaster. 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 2010 by a tornado in a federally declared disaster area. In 2010, 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 2015. 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 $100 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 17). The $100 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

Describe the type of property (for example, furniture, jewelry, car, etc.).

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. If you inherited the property from someone who died in 2010, see Pub. 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010.

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 actually made,
- 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

Check "Yes" if the amount on line 12 includes a loss from a disaster declared a federal disaster (see *Disaster Losses* on page 2) in tax years beginning after 2007 that occurred before 2010. Then complete the *Worksheet for Line 17* below. This loss is deductible in 2010 only if you meet both of the following conditions.

- You could not deduct the loss in the year that it occurred because you were not sure whether the loss would be reimbursed.
- You became reasonably certain in 2010 that the loss would not be reimbursed.

The net disaster loss (the excess of line 2 over line 1 in the *Worksheet for Line 17*) 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).

Form 1040NR filers. If you are filing Form 1040NR, Schedule A, go to Form 4684, line 18.

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 19

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 22 through 30, to show each item lost or damaged from a single casualty or theft described on line 22. If more than four items were lost or damaged, use additional sheets following the format of Part I, lines 22 through 30.

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 22 through 29. 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 30, the deductible loss from Form 8829, line 34, and "See Form 8829" above line 30. 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 30 and "See attached statement" above line 30.

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 23.

Line 23

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. If you inherited the property from someone who died in 2010, see Pub. 4895.

Line 24

See the instructions for line 3 on page 3.

Line 25

See the instructions for line 4 on page 3.

Lines 26 and 27

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 31

If the amount on line 31 includes losses on property held 1 year or less, and losses on

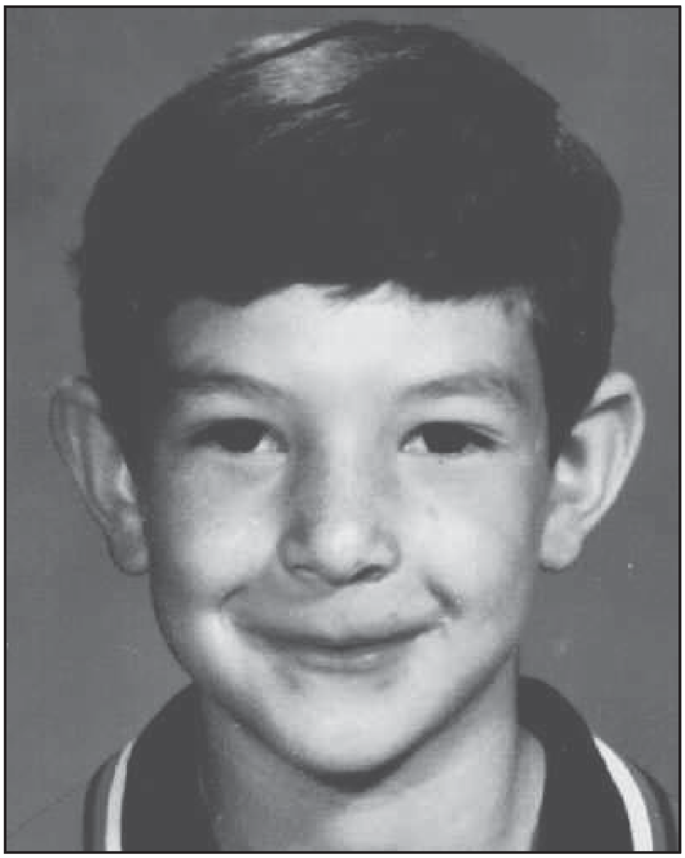
Worksheet for Line 17

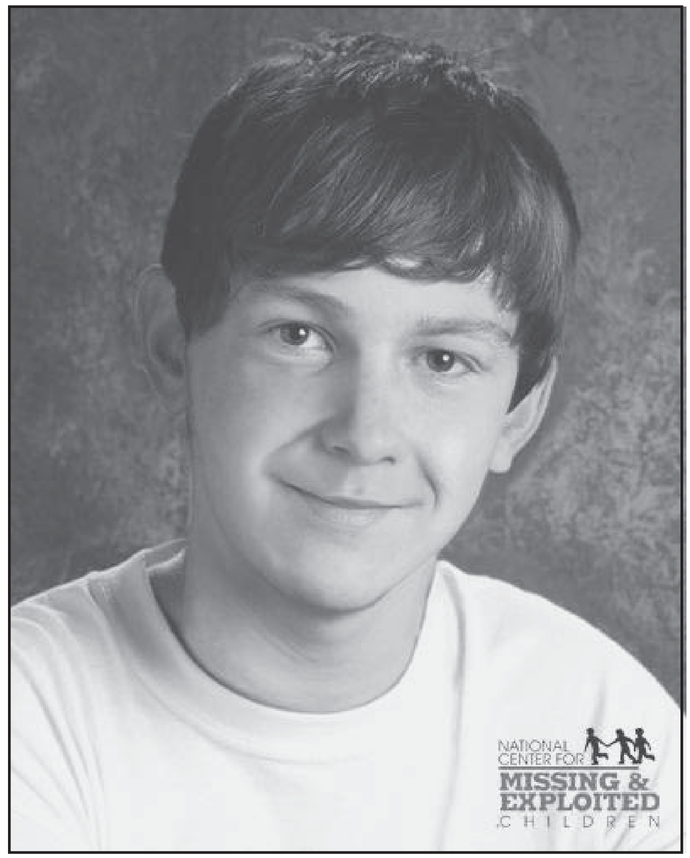
1.	Enter the amount from Form 4684, line 14	**1.**	________
2.	Add the amounts on line 12 of all Forms 4684 on which you entered a loss from a disaster declared a federal disaster in tax years beginning after 2007 that occurred before 2010. (See instructions for line 17 above.)	**2.**	________
3.	Is line 2 more than line 1? **Yes**. Enter the difference here and on Form 4684, line 17. **No**. Enter -0- here and on Form 4684, line 17.	**3.**	________

Help Us To

Picture Them Home

Robert Romero





Male, Age Now: 17
Ht:3'9 Wt:50 lbs.
Brown eyes, Brown hair

Age Progression By NCMEC

Missing From: Santa Fe, NM on 06/07/2000 6:30:00 PM

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

Proud Partners With
Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

Department of the Treasury
Internal Revenue Service

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

Basis of Assets

Get forms and other information faster and easier by:

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

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

Contents

Important Reminder

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

Introduction

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

This publication is divided into the following sections.

- Cost Basis
- Adjusted Basis
- Basis Other Than Cost

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

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

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

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

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

You can write to us at the following address:

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

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

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

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

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

Cost Basis

Terms you may need to know (see Glossary):

Business assets

Real property

Unstated interest

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

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

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

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

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

Stocks and Bonds

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

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

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

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

Real Property

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

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

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

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

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

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

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

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

1) Fire insurance premiums.
2) Rent for occupancy of the property before closing.
3) Charges for utilities or other services related to occupancy of the property before closing.
4) Charges connected with getting a loan. The following are examples of these charges.

a) Points (discount points, loan origination fees).

b) Mortgage insurance premiums.

c) Loan assumption fees.

d) Cost of a credit report.

e) Fees for an appraisal required by a lender.

5) Fees for refinancing a mortgage.

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

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

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

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

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

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

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

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

1) Employee wages paid for the construction work.

2) Depreciation on equipment you own while it is used in the construction.

3) Operating and maintenance costs for equipment used in the construction.

4) The cost of business supplies and materials used in the construction.

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

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

Business Assets

Terms you may need to know (see Glossary):

Amortization

Capitalization

Depletion

Depreciation

Fair market value

Going concern value

Goodwill

Intangible property

Personal property

Recapture

Section 179 deduction

Section 197 intangibles

Tangible property

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

Uniform Capitalization Rules

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

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

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

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

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

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

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

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

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

1) Property you produce that you do not use in your trade, business, or activity conducted for profit.

2) Qualified creative expenses you pay or incur as a free-lance (self-employed) writer, photographer, or artist that are otherwise deductible on your tax return.

3) Property you produce under a long-term contract, except for certain home construction contracts.

4) Research and experimental expenses allowable as a deduction under section 174 of the Internal Revenue Code.

5) Costs for personal property acquired for resale if your (or your predecessor's) average annual gross receipts for the 3 previous tax years do not exceed $10 million.

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

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

Intangible Assets

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

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

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

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

Allocating the Basis

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

Group of Assets Acquired

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

Trade or Business Acquired

If you acquire a trade or business, allocate the consideration paid to the various assets acquired. Generally, reduce the consideration paid by any cash and general deposit accounts (including checking and savings accounts) received. Allocate the remaining consideration to the other business assets received in proportion to (but not more than) their fair market value in the following order.

1) Certificates of deposit, U.S. Government securities, foreign currency, and actively traded personal property, including stock and securities.
2) Accounts receivable, other debt instruments, and assets you mark to market at least annually for federal income tax purposes.
3) Property of a kind that would properly be included in inventory if on hand at the end of the tax year or property held primarily for sale to customers in the ordinary course of business.
4) All other assets except section 197 intangibles, goodwill, and going concern value.
5) Section 197 intangibles except goodwill and going concern value.
6) Goodwill and going concern value (whether or not they qualify as section 197 intangibles).

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

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

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

Land and Buildings

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

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

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

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

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

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

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

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

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

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

Use of erroneous cost basis. If you made a mistake in figuring the cost basis of subdivided lots sold in previous years, you cannot correct the mistake for years for which the statute of limitations (generally 3 tax years) has expired. Figure the basis of any remaining lots by allocating the correct original cost basis of the entire tract among the original lots.

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

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

Adjusted Basis

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

Increases to Basis

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

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

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

The following items increase the basis of property.

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

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

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

- Zoning costs.
- The capitalized value of a redeemable ground rent.

Assessments for Local Improvements

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

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

Deducting vs. Capitalizing Costs

Do not add to your basis costs you can deduct as current expenses. For example, amounts paid for incidental repairs or maintenance that are deductible as business expenses cannot be added to basis. However, you can choose either to deduct or to capitalize certain other costs. If you capitalize these costs, include them in your basis. If you deduct them, do not include them in your basis. (See *Uniform Capitalization Rules,* earlier.)

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

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

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

Decreases to Basis

The following items reduce the basis of property.

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

Some of these items are discussed next.

Casualties and Thefts

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

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

Easements

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

Credit for Qualified Electric Vehicles

If you claim the credit for a qualified electric vehicle, you must reduce your basis in that vehicle by the maximum credit allowable even if the credit allowed is less than that maximum amount. For information on this credit, see chapter 12 in Publication 535.

Gas-Guzzler Tax

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

Section 179 Deduction

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

Deduction for Clean-Fuel Vehicles and Refueling Property

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

Exclusion of Subsidies for Energy Conservation Measures

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

Depreciation

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

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

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

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

For information on figuring depreciation, see Publication 946.

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

Canceled Debt Excluded From Income

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

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

1) Debt canceled in a bankruptcy case or when you are insolvent.

2) Qualified farm debt.

3) Qualified real property business debt (provided you are not a C corporation).

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

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

Postponed Gain From Sale of Home

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

Adoption Tax Benefits

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

Employer-Provided Child Care

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

Example

In January 1997, you paid $80,000 for real property to be used as a factory. You also paid commissions of $2,000 and title search and legal fees of $600. You allocated the total cost of $82,600 between the land and the building—$10,325 for the land and $72,275 for the building. Immediately you spent $20,000 in remodeling the building before you placed it in service. You were allowed depreciation of $14,526 for the years 1997 through 2001. In 2000 you had a $5,000 casualty loss from a fire that was not covered by insurance on the building. You claimed a deduction for this loss. You spent $5,500 to repair the fire damages and extend the useful life of the building. The adjusted basis of the building on January 1, 2002, is figured as follows:

Original cost of building including fees and commissions		$72,275
Adjustments to basis:		
Add:		
Improvements		20,000
Repair of fire damages		5,500
		$97,775
Subtract:		
Depreciation	$14,526	
Deducted casualty loss	5,000	19,526
Adjusted basis on January 1, 2002		**$78,249**

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

Basis Other Than Cost

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

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

Property Received for Services

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

Bargain Purchases

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

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

Restricted Property

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

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

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

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

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

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

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

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

Taxable Exchanges

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

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

Involuntary Conversions

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

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

1) Decrease the basis by the following.

   a) Any loss you recognize on the conversion.

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

2) Increase the basis by the following.

   a) Any gain you recognize on the conversion.

   b) Any cost of acquiring the replacement property.

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

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

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

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

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

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

Nontaxable Exchanges

Terms you may need to know (see Glossary):

Intangible property

Like-kind property

Personal property

Real property

Tangible property

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

Like-Kind Exchanges

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

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

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

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

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

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

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

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

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

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

2) Involuntary conversions.

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

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

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

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

Partially Nontaxable Exchange

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

1) Decrease the basis by the following amounts.
   a) Any money you receive.
   b) Any loss you recognize on the exchange.
2) Increase the basis by the following amounts.
   a) Any additional costs you incur.
   b) Any gain you recognize on the exchange.

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

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

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

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

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

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

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

Sale and Purchase

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

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

Partial Business Use of Property

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

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

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

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

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

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

Property Transferred From a Spouse

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

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

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

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

Property Received as a Gift

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

FMV Less Than Donor's Adjusted Basis

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

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

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

$7,000, you will have a $1,000 loss because you must use the FMV ($8,000) at the time of the gift as your basis to figure a loss.

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

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

FMV Equal to or More Than Donor's Adjusted Basis

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

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

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

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

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

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

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

Example. In 2002, you received a gift of property from your mother that had an FMV of $50,000. Her adjusted basis was $20,000. The amount of the gift for gift tax purposes was $39,000 ($50,000 minus the $11,000 annual exclusion). She paid a gift tax of $9,000. Your basis, $26,930, is figured as follows:

Fair market value	$50,000
Minus: Adjusted basis	20,000
Net increase in value	$30,000
Gift tax paid	$9,000
Multiplied by ($30,000 ÷ $39,000)	.77
Gift tax due to net increase in value	$6,930
Adjusted basis of property to your mother	20,000
Your basis in the property	**$26,930**

Inherited Property

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

1) The FMV of the property at the date of the individual's death.
2) The FMV on the alternate valuation date if the personal representative for the estate chooses to use alternate valuation. For information on the alternate valuation date, see the instructions for Form 706.
3) The value under the special-use valuation method for real property used in farming or a closely held business if chosen for estate tax purposes. This method is discussed later.
4) The decedent's adjusted basis in land to the extent of the value excluded from the decedent's taxable estate as a qualified conservation easement. For information on a qualified conservation easement, see the instructions to Form 706.

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

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

Community Property

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

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

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

Property Held by Surviving Tenant

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

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

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

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

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

Qualified Joint Interest

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

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

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

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

Farm or Closely Held Business

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

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

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

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

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

1) Contains your name, address, and taxpayer identification number and those of the estate.
2) Identifies the election as an election under section 1016(c) of the Internal Revenue Code.
3) Specifies the property for which the election is made.
4) Provides any additional information required by the Form 706-A instructions.

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

Property Changed to Business or Rental Use

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

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

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

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

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

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

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

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

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

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

How To Get Tax Help

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

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

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

To contact your Taxpayer Advocate:

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

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

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

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

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

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

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

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

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1−800−829−3676** to order current and prior year forms, instructions, and publications.

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

■

■

Department of the Treasury

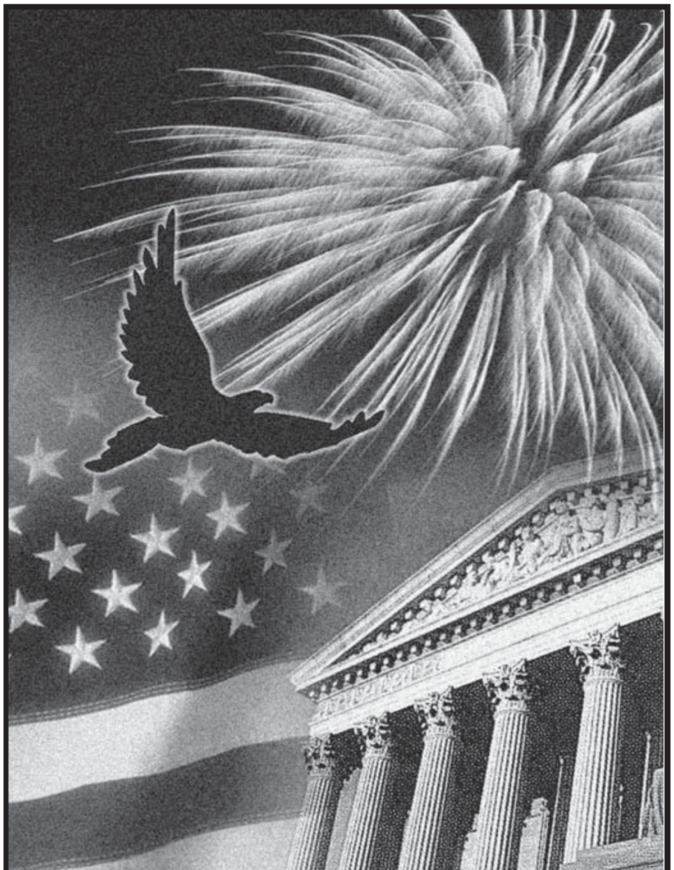
Internal Revenue Service

Publication 536
Cat. No. 46569U

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

For use in preparing

2009 Returns



Get forms and other information faster and easier by:

Internet www.irs.gov

Contents

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.

Apr 02, 2010

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.

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.

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 nonbusiness 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 nonbusiness 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	2,000
Glenn's total income	$3,650
DEDUCTIONS	
Net loss from business (gross income of $67,000 minus expenses of $72,000)	$5,000
Net short-term capital loss on sale of stock	1,000
Standard deduction	5,700
Personal exemption	3,650
Glenn's total deductions	$15,350

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	3,650
Total adjustments to net loss	$9,925

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

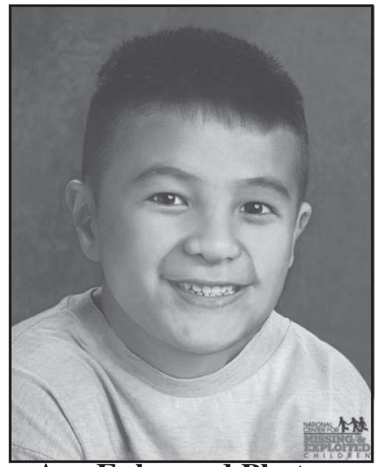
Glenn's total 2009 income		$3,650
Less:		
Glenn's original 2009 total deductions	$15,350	
Reduced by the disallowed items	– 9,925	– 5,425
Glenn's NOL for 2009		$1,775

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.*

Help Us To Picture Them Home

Keoni Rocha

Male, Age Now: 5
Ht:3'6 Wt:38 lbs.
Brown eyes, Black hair



Age Enhanced Photo

Missing From: San Diego, CA on 7/1/2007 6:00:00 AM

National Center for Missing and Exploited Children

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

Proud Partners With

Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

Help Us To Picture Them Home

Missing From: El Paso, TX on 12/18/2009

Jonathan Nitardy

Male, Age Now: 7
Ht:4'5 Wt:65 lbs.
Brown eyes, Black hair

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

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

Form **1120X** (Rev. January 2008) Department of the Treasury Internal Revenue Service

Amended U.S. Corporation Income Tax Return

OMB No. 1545-0132

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

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

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

Internal Revenue Service Center where original return was filed ▶

Fill in applicable items and use Part II on the back to explain any changes

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

Payments and Credits (see instructions)

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

Tax Due or Overpayment (see instructions)

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

Sign Here

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

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

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

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 11530Z Form **1120X** (Rev. 1-2008)

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

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

General Instructions

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

Purpose of Form

Use Form 1120X to:

- Correct a Form 1120 or 1120-A (if applicable) as originally filed, or as later adjusted by an amended return, a claim for refund, or an examination, or
- Make certain elections after the prescribed deadline (see Regulations sections 301.9100-1 through 3).

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

When To File

File Form 1120X only after the corporation has filed its original return. Generally, Form 1120X must be filed within 3 years after the date the corporation filed its original return or within 2 years after the date the corporation paid the tax (if filing a claim for a refund), whichever is later. A return filed before the due date is considered filed on the due date. A Form 1120X based on an NOL carryback, a capital loss carryback, or general business credit carryback generally must be filed within 3 years after the due date (including extensions) of the return for the tax year of the NOL, capital loss, or unused credit. A Form 1120X based on a bad debt or worthless security 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. See section 6511 for more details and other special rules.

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

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

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

What To Attach

If the corrected amount involves an item of income, deduction, or credit that must be supported with a schedule, statement, or form, attach the appropriate schedule, statement, or form to Form 1120X. Include the corporation's name and employer identification number on any attachments. See the instructions for Form 1120 or 1120-A (if applicable) for a list of forms that may be required.

In addition, if the corporation requests that the IRS electronically deposit a refund of $1 million or more, attach Form 8302, Electronic Deposit of Tax Refund of $1 Million or More.

Tax Shelters

If the corporation's return is being amended for a tax year in which the corporation participated in a "reportable transaction," attach Form 8886, Reportable Transaction Disclosure Statement. If a reportable transaction results in a loss or credit carried back to a prior tax year, attach Form 8886 for the carryback years.

If the corporation's return is being amended to include any item (loss, credit, deduction, other tax benefit, or income) from an interest in a tax shelter required to be registered, attach any applicable Forms 8271, Investor Reporting of Tax Shelter Registration Number, due or required to be filed before August 3, 2007.

Carryback Claims

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

Information on Income, Deductions, Tax Computation, etc.

For information on income, deductions, tax computation, etc., see the instructions for the tax return for the tax year being amended.

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

Where To File

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

Specific Instructions

Tax Year

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

Address

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

If the corporation receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

Column (a)

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

Column (b)

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

Column (c)

Note. Amounts entered on lines 1 through 4 in column (c) must equal the amounts that would be entered on the applicable lines of the tax return if all adjustments and corrections were taken into account.

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

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

Line 5e. Enter the amount of tax deposited with Form 7004, Application for Automatic 6-Month Extension of Time To File Certain Business Income Tax, Information, and Other Returns.

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

Enter on this line the amount that reflects a refund or credit of the federal telephone excise tax for amounts that you were billed for telephone services after February 28, 2003, and before August 1, 2006. Eligible entities should see Form 8913, Credit for Federal Telephone Excise Tax Paid, and the separate instructions.

CAUTION

The amounts issued as refund or credit for the telephone excise tax can only be taken on the corporation's 2006 tax return.

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

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

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

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

Who Must Sign

The return must be signed and dated by:

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

If a return is filed on behalf of a corporation by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the corporate officer. A return signed by a receiver or trustee in bankruptcy on behalf of a corporation must be filed with a copy of the order or instructions of the court authorizing signing of the return.

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

Note. A paid preparer may sign original returns, amended returns, or requests for filing extensions by rubber stamp, mechanical device, or computer software program.

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. 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. Section 6109 requires return preparers to provide their identifying numbers on the return.

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

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

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the 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 3.

Form **4797**

Department of the Treasury
Internal Revenue Service (99)

Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

OMB No. 1545-0184

2010

Attachment Sequence No. 27

Name(s) shown on return

Identifying number

1	Enter the gross proceeds from sales or exchanges reported to you for 2010 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)	1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2 (a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)

3	Gain, if any, from Form 4684, line 42	3
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37	4
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5
6	Gain, if any, from line 32, from other than casualty or theft	6
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:	7
	Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.	
	Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.	
8	Nonrecaptured net section 1231 losses from prior years (see instructions)	8
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)	9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11	Loss, if any, from line 7	11	( )
12	Gain, if any, from line 7 or amount from line 8, if applicable	12	
13	Gain, if any, from line 31	13	
14	Net gain or (loss) from Form 4684, lines 34 and 41a	14	
15	Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17	Combine lines 10 through 16	17	
18	For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:		
a	If the loss on line 11 includes a loss from Form 4684, line 38, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions	18a	
b	Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	18b	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13086I Form **4797** (2010)

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255 (see instructions)

19	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A			
B			
C			
D			

	These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20	Gross sales price (**Note:** *See line 1 before completing.*)	20				
21	Cost or other basis plus expense of sale	21				
22	Depreciation (or depletion) allowed or allowable	22				
23	Adjusted basis. Subtract line 22 from line 21	23				
24	Total gain. Subtract line 23 from line 20	24				
25	**If section 1245 property:**					
a	Depreciation allowed or allowable from line 22	25a				
b	Enter the **smaller** of line 24 or 25a	25b				
26	**If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a	Additional depreciation after 1975 (see instructions)	26a				
b	Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see instructions)	26b				
c	Subtract line 26a from line 24. If residential rental property **or** line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d	Additional depreciation after 1969 and before 1976	26d				
e	Enter the **smaller** of line 26c or 26d	26e				
f	Section 291 amount (corporations only)	26f				
g	Add lines 26b, 26e, and 26f	26g				
27	**If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a	Soil, water, and land clearing expenses	27a				
b	Line 27a multiplied by applicable percentage (see instructions)	27b				
c	Enter the **smaller** of line 24 or 27b	27c				
28	**If section 1254 property:**					
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)	28a				
b	Enter the **smaller** of line 24 or 28a	28b				
29	**If section 1255 property:**					
a	Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b	Enter the **smaller** of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30	Total gains for all properties. Add property columns A through D, line 24	30	
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 36. Enter the portion from other than casualty or theft on Form 4797, line 6	32	

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less (see instructions)

			(a) Section 179	(b) Section 280F(b)(2)
33	Section 179 expense deduction or depreciation allowable in prior years	33		
34	Recomputed depreciation (see instructions)	34		
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

2010 Instructions for Form 4797

Department of the Treasury
Internal Revenue Service

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

General Instructions

For the latest information about Form 4797, see *www.irs.gov/form4797*

Purpose of Form

Use Form 4797 to report:

- The sale or exchange of:

 1. Property used in your trade or business;
 2. Depreciable and amortizable property;
 3. Oil, gas, geothermal, or other mineral properties; and
 4. Section 126 property.

- The involuntary conversion (from other than casualty or theft) of property used in your trade or business and capital assets held in connection with a trade or business or a transaction entered into for profit.
- The disposition of noncapital assets (other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business).
- The disposition of capital assets not reported on Schedule D.
- The gain or loss (including any related recapture) for partners and S corporation shareholders from certain section 179 property dispositions by partnerships (other than electing large partnerships) and S corporations.
- The computation of recapture amounts under sections 179 and 280F(b)(2) when the business use of section 179 or listed property decreases to 50% or less.

Other Forms To Use

- Use Form 4684, Casualties and Thefts, to report involuntary conversions from casualties and thefts.
- Use Form 6252, Installment Sale Income, to report the sale of property under the installment method.
- Use Form 8824, Like-Kind Exchanges, to report exchanges of qualifying business or investment property for property of a like kind. For exchanges of property used in a trade or business (and other noncapital assets), enter the gain or (loss) from Form 8824, if any, on line 5 or line 16.
- If you sold property on which you claimed investment credit, see Form 4255, Recapture of Investment Credit, to find out if you must recapture some or all of the credit.

Additional Information. See Pub. 544, Sales and Other Dispositions of Assets. Also see Pub. 550, Investment Income and Expenses (Including Capital Gains and Losses).

Special Rules

At-Risk Rules

If you report a loss on an asset used in an activity for which you are not at risk, in whole or in part, see the instructions for Form 6198, At-Risk Limitations. Also, see Pub. 925, Passive Activity and At-Risk Rules. Losses from passive activities are subject first to the at-risk rules and then to the passive activity rules.

Depreciable Property and Other Property Disposed of in the Same Transaction

If you disposed of both depreciable property and other property (for example, a building and land) in the same transaction and realized a gain, you must allocate the amount realized between the two types of property based on their respective fair market values (FMVs) to figure the part of the gain to be recaptured as ordinary income because of depreciation. The disposition of each type of property is reported separately in the appropriate part of Form 4797 (for example, for property held more than 1 year, report

Where To Make First Entry for Certain Items Reported on This Form

	(a) Type of property	(b) Held 1 year or less	(c) Held more than 1 year
1	Depreciable trade or business property:		
a	Sold or exchanged at a gain	Part II	Part III (1245, 1250)
b	Sold or exchanged at a loss	Part II	Part I
2	Depreciable residential rental property:		
a	Sold or exchanged at a gain	Part II	Part III (1250)
b	Sold or exchanged at a loss	Part II	Part I
3	Farmland held less than 10 years upon which soil, water, or land clearing expenses were deducted:		
a	Sold at a gain	Part II	Part III (1252)
b	Sold at a loss	Part II	Part I
4	All other farmland	Part II	Part I
5	Disposition of cost-sharing payment property described in section 126	Part II	Part III (1255)
6	Cattle and horses used in a trade or business for draft, breeding, dairy, or sporting purposes:	**Held less than 24 months**	**Held 24 months or more**
a	Sold at a gain	Part II	Part III (1245)
b	Sold at a loss	Part II	Part I
c	Raised cattle and horses sold at a gain	Part II	Part I
7	Livestock other than cattle and horses used in a trade or business for draft, breeding, dairy, or sporting purposes:	**Held less than 12 months**	**Held 12 months or more**
a	Sold at a gain	Part II	Part III (1245)
b	Sold at a loss	Part II	Part I
c	Raised livestock sold at a gain	Part II	Part I

Cat. No. 13087T

the sale of a building in Part III and land in Part I).

Disposition of Assets That Constitute a Trade or Business

If you sell a group of assets that make up a trade or business and the buyer's basis in the assets are determined wholly by the amount paid for the assets, both you and the buyer generally must allocate the total sales price to the assets transferred. File Form 8594, Asset Acquisition Statement, to report the sale. See Pub. 544 for more details on the sale of business assets.

Installment Sales

If you sold property at a gain and you will receive a payment in a tax year after the year of sale, you generally must report the sale on the installment method unless you elect not to do so.

Use Form 6252 to report the sale on the installment method. Also use Form 6252 to report any payment received during your 2010 tax year from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on a timely filed return (including extensions). If you timely filed your tax return without making the election, you can still make the election by filing an amended return within 6 months of the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

See Pub. 537, Installment Sales, for more details.

Traders Who Made a Mark-To-Market Election

A trader in securities or commodities may elect under section 475(f) to use the mark-to-market method to account for securities or commodities held in connection with a trading business. Under this method of accounting, any security or commodity held at the end of the tax year is treated as sold (and reacquired) at its FMV on the last business day of that year.

Unless you are a new taxpayer, the election must be made by the due date (not including extensions) of the tax return for the year prior to the year for which the election becomes effective.

If you are a trader in securities or commodities with a mark-to-market election under section 475(f) in effect for the tax year, the following special rules apply.

- Gains and losses from all securities or commodities held in connection with your trading business (including those marked to market) are treated as ordinary income and losses, instead of capital gains and losses. As a result, the lower capital gain tax rates and the limitation on capital losses do not apply.
- The gain or loss from each security or commodity held in connection with your trading business (including those marked to market) is reported on Form 4797, line 10 (see the instructions for line 10 on page 6).
- The wash sale rule does not apply to securities or commodities held in connection with your trading business.

For details on the mark-to-market election and how to make it, see Pub. 550; sections 475(e) and 475(f); and Rev. Proc. 99-17, 1999-1 C.B. 503. You can find Rev. Proc. 99-17 on page 52 of Internal Revenue Bulletin 1999-7 at *www.irs.gov/pub/irs-irbs/irb99-07.pdf*.

Involuntary Conversion of Property

You may not have to pay tax on a gain from an involuntary or compulsory conversion of property. See Pub. 544 for details.

Exclusion of Gain on Sale of a Home Used for Business

If the property sold was used for business or to produce rental income and was also owned and used as your principal residence during the 5-year period ending on the date of the sale, you may be able to exclude part or all of the gain figured on Form 4797. However, the exclusion may not apply to the part of the gain that is allocated to any period after December 31, 2008, during which the property was not used as your principal residence. For details on the exclusion (including how to figure the amount of the exclusion), see Pub. 523, Selling Your Home.

If the property was held more than 1 year, complete Part III to figure the amount of the gain. Do not take the exclusion into account when figuring the gain on line 24. If line 22 includes depreciation for periods after May 6, 1997, you cannot exclude gain to the extent of that depreciation. On line 2 of Form 4797, write "Section 121 exclusion," and enter the amount of the exclusion as a (loss) in column (g).

If the property was held for 1 year or less, report the sale and the amount of the exclusion, if any, in a similar manner on line 10 of Form 4797.

Passive Loss Limitations

If you have an overall loss from passive activities and you report a loss on an asset used in a passive activity, use Form 8582, Passive Activity Loss Limitations, or Form 8810, Corporate Passive Activity Loss and Credit Limitations, to see how much loss is allowed before entering it on Form 4797.

You cannot claim unused passive activity credits when you dispose of your interest in an activity. However, if you dispose of your entire interest in an activity, you may elect to increase the basis of the credit property by the original basis reduction of the property to the extent that the credit has not been allowed because of the passive activity rules. Make the election on Form 8582-CR, Passive Activity Credit Limitations, or Form 8810. No basis adjustment may be elected on a partial disposition of your interest in an activity.

Recapture of Preproductive Expenses

If you elect not to use the uniform capitalization rules of section 263A, any plant that you produce is treated as section 1245 property. For dispositions of plants reportable on Form 4797, enter the recapture amount taxed as ordinary income on line 22 of Form 4797. See *Disposition of plants and animals* in chapter 9 of Pub. 225, Farmer's Tax Guide, for details.

Section 197(f)(9)(B)(ii) Election

If you made the election under section 197(f)(9)(B)(ii) to recognize gain on the disposition of a section 197 intangible and to pay a tax on that gain at the highest tax rate, include the additional tax on Form 1040, line 44 (or the appropriate line of other income tax returns). Enter "197" and the amount in the space next to line 44. The additional tax is the amount that, when added to any other income tax on the gain, equals the gain multiplied by the highest tax rate.

Rollover of Gain From Sale of Empowerment Zone Assets

If you sold a qualified empowerment zone asset that you held for more than 1 year, you may be able to elect to postpone part or all of the gain that you would otherwise include on Form 4797, Part I. If you make the election, the gain on the sale generally is recognized only to the extent, if any, that the amount realized on the sale exceeds the cost of qualified empowerment zone assets (replacement property) you purchased during the 60-day period beginning on the date of the sale. The following rules apply.

- No portion of the cost of the replacement property may be taken into account to the extent the cost is taken into account to exclude gain on a different empowerment zone asset.
- The replacement property must qualify as an empowerment zone asset

with respect to the same empowerment zone as the asset sold.

- You must reduce the basis of the replacement property by the amount of postponed gain.
- This election does not apply to any gain (a) treated as ordinary income or (b) attributable to real property, or an intangible asset, which is not an integral part of an enterprise zone business.
- The District of Columbia enterprise zone is not treated as an empowerment zone for this purpose.
- The election is irrevocable without IRS consent.

Qualified empowerment zone assets are:

- Tangible property, if:

1. You acquired the property after December 21, 2000,
2. The original use of the property in the empowerment zone began with you, and
3. Substantially all of the use of the property, during substantially all of the time that you held it, was in your enterprise zone business; and

- Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:

1. You acquired the stock or partnership interest after December 21, 2000, solely in exchange for cash, from the corporation at its original issue (directly or through an underwriter) or from the partnership;
2. The business was an enterprise zone business (or a new business being organized as an enterprise zone business) as of the time you acquired the stock or partnership interest; and
3. The business qualified as an enterprise zone business during substantially all of the time during which you held the stock or partnership interest.

See Pub. 954, Tax Incentives for Distressed Communities, for the definition of empowerment zone and enterprise zone business.

How to report. Report the entire gain realized from the sale as you otherwise would without regard to the election. On Form 4797, line 2, enter "Section 1397B Rollover" in column (a) and enter as a (loss) in column (g) the amount of gain included on Form 4797 that you are electing to postpone. If you are reporting the sale directly on Form 4797, line 2, use the line directly below the line on which you reported the sale.

See Pub. 954 and section 1397B for more details.

Exclusion of Gain From Sale of DC Zone Assets

If you sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that you acquired after December 31, 1997, and held for more than 5 years, you may be able to exclude the amount of "qualified capital gain." The qualified gain is, generally, any gain recognized in a trade or business that you would otherwise include on Form 4797, Part I. This exclusion also applies to an interest in, or property of, certain businesses operating in the District of Columbia.

DC Zone asset. A DC Zone asset is any of the following.

- DC Zone business stock.
- DC Zone partnership interest.
- DC Zone business property.

Qualified capital gain. The qualified capital gain is any gain recognized on the sale or exchange of a DC Zone asset that is a capital asset or property used in a trade or business. It does not include any of the following gain:

- Gain treated as ordinary income under section 1245;
- Gain treated as unrecaptured section 1250 gain. The section 1250 gain must be figured as if it applied to all depreciation rather than the additional depreciation;
- Gain attributable to real property, or an intangible asset, which is not an integral part of a DC Zone business; and
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

See Pub. 954 and section 1400B for more details on DC Zone assets and special rules.

How to report. Report the entire gain realized from the sale or exchange as you otherwise would without regard to the exclusion. To report the exclusion, enter "DC Zone Asset Exclusion" on Form 4797, line 2, column (a) and enter as a (loss) in column (g) the amount of the exclusion that offsets the gain reported in Part I, line 6.

CAUTION *Any unrecaptured section 1250 gain is not qualified capital gain. Identify the amount of gain that is unrecaptured section 1250 gain and report it on the Schedule D for the form you are filing.*

Exclusion of Gain From Qualified Community Assets

If you sold or exchanged a qualified community asset acquired after December 31, 2001, and before January 1, 2010, that you held for more than 5 years, you may be able to exclude the "qualified capital gain." The qualified gain is, generally, any gain recognized in a trade or business that you would otherwise include on Form 4797, Part I. This exclusion also applies to an interest in, or property of, certain renewal community businesses.

Qualified community asset. A qualified community asset is any of the following.

- Qualified community stock.
- Qualified community partnership interest.
- Qualified community business property.

Qualified capital gain. Qualified capital gain is any gain recognized on the sale or exchange of a qualified community asset that is a capital asset or property used in a trade or business. It does not include any of the following gains:

- Gain treated as ordinary income under section 1245;
- Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation;
- Gain attributable to real property, or an intangible asset, that is not an integral part of a qualified community business; and
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

See Pub. 954 and section 1400F for more details and special rules.

How to report. Report the entire gain realized from the sale or exchange as you otherwise would without regard to the exclusion. To report the exclusion, enter "Qualified Community Asset Exclusion" on Form 4797, line 2, column (a) and enter as a (loss) in column (g) the amount of the exclusion that offsets the gain reported in Part I, line 6.

Specific Instructions

To show losses, enclose figures in (parentheses).

Note. If you disposed of property you acquired by inheritance from decedent who died before 2010, enter "INHERITED" in column (b) instead of the date you acquired the property.

If you disposed of property you acquired by inheritance from a decedent who died in 2010, special rules apply. See Pub. 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, for more information.

Disposition by a Partnership or S Corporation of Section 179 Property

Partners and S corporation shareholders. If you received a Schedule K-1 from a partnership or S corporation reporting the sale,

Worksheet for Partners and S Corporation Shareholders to Figure Gain or Loss on Dispositions of Property for Which a Section 179 Deduction Was Claimed

Keep for Your Records

Caution: See the *worksheet instructions* below before starting.

1.	Gross sales price			1. ______
2.	Cost or other basis		2. ______	
3. a	Depreciation (excluding section 179 expense deduction)	3a. ______		
b	Section 179 expense deduction . . . 3b. ______			
c	Unused carryover of section 179 expense deduction . . . 3c. ______			
d	Subtract line 3c from line 3b	3d. ______		
e	Add lines 3a and 3d		3e. ______	
4.	**Adjusted basis.** Subtract line 3e from line 2			4. ______
5.	**Gain or loss.** Subtract line 4 from line 1 (see *Where To Report Amounts From Worksheet,* below)			5. ______

Worksheet Instructions

Caution: *For a disposition due to casualty or theft, skip lines 1 and 5 and enter the amount from line 4 on Form 4684, line 23, and complete the rest of Form 4684.*

Lines 1, 2, 3a, and 3b. Enter these amounts from Schedule K-1 (Form 1065 or 1120S).

Line 3c. If you were unable to claim all of the section 179 expense deduction previously passed through to you for the property (if any), enter the smaller of line 3b or the portion of your unused carryover of section 179 expense deduction attributable to the property. Make sure you reduce your carryover of disallowed section 179 expense deduction shown on Form 4562 by the amount on line 3c.

Where To Report Amounts From Worksheet

Generally, the information from the above worksheet is reported on the lines specified below for Form 4797, Part III. However, for a disposition under the installment method, complete the lines shown below for Form 6252. For dispositions of property given up in an exchange involving like-kind property, complete the lines shown below for Form 8824.

If line 5 is a gain and the property was held more than 1 year, report the disposition as follows.

- Complete Form 4797, line 19, columns (a), (b), and (c); Form 6252, lines 1 through 4; or Form 8824, Parts I and II.
- Report the amount from line 1 above on Form 4797, line 20; Form 6252, line 5; or Form 8824, line 12 or 16.
- Report the amount from line 2 above on Form 4797, line 21; or Form 6252, line 8.
- Report the amount from line 3e above on Form 4797, line 22; or Form 6252, line 9.
- Report the amount from line 4 above on Form 4797, line 23; Form 6252, line 10; or Form 8824, line 13 or 18.
- Complete the rest of the applicable form.

If line 5 is zero or a loss and the property was held more than 1 year, report the disposition as follows. Do not report a loss on Form 6252; instead, report the disposition on the lines shown for Form 4797.

- Complete Form 4797, line 2, columns (a), (b), and (c); or Form 8824, Parts I and II.
- Report the amount from line 1 above on Form 4797, line 2, column (d); or Form 8824, line 12 or 16.
- Report the amount from line 2 above on Form 4797, line 2, column (f).
- Report the amount from line 3e above on Form 4797, line 2, column (e).
- Report the amount from line 4 above on Form 8824, line 13 or 18.
- Complete the rest of the applicable form.

If the property was held one year or less, report the gain or loss on the disposition as shown below. Do not report a loss on Form 6252; instead, report the disposition on the lines shown for Form 4797.

- Complete Form 4797, line 10, columns (a), (b), and (c); Form 6252, lines 1 through 4; or Form 8824, Parts I and II.
- Report the amount from line 1 above on Form 4797, line 10, column (d); Form 6252, line 5; or Form 8824, line 12 or 16.
- Report the amount from line 2 above on Form 4797, line 10, column (f); or Form 6252, line 8.
- Report the amount from line 3e above on Form 4797, line 10, column (e); or Form 6252, line 9.
- Report the amount from line 4 above on Form 6252, line 10; or Form 8824, line 13 or 18.
- Complete the rest of the applicable form.

exchange, or other disposition of property for which a section 179 expense deduction was previously claimed and passed through to its partners or shareholders, you must report your share of the transaction on Form 4797, 4684, 6252, or 8824 (whether or not you were a partner or shareholder at the time the section 179 deduction was claimed).

See the worksheet on page 4 to figure the amount to report on Form 4797, 4684, 6252, or 8824, and to figure any reduction in your carryforward of the unused section 179 expense deduction. The partnership or S corporation must provide the following information on Schedule K-1 for the transaction.

- Description of the property.

- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- The partner's or shareholder's share of the gross sales price or amount realized. Enter this amount on line 1 of the worksheet.
- The partner's or shareholder's share of the cost or other basis plus the expense of sale. Enter this amount on line 2 of the worksheet.
- The partner's or shareholder's share of the depreciation allowed or allowable, but excluding the section 179 expense deduction. Enter this amount on line 3a of the worksheet.
- The partner's or shareholder's share of the section 179 expense deduction passed through for the property and the partnership's or S corporation's tax year(s) in which the amount was passed through. Enter this amount on line 3b of the worksheet your share of the total amount of the section 179 expense deduction passed through for the property (even if you were not a partner or shareholder for the tax year in which it was passed through or you did not deduct all or part of the section 179 expense because of the dollar or taxable income limitations). The tax year(s) in which the amount was passed through are provided so you can determine the amount of unused carryover section 179 expense (if any) for the property to report on line 3c.
- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the partner or shareholder to complete Form 4684.
- If the disposition was an installment sale made during the partnership's or S corporation's tax year reported using the installment method, any information needed by the partner or shareholder to complete Form 6252. The partnership or S corporation also must separately report the partner's or shareholder's share of all payments received for the property in the following tax years.
- If the disposition was a disposition of property given up in an exchange involving like-kind property made during the partnership's or S corporation's tax year, any information needed by the partner or shareholder to complete Form 8824.

If you have a carryforward of unused section 179 expense deduction that includes section 179 expense deduction previously passed through to you for the disposed asset, you must reduce your carryforward by your share of the section 179 expense deduction shown on Schedule K-1 (or the amount attributable to that property included in your carryforward amount).

Note. Partnerships (other than electing large partnerships) and S corporations do not report these transactions on Forms 4797, 4684, 6252, or 8824. Instead, they provide their partners and shareholders the information they need to report the transactions. See the instructions for Form 1065 or Form 1120S for details on the information that must be reported on Schedule K-1.

Line 1

Enter on line 1 the total gross proceeds from:

- Sales or exchanges of real estate reported to you for 2010 on Form(s) 1099-S (or substitute statement) that you are including on line 2, 10, or 20 and
- Sales of securities or commodities reported to you for 2010 on Forms 1099-B (or substitute statements) that you are including on line 10 because you are a trader with a mark-to-market election under section 475(f) in effect for the tax year. See *Traders Who Made a Mark-To-Market Election* on page 2 and the Instructions for line 10 on page 6.

Part I

Use Part I to report section 1231 transactions that are not required to be reported in Part III.

Section 1231 transactions. The following are section 1231 transactions.

- Sales or exchanges of real or depreciable property used in a trade or business and held for more than 1 year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.
- Cutting of timber that the taxpayer elects to treat as a sale or exchange under section 631(a).
- Disposal of timber with a retained economic interest that is treated as a sale, or an outright sale of timber, under section 631(b).
- Disposal of coal (including lignite) or domestic iron ore with a retained economic interest that is treated as a sale under section 631(c).
- Sales or exchanges of cattle and horses, regardless of age, used in a trade or business for draft, breeding, dairy, or sporting purposes and held for 24 months or more from acquisition date.
- Sales or exchanges of livestock other than cattle and horses, regardless of age, used in a trade or business for draft, breeding, dairy, or sporting purposes and held for 12 months or more from acquisition date.

Note. Livestock does not include poultry, chickens, turkeys, pigeons, geese, other birds, fish, frogs, reptiles, etc.

- Sales or exchanges of unharvested crops. See section 1231(b)(4).
- Involuntary conversions of trade or business property or capital assets held more than 1 year in connection with a trade or business or a transaction entered into for profit. These conversions may result from (a) part or total destruction, (b) theft or seizure, or (c) requisition or condemnation (whether threatened or carried out). If any recognized losses were from involuntary conversions from fire, storm, shipwreck, or other casualty or from theft and the losses exceed the recognized gains from the conversions, do not include any gains or losses from such conversions when figuring your net section 1231 losses.

Transactions to which section 1231 does not apply. Section 1231 transactions do not include sales or exchanges of:

- Inventory or property held primarily for sale to customers;
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property (a) created by your personal efforts, (b) prepared or produced for you (in the case of letters, memoranda, or similar property), or (c) received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way that entitled you to the basis of the previous owner (such as by gift); or
- U.S. Government publications, including the Congressional Record, that you received from the Government other than by purchase at the normal sales price or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.

Line 7

Partners and S corporation shareholders receive a Schedule K-1 (Form 1065 or Form 1120S), which includes amounts that must be reported on the Form 4797. Following the instructions for Schedule K-1, enter any amounts from your Schedule K-1 (Form 1120S), box 9, or Schedule K-1 (Form 1065), box 10, in Part I of Form 4797.

If the amount from line 7 is a gain and you do not have nonrecaptured section 1231 losses from prior years (see instructions for line 8), enter the gain from line 7 as a long-term capital gain on the Schedule D for the return you are filing.

Line 8

Your net section 1231 gain on line 7 is treated as ordinary income to the extent of your “nonrecaptured section 1231 losses.” Your nonrecaptured section 1231 losses are your net section 1231 losses deducted during the 5 preceding tax years that have not yet been applied against any net section 1231 gain to determine how much net section 1231 gain is treated as ordinary income under this rule.

Example. You had net section 1231 losses of $4,000 and $6,000 in 2005 and 2006, respectively, and net section 1231 gains of $3,000 and $2,000 in 2009 and 2010, respectively. The 2010 net section 1231 gain of $2,000 is entered on line 7 and the nonrecaptured net section 1231 losses of $7,000 ($10,000 net section 1231 losses minus the $3,000 that was applied against the 2010 net section 1231 gain) are entered on line 8. The entire $2,000 net section 1231 gain on line 7 is treated as ordinary income and is entered on line 12 of Form 4797. For recordkeeping purposes, the $4,000 loss from 2005 is all recaptured ($3,000 in 2009 and $1,000 in 2010), and you have $5,000 of section 1231 losses from 2006 left to recapture ($6,000 minus the $1,000 recaptured this year).

Figuring the Prior Year Losses

You had a net section 1231 loss if section 1231 losses exceeded section 1231 gains. Gains are included only to the extent taken into account in figuring gross income. Losses are included only to the extent taken into account in figuring taxable income except that the limitation on capital losses does not apply.

Line 9

For recordkeeping purposes, if line 9 is zero, the amount on line 7 is the amount of net section 1231 loss recaptured in 2010. If line 9 is more than zero, you have recaptured all of your net section 1231 losses from prior years.

Enter the gain from line 9 as a long-term capital gain on the Schedule D for the return you are filing.

Part II

If a transaction is not reportable in Part I or Part III and the property is not a capital asset reportable on Schedule D, report the transaction in Part II.

If you received ordinary income from a sale or other disposition of your interest in a partnership, see Pub. 541, Partnerships.

Line 10

Report other ordinary gains and losses, including gains and losses from property held 1 year or less, on this line.

Deduct the loss from a qualifying abandonment of business or investment property on line 10. See *Abandonments* in Pub. 544 for more information.

Gain or Loss From Certain Preferred Stock

Gain or loss recognized by any “applicable financial institution” from the sale or exchange of ‘‘any applicable preferred stock’’ is ordinary income or loss. An applicable financial institution includes:

- A financial institution defined in section 582(c)(2), and
- A depository institution holding company defined in section 3(w)(1) of the Federal Deposit Insurance Act.

Also, for this purpose,“applicable preferred stock” is preferred stock of Federal National Mortgage Association (Fannie Mae), or the Federal Home Loan Mortgage Corporation (Freddie Mac) that was:

- Held by the applicable financial institution on September 6, 2008, or
- Sold or exchanged by the applicable financial institution after December 31, 2007, and before September 7, 2008.

In the case of a sale or exchange of applicable preferred stock after September 6, 2008, by a taxpayer that held such preferred stock on September 6, 2008, these provisions apply only where the taxpayer was an applicable financial institution at all times during the period beginning on September 6, 2008, and ending on the date of the sale or exchange of the applicable preferred stock. Therefore, any Fannie Mae or Freddie Mac preferred stock held by a taxpayer that was not an applicable financial institution on September 6, 2008, is not applicable preferred stock (even if such taxpayer subsequently became an applicable financial institution).

For guidance on preferred stock held indirectly by applicable financial institutions through partnerships and subsidiaries, see Rev. Proc. 2008-64. You can find Rev. Proc. 2008-64, in Internal Revenue Bulletin 2008-47 at *www.irs.gov/pub/irs-irbs/irb08-47.pdf.*

Deferred Gain from Qualifying Electric Transmission Transaction

If you sold or exchanged qualifying electric transmission property before January 1, 2008 (before January 1, 2010, for a qualified electric utility), and elected under section 451(i) to defer the realized gain, the deferred gain is recognized ratably over the 8-year period that began with the tax year that includes the date of the disposition. Include the applicable portion of the deferred gain for the current tax year on line 10. Enter “Deferred gain under section 451(i)” in column (a) and 1/8 of the deferred gain in column (g). See section 451(i) for more details.

Securities or Commodities Held by a Trader Who Made a Mark-To-Market Election

Report on line 10 all gains and losses from sales and dispositions of securities or commodities held in connection with your trading business, including gains and losses from marking to market securities and commodities held at the end of the tax year (see *Traders Who Made a Mark-To-Market Election* on page 2). Attach to your tax return a statement, using the same format as line 10, showing the details of each transaction. Separately show and identify securities or commodities held and marked to market at the end of the year. On line 10, enter “Trader—see attached” in column (a) and the totals from the statement in columns (d), (f), and (g). Also, see the instructions for line 1 on page 5.

Small Business Investment Company Stock

Report on line 10 ordinary losses from the sale or exchange (including worthlessness) of stock in a small business investment company operating under the Small Business Investment Act of 1958. See section 1242.

Also attach a statement that includes the name and address of the small business investment company and, if applicable, the reason the stock is worthless and the approximate date it became worthless.

Section 1244 (Small Business) Stock

Individuals report ordinary losses from the sale or exchange (including worthlessness) of section 1244 (small business) stock on line 10.

To qualify as section 1244 stock, all six of the following requirements must be met.

1. You acquired the stock after June 30, 1958, upon original issuance of the shares from a domestic corporation (or the stock was acquired by a partnership in which you were a partner continuously from the date the stock was issued until the time of the loss).
2. If the stock was issued before November 7, 1978, it was issued under a written plan that met the requirements of Regulations section 1.1244(c)-1(f), and when that plan was adopted, the corporation was treated as a small business corporation under Regulations section 1.1244(c)-2(c).
3. If the stock was issued after November 6, 1978, the corporation was

treated as a small business corporation at the time the stock was issued under Regulations section 1.1244(c)-2(b). To be treated as a small business corporation, the total amount of money and other property received by the corporation for its stock as a contribution to capital and paid-in surplus generally may not exceed $1 million.

4. The stock was issued for money or other property (excluding stock or securities).

5. The corporation, for its 5 most recent tax years ending before the date of the loss, derived more than 50% of its gross receipts from sources other than royalties, rents, dividends, interest, annuities, and gains from sales and exchanges of stocks or securities. If the corporation was in existence for at least 1 tax year but fewer than 5 tax years ending before the date of the loss, the 50% test applies for the tax years ending before that date. If the corporation was not in existence for at least 1 tax year ending before the date of the loss, the 50% test applies for the entire period ending before that date. The 50% test does not apply if the corporation's deductions (other than the net operating loss and dividends-received deductions) exceeded its gross income during the applicable period. But this exception to the 50% test applies only if the corporation was largely an operating company within the 5 most recent tax years ending before the date of the loss (or, if less, the entire period the corporation was in existence).

6. If the stock was issued before July 19, 1984, it must have been common stock.

The maximum amount that may be treated as an ordinary loss is $50,000 ($100,000 if married filing jointly). Special rules may limit the amount of your ordinary loss if (a) you received section 1244 stock in exchange for property with a basis in excess of its FMV or (b) your stock basis increased because of contributions to capital or otherwise. See Pub. 550 for more details. Report on Schedule D losses in excess of the maximum amount that may be treated as an ordinary loss (and all gains) from the sale or exchange of section 1244 stock.

Keep adequate records to distinguish section 1244 stock from any other stock owned in the same corporation.

Line 18a

You must complete this line if there is a gain on Form 4797, line 3; a loss on Form 4797, line 11; and a loss on Form 4684, line 38, column (b)(ii). Enter on this line the smaller of the loss on Form 4797, line 11, or the loss on Form 4684, line 38, column (b)(ii). To figure which loss is smaller, treat both losses as positive numbers. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23.

Part III

TIP *Partners and shareholders reporting a disposition of section 179 property which was separately reported to you on Schedule K-1 (Form 1065 or 1120S), see* Partners and S corporation shareholders *at the beginning of the* Specific Instructions.

Generally, for property held 1 year or less, do not complete Part III; instead use Part II. For exceptions, see the chart on page 1.

Use Part III to figure recapture of depreciation and certain other items that must be reported as ordinary income on the disposition of property. Complete lines 19 through 24 to determine the gain on the disposition of the property. If you have more than four properties to report, use additional forms. For more details on depreciation recapture, see Pub. 544.

Note. If the property was sold on the installment sale basis, see the Instructions for Form 6252 before completing Part III. Also, if you have both installment sales and noninstallment sales, you may want to use separate Forms 4797, Part III, for the installment sales and the noninstallment sales.

Line 20

The gross sales price includes money, the FMV of other property received, and any existing mortgage or other debt the buyer assumes or takes the property subject to. For casualty or theft gains, include insurance or other reimbursement you received or expect to receive for each item. Include on this line your insurance coverage, whether or not you are submitting a claim for reimbursement.

For section 1255 property disposed of in a sale, exchange, or involuntary conversion, enter the amount realized. For section 1255 property disposed of in any other way, enter the FMV.

Line 21

Reduce the cost or other basis of the property by the amount of any enhanced oil recovery credit or disabled access credit. However, do not adjust the cost or other basis for any of the items taken into account on line 22.

Line 22

Complete the following steps to figure the amount to enter on line 22.

Step 1. Add amounts such as the following.

- Deductions allowed or allowable for depreciation (including any special depreciation allowance (see the Form 4562 Instructions)), amortization, depletion, or preproductive expenses (see *Disposition of plants and animals* in chapter 9 of Pub. 225).
- The section 179 expense deduction.
- The commercial revitalization deduction.
- The downward basis adjustment under section 50(c) (or the corresponding provision of prior law).
- The deduction for qualified clean-fuel vehicle property or refueling property.
- Deductions claimed under section 190, 193, or 1253(d)(2) or (3) (as in effect before the enactment of P.L. 103-66).
- The basis reduction for any qualified plug-in electric or qualified electric vehicle credit .
- The basis reduction for the employer-provided childcare facility credit.
- The deduction for qualified energy efficient commercial building property.
- The basis reduction for the alternative motor vehicle credit.
- The basis reduction for the alternative fuel vehicle refueling property credit.

Step 2. From the Step 1 total, subtract amounts such as the following.

- Any investment credit recapture amount if the basis of the property was reduced in the tax year the property was placed in service under section 50(c)(1) (or the corresponding provision of prior law). See section 50(c)(2) (or the corresponding provision of prior law).
- Any section 179 or 280F(b)(2) recapture amount included in gross income in a prior tax year because the business use of the property decreased to 50% or less.
- Any qualified clean-fuel vehicle property or refueling property deduction you were required to recapture.
- Any basis increase for qualified electric vehicle credit recapture.
- Any basis increase for recapture of the employer-provided childcare facility credit.
- Any basis increase for recapture of the alternative motor vehicle credit.
- Any basis increase for recapture of the alternative fuel vehicle refueling property credit.
- Any qualified disaster expense recapture under section 198A(d).

For more information on amounts recaptured as depreciation allowed or allowable, see chapter 3 of Pub. 544.

You may have to include depreciation allowed or allowable on another asset (and refigure the basis amount for line 21) if you use its adjusted basis in determining the adjusted basis of the property described on line 19. An example is property acquired by a trade-in. See Regulations section 1.1245-2(a)(4). Also, see *Like-Kind Exchanges* under *Nontaxable Exchanges* in chapter 1 of Pub. 544.

Line 23

For section 1255 property, enter the adjusted basis of the section 126 property disposed of.

Line 25

Section 1245 property. Section 1245 property is property that is depreciable (or amortizable under section 185 (repealed), 197, or 1253(d)(2) or (3) (as in effect before the enactment of P.L. 103-66)) and is one of the following.

- Personal property.
- Elevators and escalators placed in service before 1987.
- Real property (other than property described under tangible real property below) subject to amortization or deductions under section 169, 179, 179A, 179B, 179C, 179D, 179E, 185 (repealed), 188 (repealed), 190, 193, or 194.
- Tangible real property (except buildings and their structural components) if it is used in any of the following ways.

1. As an integral part of manufacturing, production, or extraction or of furnishing transportation, communications, or certain public utility services.
2. As a research facility in these activities.
3. For the bulk storage of fungible commodities (including commodities in a liquid or gaseous state) used in these activities.

- A single purpose agricultural or horticultural structure (as defined in section 168(i)(13)).
- A storage facility (not including a building or its structural components) used in connection with the distribution of petroleum or any primary petroleum product.
- Any railroad grading or tunnel bore (as defined in section 168(e)(4)).

Exceptions and limits. See section 1245(b) for exceptions and limits involving the following.

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Property distributed by a partnership to a partner.
- Transfers to tax-exempt organizations where the property will be used in an unrelated business.
- Timber property.

Special rules. See the following sections for special rules.

- Section 1245(a)(4) (repealed) for player contracts and section 1056(c) (repealed) for information required from the transferor of a franchise of any sports enterprise, for sales or exchanges before October 23, 2004, involving the transfer of player contracts.
- Section 1245(a)(5) (repealed) for property placed in service before 1987, if only a portion of a building is section 1245 recovery property.
- Section 1245(a)(6) (repealed) for qualified leased property placed in service before 1987.
- Section 1245(b)(8) for dispositions of amortizable section 197 intangibles.

Line 26

Section 1250 property is depreciable real property (other than section 1245 property). Generally, section 1250 recapture applies if you used an accelerated depreciation method or you claimed any special depreciation allowance, or the commercial revitalization deduction.

TIP *Section 1250 recapture does not apply to dispositions of the following MACRS property placed in service after 1986 (or after July 31, 1986, if elected). You are not required to calculate additional depreciation for these properties on line 26.*

- *27.5-year (or 40-year, if elected) residential rental property (except for 27.5 year qualified New York Liberty Zone property acquired after September 10, 2001).*
- *22-, 31.5-, or 39-year (or 40-year, if elected) nonresidential real property (except for 39-year qualified New York Liberty Zone property acquired after September 10, 2001, and property for which you elected to claim a commercial revitalization deduction).*

ACRS property. Real property depreciable under ACRS (pre-1987 rules) is subject to recapture under section 1245, except for the following, which are treated as section 1250 property.

- 15-, 18-, or 19-year real property and low-income housing that is residential rental property.
- 15-, 18-, or 19-year real property and low-income housing that is used mostly outside the United States.
- 15-, 18-, or 19-year real property and low-income housing for which a straight line election was made.
- Low-income rental housing described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B). See the instructions for line 26b.

Exceptions and limits. See section 1250(d) for exceptions and limits involving the following.

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Property distributed by a partnership to a partner.
- Disposition of qualified low-income housing.
- Transfers of property to tax-exempt organizations if the property will be used in an unrelated business.
- Dispositions of property as a result of foreclosure proceedings.

Special rules. Special rules apply in the following cases.

- For additional depreciation attributable to rehabilitation expenditures, see section 1250(b)(4).
- If substantial improvements have been made, see section 1250(f).

Line 26a

Enter the additional depreciation for the period after 1975. Additional depreciation is the excess of actual depreciation (including any special depreciation allowance, or commercial revitalization deduction) over depreciation figured using the straight line method. For this purpose, do not reduce the basis under section 50(c)(1) (or the corresponding provision of prior law) to figure straight line depreciation. Also, if you claimed a commercial revitalization deduction, figure straight-line depreciation using the property's applicable recovery period under section 168.

Line 26b

Generally, use 100% as the percentage for this line. However, for low-income rental housing described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B), see that section for the percentage to use.

Line 26d

Enter the additional depreciation after 1969 and before 1976. If straight line depreciation exceeds the actual depreciation for the period after 1975, reduce line 26d by the excess. Do not enter less than zero on line 26d.

Line 26f

The amount the corporation treats as ordinary income under section 291 is 20% of the excess, if any, of the amount that would be treated as ordinary income if such property were section 1245 property, over the amount treated as ordinary income under section 1250. If the corporation used the straight line method of depreciation, the ordinary income under section 291 is 20% of the amount figured under section 1245.

Line 27

Partnerships (other than electing large partnerships) skip this section. Partners must enter on the applicable lines of Part III amounts subject to section 1252 according to instructions from the partnership.

You may have ordinary income on the disposition of certain farmland held more than 1 year but less than 10 years.

Refer to section 1252 to determine if there is ordinary income on the disposition of certain farmland for which deductions were allowed under sections 175 (soil and water conservation) and 182 (land clearing) (repealed). Skip line 27 if you dispose of such farmland during the 10th or later year after you acquired it.

Gain from disposition of certain farmland is subject to ordinary income rules under section 1252 before the application of section 1231 (Part I).

Enter 100% of line 27a on line 27b except as follows.

- 80% if the farmland was disposed of within the 6th year after it was acquired.
- 60% if disposed of within the 7th year.
- 40% if disposed of within the 8th year.
- 20% if disposed of within the 9th year.

Line 28

If you had a gain on the disposition of oil, gas, or geothermal property placed in service before 1987, treat all or part of the gain as ordinary income. Include on line 22 of Form 4797 any depletion allowed (or allowable) in determining the adjusted basis of the property.

If you had a gain on the disposition of oil, gas, geothermal, or other mineral properties (section 1254 property) placed in service after 1986, you must recapture all expenses that were deducted as intangible drilling costs, depletion, mine exploration costs, and development costs under sections 263, 616, and 617.

Exception. Property placed in service after 1986 and acquired under a written contract entered into before September 26, 1985, and binding at all times thereafter is treated as placed in service before 1987.

Note. A corporation that is an integrated oil company completes line 28a by treating amounts amortized under section 291(b)(2) as deductions under section 263(c).

Line 28a

If the property was placed in service before 1987, enter the total expenses after 1975 that:

- Were deducted by the taxpayer or any other person as intangible drilling and development costs under section 263(c) (except previously expensed mining costs that were included in income upon reaching the producing state), and
- Would have been reflected in the adjusted basis of the property if they had not been deducted.

If the property was placed in service after 1986, enter the total expenses that:

- Were deducted under section 263, 616, or 617 by the taxpayer or any other person; and
- But for such deduction, would have been included in the basis of the property, plus
- The deduction under section 611 that reduced the adjusted basis of such property.

If you disposed of a portion of section 1254 property or an undivided interest in it, see section 1254(a)(2).

Line 29a

Use 100% if the property is disposed of less than 10 years after receipt of payments excluded from income. Use 100% minus 10% for each year, or part of a year, that the property was held over 10 years after receipt of the excluded payments. Use zero if 20 years or more.

Line 29b

If any part of the gain shown on line 24 is treated as ordinary income under sections 1231 through 1254 (for example, section 1252), enter the smaller of (a) line 24 reduced by the part of the gain treated as ordinary income under the other provision or (b) line 29a.

Part IV

Column (a)

If you took a section 179 expense deduction for property placed in service after 1986 (other than listed property, as defined in section 280F(d)(4)) and the business use of the property decreased to 50% or less this year, complete column (a) of lines 33 through 35 to figure the recapture amount.

Column (b)

If you have listed property that you placed in service in a prior year and the business use decreased to 50% or less this year, figure the amount to be recaptured under section 280F(b)(2). Complete column (b), lines 33 through 35. See Pub. 463, Travel, Entertainment, Gift, and Car Expenses, for more details on recapture of excess depreciation.

Note. If you have more than one property subject to the recapture rules, figure the recapture amounts separately for each property. Show these calculations on a separate statement and attach it to your tax return.

Line 33

In column (a), enter the section 179 expense deduction you claimed when the property was placed in service. In column (b), enter the depreciation allowable on the property in prior tax years (plus any section 179 expense deduction you claimed when the property was placed in service).

Line 34

In column (a), enter the depreciation that would have been allowable on the section 179 property from the year the property was placed in service through (and including) the current year. See Pub. 946, How To Depreciate Property.

In column (b), enter the depreciation that would have been allowable if the property had not been used more than 50% in a qualified business. Figure the depreciation from the year it was placed in service up to (but not including) the current year. See Pub. 463 and Pub. 946.

Line 35

Subtract line 34 from line 33 and enter the recapture amount as “other income” on the same form or schedule on which you took the deduction. For example, if you took the deduction on Schedule C (Form 1040), report the recapture amount as other income on Schedule C (Form 1040).

Note. If you filed Schedule C or F (Form 1040) and the property was used in both your trade or business and for the production of income, the portion of the recapture amount attributable to your trade or business is subject to self-employment tax. Allocate the amount on line 35 to the appropriate schedules.

Be sure to increase your basis in the property by the recapture amount.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2010

IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2010, or other tax year beginning , 2010, ending , 20 OMB No. 1545-0074

Name, Address, and SSN

See separate instructions.

PRINT CLEARLY

Your first name and initial	Last name	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.		Checking a box below will not change your tax or refund.

Presidential Election Campaign ▶ Check here if you, or your spouse if filing jointly, want $3 to go to this fund . . . . . . ▶ ☐ **You** ☐ **Spouse**

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a . . . . . .
b ☐ **Spouse** . . . .

Boxes checked on 6a and 6b

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see page 15)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above

d Total number of exemptions claimed . . . . **Add numbers on lines above** ▶

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 20.

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

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

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	One-half of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 31a and 32 through 35		36
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2010)

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	
39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked ▶ 39a**		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see instructions)	40	
41	Subtract line 40 from line 38	41	
42	**Exemptions.** Multiply $3,650 by the number on line 6d	42	
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
44	**Tax** (see instructions). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972	44	
45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	
46	Add lines 44 and 45 ▶	46	
47	Foreign tax credit. Attach Form 1116 if required	47	
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Education credits from Form 8863, line 23	49	
50	Retirement savings contributions credit. Attach Form 8880	50	
51	Child tax credit (see instructions)	51	
52	Residential energy credits. Attach Form 5695	52	
53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ ______	53	
54	Add lines 47 through 53. These are your **total credits**	54	
55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶	55	

Other Taxes

56	Self-employment tax. Attach Schedule SE	56	
57	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	57	
58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	
59	**a** ☐ Form(s) W-2, box 9 **b** ☐ Schedule H **c** ☐ Form 5405, line 16	59	
60	Add lines 55 through 59. This is your **total tax** ▶	60	

Payments

If you have a qualifying child, attach Schedule EIC.

61	Federal income tax withheld from Forms W-2 and 1099	61	
62	2010 estimated tax payments and amount applied from 2009 return	62	
63	Making work pay credit. Attach Schedule M	63	
64a	**Earned income credit (EIC)**	64a	
b	Nontaxable combat pay election **64b**		
65	Additional child tax credit. Attach Form 8812	65	
66	American opportunity credit from Form 8863, line 14	66	
67	First-time homebuyer credit from Form 5405, line 10	67	
68	Amount paid with request for extension to file	68	
69	Excess social security and tier 1 RRTA tax withheld	69	
70	Credit for federal tax on fuels. Attach Form 4136	70	
71	Credits from Form: **a** ☐ 2439 **b** ☐ 8839 **c** ☐ 8801 **d** ☐ 8885	71	
72	Add lines 61, 62, 63, 64a, and 65 through 71. These are your **total payments** ▶	72	

Refund

Direct deposit? See instructions.

73	If line 72 is more than line 60, subtract line 60 from line 72. This is the amount you **overpaid**	73	
74a	Amount of line 73 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	74a	
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number		
75	Amount of line 73 you want **applied to your 2011 estimated tax** ▶ 75		

Amount You Owe

76	**Amount you owe.** Subtract line 72 from line 60. For details on how to pay, see instructions ▶	76	
77	Estimated tax penalty (see instructions) 77		

Third Party Designee

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

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

Sign Here

Joint return? See page 12. 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 Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

Form **1040** (2010)

Form **1045**

Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

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

OMB No. 1545-0098

2010

Type or print

Name(s) shown on return	**Social security or employer identification number**
Number, street, and apt. or suite no. If a P.O. box, see instructions.	**Spouse's social security number (SSN)**
City, town or post office, state, and ZIP code. If a foreign address, see instructions.	Daytime phone number ( )

1 This application is filed to carry back:	**a** Net operating loss (NOL) (Sch. A, line 25, page 2) $	**b** Unused general business credit $	**c** Net section 1256 contracts loss $

2a For the calendar year 2010, or other tax year beginning , 2010, and ending , 20	**b** Date tax return was filed

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 resulting from a reportable transaction required to be disclosed on Form 8886, Reportable Transaction Disclosure Statement? . . . . ☐ 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 instructions)? . . . . ☐ Yes ☐ No

Computation of Decrease in Tax (see instructions) **Note:** *If **1a** and **1c** are blank, skip lines 10 through 15.*	___ preceding tax year ended ►		___ preceding tax year ended ►		___ preceding tax year ended ►	
	Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10 NOL deduction after carryback (see instructions)						
11 Adjusted gross income						
12 Deductions (see instructions) . . .						
13 Subtract line 12 from line 11 . . .						
14 Exemptions (see instructions) . . .						
15 Taxable income. Line 13 minus line 14						
16 Income tax. See instructions and attach an explanation						
17 Alternative minimum tax						
18 Add lines 16 and 17						
19 General business credit (see instructions)						
20 Other credits. Identify						
21 Total credits. Add lines 19 and 20 .						
22 Subtract line 21 from line 18 . . .						
23 Self-employment tax						
24 Other taxes						
25 Total tax. Add lines 22 through 24 .						
26 Enter the amount from the "After carryback" column on line 25 for each year						
27 Decrease in tax. Line 25 minus line 26						

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.

Keep a copy of this application for your records.

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

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ►			Firm's EIN ►	
Firm's address ►			Phone no.	

Schedule A—NOL (see instructions)

1	Enter the amount from your 2010 Form 1040, line 41, or Form 1040NR, line 39. 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 instructions)		6	
7	Nonbusiness income other than capital gains (see 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 2010 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 2010 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 2010 Form 1040, line 35, or Form 1040NR, line 34 (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 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 instructions). Enter as a positive number						
2 Taxable income before 2010 NOL carryback (see instructions). Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction .						
3 Net capital loss deduction (see instructions)						
4 Section 1202 exclusion. Enter as a positive number						
5 Domestic production activities deduction						
6 Adjustment to adjusted gross income (see instructions)						
7 Adjustment to itemized deductions (see instructions)						
8 Individuals, enter deduction for exemptions (minus any amount on Form 8914, line 6, for 2006 and 2009; 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 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 2010 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 Mortgage insurance premiums from Sch. A (Form 1040), line 13 (or as previously adjusted)						
20 Refigured 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 2010 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 19 (line 18 for 2000 through 2006), or Sch. A (Form 1040NR), line 7 (or as previously adjusted)						
26 Refigured charitable contributions (see instructions)						
27 Subtract line 26 from line 25 . . .						
28 Casualty and theft losses from Form 4684, line 21 (line 23 for 2008; line 18 for 2000 through 2004 and 2007; line 20 for 2005 and 2006)						
29 Casualty and theft losses from Form 4684, line 18 (line 21 for 2008; line 16 for 2000 through 2004 and 2007) . .						
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 27 (line 26 for 2000 through 2006), or Sch. A (Form 1040NR), line 15 (or as previously adjusted) . . .						
34 Miscellaneous itemized deductions from Sch. A (Form 1040), line 24 (line 23 for 2000 through 2006), 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 in 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). • $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. • $166,800 for 2009. Otherwise, combine lines 18, 21, 27, 32, and 37; enter the result here and on line 7 (page 3)						

Form **8822** (Rev. December 2008) Department of the Treasury Internal Revenue Service

Change of Address

▶ Please type or print.

▶ See instructions on back. ▶ Do not attach this form to your return.

OMB No. 1545-1163

Part I Complete This Part To Change Your Home Mailing Address

Check **all** boxes this change affects:

1 ☐ Individual income tax returns (Forms 1040, 1040A, 1040EZ, 1040NR, etc.)

▶ If your last return was a joint return and you are now establishing a residence separate from the spouse with whom you filed that return, check here . . . . ▶ ☐

2 ☐ Gift, estate, or generation-skipping transfer tax returns (Forms 706, 709, etc.)

▶ For Forms 706 and 706-NA, enter the decedent's name and social security number below.

▶ Decedent's name ▶ Social security number

3a **Your name** (first name, initial, and last name)	3b **Your social security number**
4a **Spouse's name** (first name, initial, and last name)	4b **Spouse's social security number**

5 **Prior name(s).** See instructions.

6a **Old address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Apt. no.
6b **Spouse's old address,** if different from line 6a (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Apt. no.
7 **New address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Apt. no.

Part II Complete This Part To Change Your Business Mailing Address or Business Location

Check **all** boxes this change affects:

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

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

10 ☐ Business location

11a **Business name**	11b **Employer identification number**
12 **Old mailing address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Room or suite no.
13 **New mailing address** (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions.	Room or suite no.
14 **New business location** (no., street, city or town, state, and ZIP code). If a foreign address, see instructions.	Room or suite no.

Part III Signature

Daytime telephone number of person to contact (optional) ▶ ( )

Sign Here

Your signature	Date	If Part II completed, signature of owner, officer, or representative	Date
If joint return, spouse's signature	Date	Title	

For Privacy Act and Paperwork Reduction Act Notice, see back of form. Cat. No. 12081V Form **8822** (Rev. 12-2008)

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.

CAUTION

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) 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	Austin, TX 73301-0023 USA
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

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.

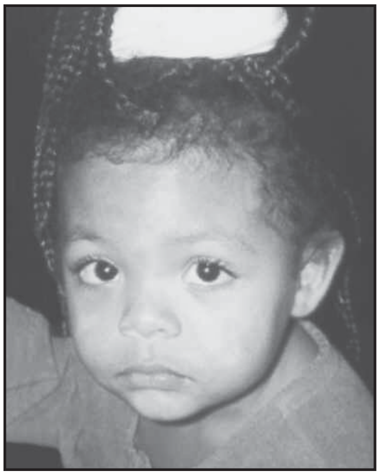
The use of this form is voluntary. However, if you fail to provide the Internal Revenue Service with your current mailing address, you may not receive a notice of deficiency or a notice and demand for tax. Despite the failure to receive such notices, penalties and interest will continue to accrue on 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.

Help Us To Picture Them Home



Teekah Lewis

Female, Age Now: 14
Ht:3'0 Wt:35 lbs.
Brown eyes, Black hair

Age Enhanced Photo

Missing From: Tacoma, WA on 1/23/1999

National Center for Missing and Exploited Children

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

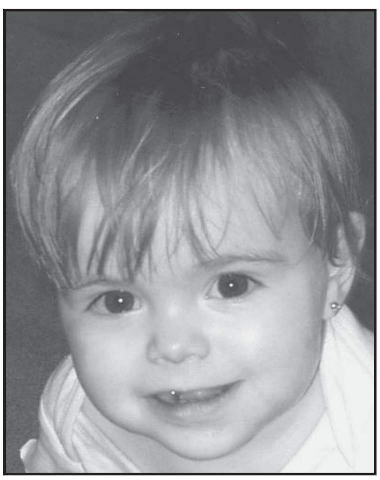
Proud Partners With

Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

Help Us To Picture Them Home



Alondra Parrott

Female, Age Now: 6
Ht:2'6 Wt:30 lbs.
Green eyes, Sandy hair

Age Enhanced Photo

Missing From: El Paso, TX on 10/01/2005

National Center for Missing and Exploited Children

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

Proud Partners With

Internal Revenue Service

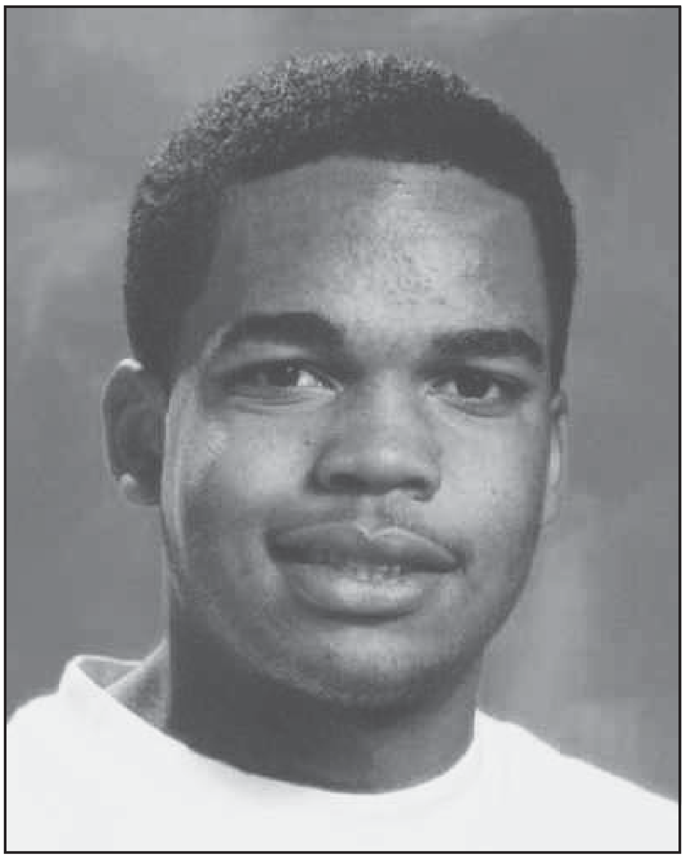
NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

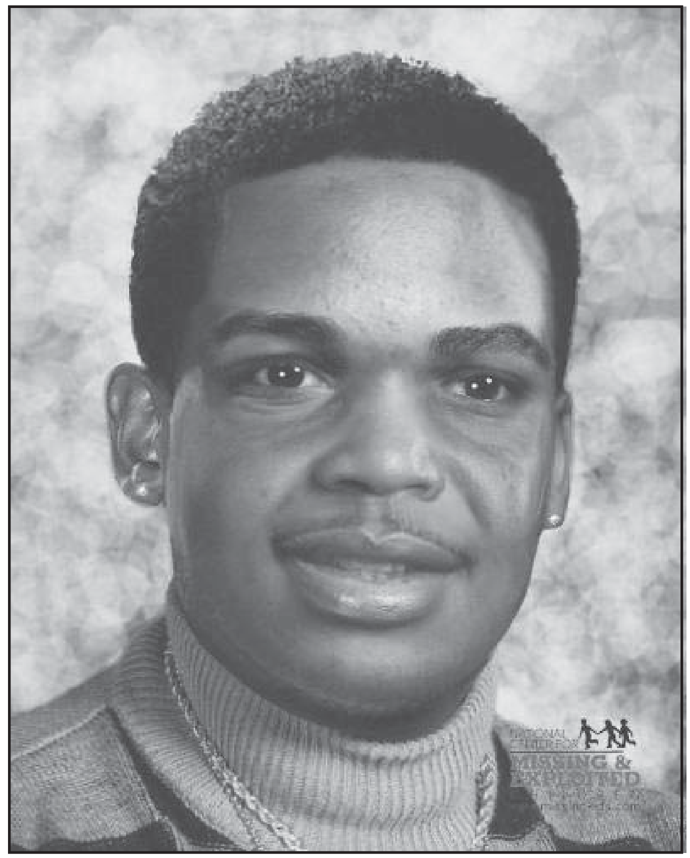
Help Us To

Picture Them Home

Byron Page



Male, Age Now: 35
Ht:5'8 Wt:160 lbs.
Brown eyes, Black hair



Age Progression By NCMEC

Missing From: Los Angeles, CA on 1/29/1992

National Center for Missing and Exploited Children

Call 1-800-THE-LOST

(1-800-843-5678)

Proud Partners With
Internal Revenue Service

NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

www.missingkids.com

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