Publication 225

Farmer’s Tax Guide

For use in preparing **2023** Returns

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Volume 7 of 10

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Facility for bulk storage of fungible commodities. This is a facility used mainly for the bulk storage of fungible commodities. Bulk storage means storage of a commodity in a large mass before it is used. For example, if a facility is used to store oranges that have been sorted and boxed, it is not used for bulk storage. To be fungible, a commodity must be such that each of its parts is essentially interchangeable, and each of its parts is indistinguishable from another part.

Gain Treated as Ordinary Income

The gain treated as ordinary income on the sale, exchange, or involuntary conversion of section 1245 property, including a sale and leaseback transaction, is the lesser of the following amounts.

1. The depreciation (which includes any section 179 deduction claimed) and

amortization allowed or allowable on the property.

2. The gain realized on the disposition (the amount realized from the disposition mi-nus the adjusted basis of the property).

See chapter 3 of Pub. 544 for more information on dispositions of section 1245 property.

Use Part III of Form 4797 to figure the ordinary income part of the gain.

Depreciation claimed on other property or claimed by other taxpayers.

Depreciation and amortization include the amounts you claimed on the section 1245 property as well as the following depreciation and amortization amounts.

- Amounts you claimed on property you exchanged for, or converted to, your section 1245 property in an applicable like-kind exchange or involuntary conversion. For details on exchanges of property that are not taxable, see *Like-Kind Exchanges* in chapter 8.

- Amounts a previous owner of the section 1245 property claimed if your basis is determined with reference to that person's adjusted basis (for example, the donor's depreciation deductions on property you received as a gift).

Depreciation and amortization. Depreciation and amortization deductions that must be recaptured as ordinary income include (but are not limited to) the following items. See *Depreciation Recapture* in chapter 3 of Pub. 544 for more details.

1. Ordinary depreciation deductions.
2. The section 179 expense deduction (see chapter 7).
3. Any special depreciation allowance.

4. Amortization deductions for any of the following costs.
    a. Acquiring a lease.
    b. Lessee improvements.
    c. Pollution control facilities.
    d. Reforestation expenses.
    e. Section 197 intangibles.
    f. Qualified disaster expenses.
    g. Franchises, trademarks, and trade names acquired before August 11, 1993.

Example. You file your returns on a calendar year basis. In February 2021, you bought and placed in service for 100% use in your farming business a light-duty truck (5-year property) that cost $30,000. You used the half-year convention and your MACRS deductions for the truck were $6,000 in 2021 and $9,600 in 2022. You did not claim the section 179 expense de-duction for the truck. You sold it in May 2023 for $21,000. The MACRS deduction in 2023, the year of sale, is $2,880 ($1/2$ of $5,760). Figure the gain treated as ordinary income as follows.

1.	Amount realized		$21,000
2.	Cost (February 2021)	$30,000	
3.	Depreciation allowed or allowable (MACRS deductions: $6,000 + $9,600 + $2,880) . . .	18,480	
4.	Adjusted basis (subtract line 3 from line 2)		$11,520
5.	Gain realized (subtract line 4 from line 1)		$9,480
6.	**Gain treated as ordinary income (lesser of line 3 or line 5)**		**$9,480**

Depreciation allowed or allowable. You generally use the greater of the depreciation allowed or allowable when figuring the part of gain to report as ordinary income. If, in prior years, you have consistently taken proper deductions under one method, the amount allowed for your prior years will not be increased even though a greater amount would have been allowed under another proper method. If you did not take any deductions in prior years for depreciation, your adjustments to basis for depreciation allowable are figured by using the straight line method. This treatment applies only when figuring what part of the gain is treated as ordinary income under the rules for section 1245 depreciation recapture. For more information on depreciation allowed or allowable, see chapter 7. For information on adjustments to basis for depreciation allowed or allowable, see chapter 6.

Disposition of plants. If you elect not to use the uniform capitalization rules (see chapter 6), you must treat any plant that would have been subject to the uniform capitalization rules as section 1245 property. If you have a gain on the property's disposition, you must recapture the pre-productive expenses you would have capitalized if you had not made the election by treating the gain, up to the amount of these expenses, as ordinary income. For section 1231 transactions, show these expenses as depreciation on Form 4797, Part III, line 22. For plant sales that are reported on Schedule F (Form 1040), Profit or Loss From Farming, this recapture rule does not change the reporting of income because the gain is already ordinary income. You can use the farm-price method discussed in chapter 2 to figure these expenses.

Example. You sold your apple orchard in 2023 for $80,000. Your adjusted basis at the time of sale was $60,000. You bought the orchard in 2016, but the trees did not produce a crop until 2019. Your pre-productive expenses were $6,000. You elected not to use the uniform capitalization rules. You must treat $6,000 of the gain as ordinary income in addition to recapturing depreciation allowed or allowable on the orchard. This amount would be reported on Form 4797, Part III, as ordinary income.

See Uniform Capitalization Rules in chapter 6 for more information regarding electing out of, or being exempt from, using the uniform capitalization rules.

Section 1250 Property

Section 1250 property includes all real property subject to an allowance for depreciation that is not and never has been section 1245 property. It includes buildings and structural components that are not section 1245 property (discussed earlier). It includes a leasehold of land or section 1250 property subject to an allowance for depreciation. A fee simple interest in land is not section 1250 property because, like land, it is not depreciable.

Gain on the disposition of section 1250 property is treated as ordinary income to the extent of additional depreciation allowed or allowable. To determine the additional depreciation on section 1250 property, see *Depreciation Recapture* in chapter 3 of Pub. 544.

Use Part III of Form 4797 to figure the ordinary income part of the gain.

You will not have additional depreciation if any of the following apply to the property disposed of.

- You figured depreciation for the property using the straight line method or any other method that does not result in depreciation that is more than the amount figured by the straight line method and you have held the property longer than 1 year.
- You chose the alternate ACRS (straight line) method for the property, which was a type of 15, 18, or 19year real property covered by the section 1250 rules.
- The property was nonresidential real property placed in service after 1986 (or

after July 31, 1986, if the choice to use MACRS was made) and you held it longer than 1 year. These properties are depreciated using the straight line method.

Installment Sale

If you report the sale of property under the installment method, any depreciation recapture under section 1245 or 1250 is taxable as ordinary income in the year of sale. This applies even if no payments are received in that year. If the gain is more than the depreciation recapture income, report the rest of the gain using the rules of the installment method. For this purpose, include the recapture income in your installment sale basis to determine your gross profit on the installment sale.

If you dispose of more than one asset in a single transaction, you must separately figure the gain on each asset so that it may be properly reported. To do this, allocate the selling price and the payments you receive in the year of sale to each asset. Report any depreciation recapture income in the year of sale before using the installment method for any remaining gain.

For more information on installment sales, see chapter 10.

Other Dispositions

See chapter 3 of Pub. 544 for the tax treatment of the following transfers of depreciable property.

- By gift.
- At death.
- In like-kind exchanges.
- In involuntary conversions.

Also, see Pub. 544 for information on how to handle a single transaction involving multiple properties.

Other Gains

This section discusses gain on the disposition of farmland for which you were allowed either of the following.

- Deductions for soil and water conservation expenditures (section 1252 property).
- Exclusions from income for certain cost-sharing payments (section 1255 property).

Section 1252 property. If you disposed of farmland you held more than 1 year and less than 10 years at a gain and you were allowed deductions for soil and water conservation expenses for the land, as discussed in chapter 5, you must treat part of the gain as ordinary income and treat the balance as section 1231 gain.

Exceptions. Do not treat gain on the following transactions as gain on section 1252 property.

- Disposition of farmland by gift.
- Transfer of farm property at death (except for income in respect of a decedent).

For more information, see Regulations section 1.12522.

Amount to report as ordinary income. You report as ordinary income the lesser of the following amounts.

- Your gain (determined by subtracting the adjusted basis from the amount realized from a sale, exchange, or involuntary conversion, or the fair market value for all other dispositions).
- The total deductions allowed for soil and water conservation expenses multiplied by the applicable percentage, discussed next.

Applicable percentage. The applicable percentage is based on the length of time you held the land. If you dispose of your farmland within 5 years after the date you acquired it, the percentage is 100%. If you dispose of the land within the 6th through 9th years after you acquired it, the applicable percentage is reduced by 20% a year for each year or part of a year you hold the land after the 5th year. If you dispose of the land 10 or more years after you acquired it, the percentage is 0%, and the entire gain is a section 1231 gain.

Example. You acquired farmland on January 19, 2015. You incurred $15,000 of soil and water conservation expenditures for the land that were fully deductible. On October 5, 2023, you sold the land at a $30,000 gain. The applicable percentage is 40% because you sold the land within the 8th year after you acquired it. You treat $6,000 (40% of $15,000) of the $30,000 gain as ordinary income and the $24,000 balance as a section 1231 gain.

Section 1255 property. If you receive certain cost-sharing payments on property and you exclude those payments from income (as discussed in chapter 3), you may have to treat part of any gain as ordinary income and treat the balance as a section 1231 gain. If you chose not to exclude these payments, you will not have to recognize ordinary income under this provision.

Amount to report as ordinary income. You report as ordinary income the lesser of the following amounts.

- The applicable percentage of the total excluded cost-sharing payments.
- The gain on the disposition of the property.

You do not report ordinary income under this rule to the extent the gain is recognized as ordinary income under sections 1231 through 1254, 1256, and 1257. However, if applicable, gain reported under this rule must be reported regardless of any contrary provisions (including nonrecognition provisions) under any other section.

Applicable percentage. The applicable percentage of the excluded cost-sharing payments to be reported as ordinary income is based on the length of time you hold the property after receiving the payments. If the property is held less than 10 years after you receive the payments, the percentage is 100%. After 10 years, the percentage is reduced by 10% a year, or part of a year, until the rate is 0%.

Form 4797, Part III. Use Form 4797, Part III, to figure the ordinary income part of a gain from the sale, exchange, or involuntary conversion of section 1252 property and section 1255 property.

10.

Installment Sales

Introduction

An installment sale is a sale of property where you receive at least one payment after the tax year of the sale. If you realize a gain on an installment sale, you may be able to report part of your gain when you receive each payment. This method of reporting gain is called the installment method. You can't use the installment method to report a loss. You can choose to report all of your gain in the year of sale.

Installment obligation. The buyer's obligation to make future payments to you can be in the form of a deed of trust, note, land contract, mortgage, or other evidence of the buyer's debt to you.

Topics

This chapter discusses:

- The general rules that apply to using the installment method, and
- Installment sale of a farm.

Useful Items

You may want to see:

Publication

☐ **523** Selling Your Home

☐ **537** Installment Sales

☐ **538** Accounting Periods and Methods

☐ **544** Sales and Other Dispositions of Assets

☐ **551** Basis of Assets

Form (and Instructions)

- ☐ **4797** Sales of Business Property
- ☐ **6252** Installment Sale Income
- ☐ **8594** Asset Acquisition Statement Under Section 1060
- ☐ **8949** Sales and Other Dispositions of Capital Assets

See chapter 16 for information about getting publications and forms.

Installment Sale of a Farm

The installment sale of a farm for one overall price under a single contract isn't the sale of a single asset. It generally includes the sale of real property and personal property reportable on the installment method. It may also include the sale of property for which you must maintain an inventory, which can't be reported on the installment method. See

Inventory, later. The selling price must be allocated to determine the amount received for each class of asset.

Note. You may be required to report the sale of your farm on Form 8594. For more information, see Form 8594 and its instructions.

The tax treatment of the gain or loss on the sale of each class of asset is determined by its classification as a capital asset, as property used in the business, or as property held for sale and by the length of time the asset was held. (See chapter 8 for a discussion of capital assets and chapter 9 for a discussion of property used in the business.) Separate computations must be made to figure the gain or loss for each class of asset sold. See *Sale of a Farm* in chapter 8.

If you report the sale of property on the installment method, any depreciation recapture under section 1245 or 1250 is generally taxable as ordinary income in the year of sale. See Depreciation recapture*, later. This applies even if no payments are received in that year.*

Related parties. If you sell depreciable property to a related person and the sale is an installment sale, you may not be able to report the sale using the installment method. If you sell property to a related person and the related person disposes of the property before you receive all payments with respect to the sale, you may have to treat the amount realized by the related person as received by you when the related person disposes of the property. The definition of related parties differs based on which of these applies. For more information, see *Related Person* under *Sale to a Related Person* in Pub. 537.

Installment Method

An installment sale is a sale of property where you receive at least one payment after the tax year of the sale. A farmer who isn’t required to maintain an inventory can use the installment method to report gain from the sale of property used or produced in farming. See *Inventory*, later, for information on the sale of farm property where inventory items are included in the assets sold.

If a sale qualifies as an installment sale, the gain must be reported under the installment method unless you elect out of using the installment method.

Electing out of the installment method. If you elect not to use the installment method, you generally report the entire gain in the year of sale, even though you don’t receive all the sale proceeds in that year.

To make this election, don’t report your sale on Form 6252. Instead, report it on Schedule

F (Form 1040), Schedule D (Form 1040), Form 4797, or all three.

You may also need to file Form 8949 along with Schedule D (Form 1040), Capital Gains and Losses. For more information, see Form 8949 and its instructions.

When to elect out. Make this election by the due date, including extensions, for filing your tax return for the year the sale takes place.

However, if you timely file your tax return for the year the sale takes place without making the election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Enter “Filed pursuant to section 301.9100-2” at the top of the amended return. File the amended return at the same address you filed the original return. If you electronically filed your Form 1040 or 1040-SR, you may electronically file the Form 1040-X.

Revoking the election. Once made, the election can be revoked only with IRS approval. An approved revocation is retroactive.

The taxpayer can't revoke the election if either of the following applies.

- One of the purposes is to avoid federal income tax.
- The tax year in which any payment was received has closed.

To revoke the election, you must obtain a private letter ruling from the IRS. The procedures and user fees for obtaining a private letter ruling are published annually in the first revenue procedure issued each calendar year. For 2023, go to *IRS.gov/irb/20231_IRB#RP20231*.

Send your request for a private letter ruling, including the applicable user fee, to the IRS following the instructions in section 7 of Revenue Procedure 20231. A schedule of the current user fees is available in Appendix A of Revenue Procedure 20231, starting on page 85.

Inventory. If you ***aren't*** required to maintain (keep a record of beginning and ending) inventories under your method of accounting, you can report gain from the sale of farm inventory using the installment method. Complete Form 6252 to figure the amount of installment gain to report each year from the sale of farm inventory and carry that amount to line 8 of Schedule F (Form 1040).

If you ***are*** required to maintain inventories under your method of accounting, you can't report gain from the sale of farm inventory using the installment method. All gain or loss on the sale of farm inventory must be reported in the year of sale, even if you receive payment in later years. If inventory items are included in an installment sale, you may have an agreement stating which payments are for inventory and which are for the other assets being sold. If you don't, each payment must be allocated between the inventory and the other assets sold.

***More information*.** See Inventory under Sale of a Business in Pub. 537 for more information.

Sale at a loss. If your sale results in a loss, you can't use the installment method. If the loss is on an installment sale of business assets, you can deduct it only in the tax year of sale.

Figuring Installment Sale Income

Each payment on an installment sale usually consists of the following three parts.

- Interest income.
- Return of your adjusted basis in the property.
- Gain on the sale.

In each year you receive a payment, you must include in income both the interest part and the part that is your gain on the sale. Don’t include in income the part that is the return of your basis in the property. Basis is the amount of your investment in the property for installment sale purposes.

Interest income. You must report interest as ordinary income. Interest generally isn’t included in a down payment. However, you may have to treat part of each later payment as interest, even if it isn’t called interest in your agreement with the buyer. Interest provided in the agreement is called stated interest. If the agreement doesn’t provide for enough stated interest, there may be unstated interest or original issue discount (OID). See *Unstated interest*, later.

You must continue to report the interest income on payments you receive in subsequent years as *interest income whether it’s stated or unstated.*

Adjusted basis and installment sale income (gain on sale). After you have determined how much of each payment to treat as interest, you treat the rest of each payment as if it were made up of two parts.

- A tax-free return of your adjusted basis in the property.
- Your gain (referred to as “installment sale income” on Form 6252).

Figuring adjusted basis and gross profit percentage for installment sale purposes. You can use Worksheet 10-1 to figure your adjusted basis in the property for installment sale purposes. When you have completed the worksheet, you will also have determined the gross profit percentage necessary to figure your installment sale income (gain) for this year.

Worksheet 10-1. **Figuring Adjusted Basis and Gross Profit Percentage**

Keep for Your Records

1.	Enter the selling price for the property		______
2.	Enter your adjusted basis for the property	______	
3.	Enter your selling expenses	______	
4.	Enter any depreciation recapture	______	
5.	Add lines 2, 3, and 4. This is your **adjusted basis for installment sale purposes**		______
6.	Subtract line 5 from line 1. If zero or less, enter -0-. This is your **gross profit**		______
	If the amount entered on line 6 is zero, **stop** here. You can't use the installment method.		
7.	Enter the contract price for the property		______
8.	Divide line 6 by line 7. This is your **gross profit percentage**		______

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1. **Selling price.** The selling price is the total cost of the property to the buyer and includes the following.

   - Any money you're to receive.
   - The fair market value (FMV) of any property you're to receive (FMV is discussed under *Property used as a payment*, later).
   - Any existing mortgage or other debt the buyer pays, assumes, or takes the property subject to (a note, a mortgage, or any other liability, such as a lien, accrued interest, or taxes you owe on the property).
   - Any of your selling expenses the buyer pays.

   Don't include stated interest, unstated interest, any amount recomputed or recharacterized as interest, or OID in the selling price.

2. **Adjusted basis.** Your adjusted basis in property immediately before the installment sale is your original basis increased or reduced as a result of various events while you own the property.

   - Some events, such as adding rooms or making permanent improvements, increase basis. Others, such as deductible casualty losses or depreciation previously allowed or allowable, decrease basis.

   - The way you figure your original basis depends on how you acquire the property. The basis of property you buy is generally its cost. The basis of property you inherit, receive as a gift, build yourself, or receive in a tax-free exchange is figured differently. See chapter 6 and Pub. 551 for more information.

- Generally, your adjusted basis in raised farm products, such as grain or market livestock, is zero.

3. **Selling expenses.** Selling expenses relate to the sale of the property. Review the closing statement for fees, which may qualify as selling expenses. These may include appraisal fees, attorney fees, closing fees, document preparation fees, escrow fees, mortgage satisfaction fees, notary fees, points paid by the seller to obtain financing for the buyer, real estate broker’s commission, recording fees (if paid by the seller), costs of removing title clouds, settlement fees, title search fees, and transfer or stamp taxes charged by city, county, or state governments.

4. **Depreciation recapture.** If the property you sold was depreciable property:

   - You may need to recapture part of the gain on the sale as ordinary income, and
   - See *Depreciation Recapture* in chapter 9 and *Depreciation Recapture Income* in Pub. 537.

5. **Adjusted basis for installment sale purposes.** Your adjusted basis for installment sale purposes is the total of the following three items.

   - Adjusted basis.
   - Selling expenses.
   - Depreciation recapture.

6. **Gross profit.** Gross profit is the total gain you report on the installment method.

   - To figure your gross profit, subtract your adjusted basis for installment sale purposes from the selling price.
   - If the property you sold was your home, subtract from the gross profit any gain you can exclude. See Pub. 523 for more information.

7. **Contract price.** Contract price equals:

   - The selling price, minus
   - The amount of any mortgages, debts, and other liabilities assumed or taken by the buyer, plus
   - The amount, if any, by which the mortgages, debts, and other liabilities assumed or taken by the

buyer exceed your adjusted basis for installment sale purposes.

8. **Gross profit percentage.** A certain percentage of each payment (after subtracting interest) is reported as installment sale income. This percentage is called the gross profit percentage and is figured by dividing your gross profit from the sale by the contract price.

   - The gross profit percentage generally remains the same for each payment you receive. However, see *Example* under *Selling price reduced*, later, for a situation where the gross profit percentage changes.

Example. You sell property at a contract price of $60,000 and your gross profit is $15,000. Your gross profit percentage is 25% ($15,000 ÷ $60,000). After subtracting interest from each payment, you report 25% of each payment, including the down payment, as installment sale income from the sale for the tax year you receive the payment. The remainder (balance) of each payment is the tax-free return of your adjusted basis.

Amount to report as installment sale income. Multiply the payments you receive each year (less interest) by the gross profit percentage. The result is your installment sales income for the tax year. In certain circumstances, you may be treated as having received a payment, even though you received nothing directly. A receipt of property or the assumption of a mortgage on the property sold may be treated as a payment. For a detailed discussion, see *Payments Received or Considered Received*, later.

Selling price reduced. If the selling price is reduced at a later date, the gross profit on the sale will also change. You must then refigure the gross profit percentage for the remaining payments. Refigure your gross profit using Worksheet 10-2. You will spread any remaining gain over future installments.

Worksheet 10-2. **New Gross Profit Percentage — Selling Price Reduced**

Keep for Your Records

1.	Enter the reduced selling price for the property		______
2.	Enter your adjusted basis for the property	______	
3.	Enter your selling expenses	______	
4.	Enter any depreciation recapture	______	
5.	Add lines 2, 3, and 4		______
6.	Subtract line 5 from line 1. This is your **adjusted gross profit**		______
7.	Enter any installment sale income reported in prior year(s)		______
8.	Subtract line 7 from line 6		______
9.	Future installments		______
10.	Divide line 8 by line 9. This is your **new gross profit percentage***		______

* Apply this percentage to all future payments to determine how much of each of those payments is installment sale income.

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Example. In 2021, you sold land with a basis of $40,000 for $100,000. Your gross profit was $60,000. You received a $20,000 down payment and the buyer's note for $80,000. The note provides for monthly payments of $1,953 each, figured at 8% interest, amortized over 4 years, beginning in January 2022. Your gross profit percentage was 60%. You received the down payment of $20,000 in 2021 and total payments of $23,436 in 2022, of which $17,675 was principal and $5,761 was interest according to the amortization schedule. You reported a gain of $12,000 on the down payment received in 2021 and $10,605 ($17,675 x 60% (0.60)) in 2022.

In January 2023, you and the buyer agreed to reduce the purchase price to $85,000; and payments during 2023, 2024, and 2025 are reduced to $1,483 a month amortized over the remaining 3 years.

The new gross profit percentage, 47.32%, is figured in Example — Worksheet 10-2.

Example — Worksheet 10-2. New Gross Profit Percentage — Selling Price Reduced

Keep for Your Records

1.	Enter the reduced selling price for the property		85,000
2.	Enter your adjusted basis for the property	40,000	
3.	Enter your selling expenses	-0-	
4.	Enter any depreciation recapture	-0-	
5.	Add lines 2, 3, and 4		40,000
6.	Subtract line 5 from line 1. This is your **adjusted gross profit**		45,000
7.	Enter any installment sale income reported in prior year(s)		22,605
8.	Subtract line 7 from line 6		22,395
9.	Future installments		47,325
10.	Divide line 8 by line 9. This is your **new gross profit percentage***		47.32%

* Apply this percentage to all future payments to determine how much of each of those payments is installment sale income

You will report installment sale income of $6,878 (47.32% of $14,535) in 2023, $7,449 (47.32% of $15,742) in 2024, and $8,067 (47.32% of $17,048) in 2025.

Form 6252. Use Form 6252 to report an installment sale in the year it takes place and to report payments received, or considered received because of related party resales, in later years. Attach it to your tax return for each year.

Disposition of Installment Obligation

A disposition generally includes a sale, exchange, cancellation, bequest, distribution, or transmission of an installment obligation. An installment obligation is the buyer’s note, deed of trust, or other evidence that the buyer will make future payments to you.

If you’re using the installment method and you dispose of the installment obligation, you will generally have a gain or loss to report. It’s considered gain or loss on the sale of the property for which you received the installment obligation.

Cancellation. If an installment obligation is canceled or otherwise becomes unenforceable, it's treated as a disposition other than a sale or exchange. Your gain or loss is the difference between your basis in the obligation and its FMV at the time you cancel it. If the parties are related, the FMV of the obligation is considered to be no less than its full face value.

Transfer due to death. The transfer of an installment obligation (other than to a buyer) as a result of the death of the seller isn't a disposition. Any unreported gain from the installment obligation isn't treated as gross income to the decedent. No income is reported on the decedent's return due to the transfer. Whoever receives the installment obligation as a result of the seller's death is taxed on the installment payments the same as the seller would’ve been had the seller lived to receive the payments.

However, if the installment obligation is canceled, becomes unenforceable, or is transferred to the buyer because of the death of the holder of the obligation, it’s a disposition. The estate must figure its gain or loss on the disposition. If the holder and the buyer were related, the FMV of the installment obligation is considered to be no less than its full face value.

More information. For more information, see Disposition of an Installment Obligation in Pub. 537.

Sale of depreciable property. You generally can’t report gain from the sale of depreciable property to a related person on the installment method. However, see *Related parties* under *Installment Sale of a Farm*, earlier.

You generally can’t use the installment method to report any depreciation recapture income. However, you can report any gain greater than the recapture income on the installment method.

The recapture income reported in the year of sale is included in your installment sale basis to determine your gross profit on the installment sale.

Figure your depreciation recapture income (including the section 179 deduction and the section 179A deduction recapture) in Part III of Form 4797. As instructed on the form, transfer the depreciation recapture income to Part II of Form 4797 as ordinary income in the year of sale.

TIP *If you sell depreciable business property, prepare Form 4797 first in order to figure the amount to enter on Form 6252, Part I, line 12. See the Form 6252 instructions for details.*

For more information on the section 179 deduction, see *Section 179 Expense Deduction* in chapter 7. For more information on depreciation recapture, see *Depreciation Recapture* in chapter 9.

Payments Received or Considered Received

You must figure your gain each year on the payments you receive, or are treated as receiving, from an installment sale.

In certain situations, you’re considered to have received a payment, even though the buyer doesn’t pay you directly. These situations occur when the buyer assumes or pays any of your debts, such as a loan, or pays any of your expenses, such as a sales commission. However, as discussed later, the buyer’s assumption of your debt is treated as a recovery of basis, rather than as a payment, in many cases.

Buyer pays seller's expenses. If the buyer pays any of your expenses related to the sale of your property, it's considered a payment to you in the year of sale. Include these expenses in the selling and contract prices when figuring the gross profit percentage.

Buyer assumes mortgage. If the buyer assumes or pays off your mortgage, or otherwise takes the property subject to the mortgage, the following rules apply.

Mortgage less than basis. If the buyer assumes a mortgage that isn't more than your installment sale basis in the property, it isn't considered a payment to you. It's considered a recovery of your basis. The contract price is the selling price minus the mortgage.

Example. You sell property with an adjusted basis of $19,000. You have selling expenses of $1,000. The buyer assumes your existing mortgage of $15,000 and agrees to pay you

$10,000 (a cash down payment of $2,000 and $2,000 (plus 8% interest) in each of the next 4 years).

The selling price is $25,000 ($15,000 + $10,000). Your gross profit is $5,000 ($25,000 − $20,000 installment sale basis). The contract price is $10,000 ($25,000 − $15,000 mortgage). Your gross profit percentage is 50% ($5,000 ÷ $10,000). You report half of each $2,000 payment received as gain from the sale. You also report all interest you receive as ordinary income.

Mortgage more than basis. If the buyer assumes a mortgage that is more than your installment sale basis in the property, you recover your entire basis. The part of the mortgage greater than your basis is treated as a payment received in the year of sale.

To figure the contract price, subtract the mortgage from the selling price. This is the total amount (other than interest) you will receive directly from the buyer. Add to this amount the payment you're considered to have received (the difference between the mortgage and your installment sale basis). The contract price is then the same as your gross profit from the sale.

If the mortgage the buyer assumes is equal to or more than your installment sale basis, the gross profit percentage will always be 100%.

Example. The selling price for your property is $90,000. The buyer will pay you $10,000 annually (plus 8% interest) over the next 3 years and assume an existing mortgage of $60,000. Your adjusted basis in the property is $44,000. You have selling expenses of $6,000, for a total installment sale basis of $50,000. The part of the mortgage that is more than your installment sale basis is $10,000 ($60,000 − $50,000). This amount is included in the contract price and treated as a payment received in the year of sale. The contract price is $40,000:

Selling price		$90,000
Minus: Mortgage		(60,000)
Amount actually received		**$30,000**
Add difference:		
Mortgage	$60,000	
Minus: Installment sale basis	(50,000)	10,000
Contract price		**$40,000**

Your gross profit on the sale is also $40,000:

Selling price	$90,000
Minus: Installment sale basis	(50,000)
Gross profit	**$40,000**

Your gross profit percentage is 100%. Report 100% of each payment (less interest) as gain from the sale. Treat the $10,000 excess of the mortgage over your installment sale basis as a payment and report 100% of it as gain in the year of sale.

Buyer assumes other debts. If the buyer assumes any other debts, such as a loan or back taxes, it may be considered a payment to you in the year of sale.

If the buyer assumes the debt instead of paying it off, only part of it may have to be treated as a payment. Compare the debt to your installment sale basis in the property being sold. If the debt is less than your installment sale basis, none of it is treated as a payment. If it’s more, only the difference is treated as a payment. If the buyer assumes more than one debt, any part of the total that is more than your installment sale basis is considered a payment. These rules are the same as the rules discussed earlier under *Buyer assumes mortgage*. However, they apply only to the following types of debt the buyer assumes.

- Those acquired from ownership of the property you’re selling, such as a mortgage, a lien, overdue interest, or back taxes.
- Those acquired in the ordinary course of your business, such as a balance due for inventory you purchased.

If the buyer assumes any other type of debt, such as a personal loan or your legal fees relating to the sale, it’s treated as if the buyer had paid off the debt at the time of the sale. The value of the assumed debt is then considered a payment to you in the year of sale.

Property used as a payment. If you receive property rather than money from the buyer, it’s still considered a payment in the year received. However, see *Trading property for like-kind property*, later. Generally, the amount of the payment is the property’s FMV on the date you receive it.

Exception. If the property the buyer gives you is payable on demand or readily tradable (see examples later), the amount you should consider as payment in the year received is:

- The FMV of the property on the date you receive it if you use the cash method of accounting;

- The face amount of the obligation on the date you receive it if you use an accrual method of accounting; or
- The stated redemption price at maturity less any OID or, if there is no OID, the stated redemption price at maturity appropriately discounted to reflect total unstated interest. See *Unstated interest*, later.

Examples. If you receive a note from the buyer as payment, and the note stipulates that you can demand payment from the buyer at any time, the note is **payable on demand**. If you receive marketable securities from the buyer as payment, and you can sell the securities on an established securities market (such as the New York Stock Exchange) at any time, the securities are **readily tradable**. In these examples, use the above rules to determine the amount you should consider as payment in the year received.

Debt not payable on demand. Any evidence of debt you receive from the buyer that isn’t payable on demand isn’t considered a payment. This is true even if the debt is guaranteed by a third party, including a government agency.

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

Third-party note. If the property the buyer gives you is a third-party note (or other obligation of a third party), you’re considered to have received a payment equal to the note’s FMV. Because the FMV of the note is itself a payment on your installment sale, any payments you later receive from the third party aren’t considered payments on the sale. The excess of the note’s face value over its FMV is interest. Exclude this interest in determining the selling price of the property. However, see [Exception](#) under *Property used as a payment*, earlier.

Example. You sold real estate in an installment sale. As part of the down payment, the buyer assigned to you a $50,000, 8% third-party note. The FMV of the third-party note at the time of the sale was $30,000. This amount, not $50,000, is a payment to you in the year of sale. The third-party note had an FMV equal to 60% of its face value ($30,000 ÷ $50,000), so 60% of each principal payment you receive on this note is a nontaxable return of capital. The remaining 40% is interest taxed as ordinary income.

Bond. A bond or other evidence of debt you receive from the buyer that is payable on demand or readily tradable in an established securities market is treated as a payment in the year you receive it. For more information on the amount you should treat as a payment, see *Exception* under *Property used as a payment*, earlier.

If you receive a government or corporate bond for a sale before October 22, 2004, and the bond has interest coupons attached or can be readily traded in an established securities market, you're considered to have received payment equal to the bond's FMV. However, see *Exception* under *Property used as a payment*, earlier.

Buyer's note. The buyer's note (unless payable on demand) isn't considered payment on the sale. However, its full face value is included when figuring the selling price and the contract price. Payments you receive on the note are used to figure your gain in the year received.

Sale to a related person. If you sell depreciable property to a related person and the sale is an installment sale, you may not be able to report the sale using the installment method. For information on these rules, see the Instructions for Form 6252 and *Related parties* under *Installment Sale of a Farm*, earlier.

Trading property for like-kind property. If you trade business or investment real property solely for other business or investment real property of a like kind, you can postpone reporting the gain from the trade. These trades are known as like-kind exchanges. The property you receive in a like-kind exchange is treated as if it were a continuation of the property you gave up. A trade isn't a like-kind exchange if the property you trade or the property you receive is property you hold primarily for sale to customers. See *Like-Kind Exchanges* in chapter 8 for a discussion of like-kind property.

If, in addition to like-kind property, you receive an installment obligation in the exchange, the following rules apply to determine installment sale income each year.

- The contract price is reduced by the FMV of the like-kind property received in the trade.
- The gross profit is reduced by any gain on the trade that can be postponed.
- Like-kind property received in the trade isn’t considered payment on the installment obligation.

Unstated interest. An installment sale contract may provide that each deferred payment on the sale will include interest or that there will be an interest payment in addition to the principal payment. Interest provided in the contract is called stated interest.

If an installment sale contract doesn’t provide for adequate stated interest, section 483 provides that part of the stated principal amount of the contract may be recharacterized as interest. This interest is called unstated interest.

If section 1274 applies to the contract, this interest is called original issue discount (OID).

Generally, if a buyer gives a debt in consideration for personal-use property, the unstated interest rules don’t apply to the buyer. Therefore, the buyer can’t deduct the unstated interest. The seller must report the unstated interest as income. Personal-use property is any property in which substantially all of its use by the buyer isn’t in connection with a trade or business or an investment activity.

If the debt is subject to section 483 rules and is also subject to the below-market loan rules, such as a gift loan, compensation-related loan, or corporation-shareholder loan, then both parties are subject to the below-market loan rules rather than the unstated interest rules.

Unstated interest reduces the stated selling price of the property and the buyer's basis in the property. It increases the seller's interest income and the buyer's interest expense.

In general, an installment sale contract provides for adequate stated interest if the stated interest rate (based on an appropriate compounding period) is at least equal to the applicable federal rate (AFR).

The AFRs are published monthly in the Internal Revenue Bulletin (IRB). You can access the IRBs at *IRS.gov/Guidance.*

***More information*.** For more information, see Unstated Interest and Original Issue Discount (OID) in Pub. 537.

Example

On January 3, 2023, you sold your farm, including the home, farmland, and buildings. You received $50,000 down and the buyer's note for $200,000. In addition, the buyer assumed an outstanding $50,000 mortgage on the farmland. The total selling price was $300,000. The note payments of $25,000 each, plus adequate interest, are due every July 1 and January 1, beginning in July 2023. Your selling expenses were $15,000.

Adjusted basis and depreciation. The adjusted basis and depreciation claimed on each asset sold are as follows:

	Seller's Basis	Depreciation Claimed	Adjusted Basis
Home*	$33,743	$0	$33,743
Farmland	73,610	0	73,610
Buildings	66,630	31,500	35,130

* Owned and used as main home for at least 2 of the 5 years prior to the sale.

Adjusted basis for installment sale purposes. To determine the adjusted basis for installment sale purposes, prorate the selling expense based on the relative FMV of each asset and add it to the adjusted basis (see above).

	Selling Expense	Adjusted Basis	Adjusted Basis for Installment Sale
Home*	$3,000	$33,743	$36,743
Farmland	8,250	73,610	81,860
Buildings	3,750	35,130	38,880
	$15,000	$142,483	$157,483

* Owned and used as main home for at least 2 of the 5 years prior to the sale.

Depreciation recapture. The buildings are section 1250 property. There may be specific rules for depreciation recapture of buildings (1250 property) using the straight-line method. See chapter 9 for more information on depreciation recapture.

Special rules may apply when you sell section 1250 assets depreciated under the straight-line method. See the Unrecaptured Section 1250 Gain Worksheet in the Instructions for

Schedule D (Form 1040). As payments are received on the installment sale, unrecognized 1250 gain must be recognized before any section 1231 gain is recognized. See chapter 3 of Pub. 544 for more information on section 1250 assets.

Gross profit. The following table shows each asset reported on the installment method, its selling price, adjusted basis for installment sale, gain, and gross profit.

	Selling Price	Adjusted Basis	Gain	Gross Profit
Home	$60,000	$36,743	$23,257	$0
Farmland	165,000	81,860	83,140	83,140
Buildings	75,000	38,880	36,120	36,120
	$300,000	**$157,483**	**$142,517**	**$119,260**

Home. The gain on the home ($23,257) is excluded from your income because it qualifies for the exclusion of gain from the sale of a principal residence. Therefore, don’t include that gain when you figure your gross profit percentage.

Section 1231 gains. The gain on the farmland and buildings is reported as section 1231 gains. See *Section 1231 Gains and Losses* in chapter 9.

Contract price and gross profit percentage. The contract price is $250,000. This is calculated by subtracting the $50,000 mortgage assumed from the $300,000 selling price.

Gross profit percentage for the sale is 47.704% ($119,260 gross profit ÷ $250,000 contract price). The gross profit percentage for each asset is figured as follows:

	Percent
Home	0
Farmland ($83,140 ÷ $250,000)	33.256
Buildings ($36,120 ÷ $250,000)	14.448
Total	**47.704**

Figuring the gain to report on the installment method. One hundred percent (100%) of each payment is reported on the installment method. The total amount received on the sale in 2023 is $75,000 ($50,000 down payment + $25,000 payment on July 1). The installment sale part of the total payments received in 2023 is also $75,000. Figure the gain to report for each asset by multiplying its gross profit percentage times $75,000.

	Income
Home	$0
Farmland (33.256% × $75,000)	24,942
Buildings (14.448% × $75,000)	10,836
Total installment income for 2023	**$35,778**

Reporting the sale. Report the installment sale on three separate Forms 6252. One form should be filed for each component of the sale. Then, report the amounts from Form 6252 on Form 4797 and Schedule D (Form 1040). Attach a separate page to each Form 6252 that shows the computations in the example.

If you sell depreciable business property, prepare Form 4797 first in order to figure the amount to enter on Form 6252.

Section 1231 gains. The gains on the farmland and buildings are section 1231 gains. They are combined with any other section 1231 gains and losses. A net section 1231 gain is capital gain and a net section 1231 loss is an ordinary loss.

Installment income for years after 2023. You figure installment income for the years after 2023 by applying the same gross profit percentages to the payments you receive each year. If you receive $50,000 during the year, the entire $50,000 is considered received on the installment sale (100% × $50,000). You realize income as follows:

	Income
Home	$0
Farmland (33.256% × $50,000)	16,628
Buildings (14.448% × $50,000)	7,224
Total installment income	**$23,852**

In this example, no gain is ever recognized from the sale of your home. You will combine your section 1231 gains from this sale with section 1231 gains and losses from other sales in each of the later years to determine whether to report them as ordinary or capital gains. The interest received with each payment will be included in full as ordinary income.

Note. Refer to Pub. 523 to determine whether or not the sale of the personal residence will result in a taxable event.

Summary. The installment income (rounded to the nearest dollar) from the sale of the farm is reported as follows:

Selling price	$300,000
Minus: Adjusted basis for installment reporting	(157,483)
Minus: Excluded gain from home	(23,257)
Gross profit	**$119,260**

Gain reported in 2023 (year of sale)	\$35,778
Gain reported in 2024:	
$\$50,000 \times 47.704\%$	23,852
Gain reported in 2025:	
$\$50,000 \times 47.704\%$	23,852
Gain reported in 2026:	
$\$50,000 \times 47.704\%$	23,852
Gain reported in 2027:	
$\$25,000 \times 47.704\%$	11,926
Total gain reported	**\$119,260**

11.

Casualties, Thefts, and Condemnations

Reminder

Special rules for qualified disaster losses. Special rules apply to federally declared disaster area losses. 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.

See *Disaster Area Losses*, later, and Pub. 547, Casualties, Disasters, and Thefts, for more information on the special relief. Also, see *IRS.gov/DisasterTaxRelief* for more information.

Introduction

This chapter explains the tax treatment of casualties, thefts, and condemnations. A casualty occurs when property is damaged, destroyed, or lost due to a sudden, unexpected, or unusual event. A theft occurs when property is stolen. A condemnation occurs when private property is legally taken for public use without the owner's consent. A casualty, theft, or condemnation may result in a deductible loss or taxable gain on your federal income tax return. You may have a deductible loss or a taxable gain even if only a portion of your property was affected by a casualty, theft, or condemnation.

An involuntary conversion occurs when you receive money or other property as reimbursement for a casualty, theft, condemnation, disposition of property under threat of condemnation, or certain other events discussed in this chapter.

If an involuntary conversion results in a gain and you buy qualified replacement property within the specified replacement period, you can postpone reporting the gain on your income tax return. For more information, see *Postponing Gain*, later.

Topics

This chapter discusses:

- Casualties and thefts
- How to figure a loss or gain
- Other involuntary conversions
- Postponing gain
- Disaster area losses
- Reporting gains and losses
- Drought involving property connected with a trade or business or a transaction entered into for profit

Useful Items

You may want to see:

Publication

- ☐ **523** Selling Your Home
- ☐ **525** Taxable and Nontaxable Income
- ☐ **536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- ☐ **542** Corporations
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **547** Casualties, Disasters, and Thefts
- ☐ **584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- ☐ **584B** Business Casualty, Disaster, and Theft Loss Workbook

☐ **976** Disaster Relief

Form (and Instructions)

☐ **Sch A (Form 1040)** Itemized Deductions

☐ **Sch D (Form 1040)** Capital Gains and Losses

☐ **Sch F (Form 1040)** Profit or Loss From Farming

☐ **4684** Casualties and Thefts

☐ **4797** Sales of Business Property

See chapter 16 for information about getting publications and forms.

Casualties and Thefts

CAUTION *For tax years 2018 through 2025, personal casualty and theft losses of an individual are deductible only to the extent they're attributable to a federally* *declared disaster. An exception to the rule limiting the deduction for personal casualty and theft losses to federal disaster losses applies where you have personal casualty gains to the extent the losses don't exceed your gains.*

If your property is destroyed, damaged, or stolen, you may have a deductible loss. If the insurance or other reimbursement is more than the adjusted basis of the destroyed, damaged, or stolen property, you may have a taxable gain.

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

- A sudden event is one that is swift, not gradual or progressive.
- An unexpected event is one that is ordinarily unanticipated and unintended.

- An unusual event is one that isn't a day-to-day occurrence and that isn't typical of the activity in which you were engaged.

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

- Airplane crashes.
- Car, truck, or farm equipment accidents not resulting from your willful act or willful negligence.
- Earthquakes.
- Fires (but see *Nondeductible losses* next for exceptions).
- Floods.
- Freezing.
- Government-ordered demolition or relocation of a home that is unsafe to use because of a disaster, as discussed under *Disaster Area Losses* in Pub. 547.

- Lightning.
- Storms, including hurricanes and tornadoes.
- Terrorist attacks.
- Vandalism.
- Volcanic eruptions.

Note. For tax years 2018 through 2025, if you are an individual and you have a loss of personal-use property caused by one the events listed above, or other casualties or thefts, this loss is deductible only if it is attributable to a federally declared disaster. See Pub. 547 for more information.

Example. The event causing you to suffer a personal casualty loss occurred before January 1, 2018, but the casualty loss was not sustained until January 1, 2018, or later. If this loss was not attributed to a federally declared disaster, it is not deductible.

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

- Accidentally breaking articles such as glassware or china under normal conditions.
- A family pet (explained below).
- A fire if you willfully set it, or pay someone else to set it.
- A car, truck, or farm equipment 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 isn't deductible as a casualty loss unless the requirements discussed above under *Casualty* are met.

Example. You keep your horse in your yard. The ornamental fruit trees in your yard were damaged when your horse stripped the bark from them. Some of the trees were completely girdled and died. Because the damage wasn't unexpected or unusual, the loss isn't deductible.

Progressive deterioration. Loss of property due to progressive deterioration isn't deductible as a casualty loss. This is because the damage results from a steadily operating cause or a normal process, rather than from a sudden event. Examples of damage due to progressive deterioration include damage from rust, corrosion, or termites. However, weather-related conditions or disease may cause another type of involuntary conversion. See *Other Involuntary Conversions*, later.

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

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

- Blackmail.
- Burglary.
- Embezzlement.
- Extortion.
- Kidnapping for ransom.
- Larceny.
- Robbery.
- Threats.
- Timber trespass.

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

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

Mislaid or lost property. The simple disappearance of money or property isn't a theft. However, an accidental loss or disappearance of property can qualify as a casualty if it results from an identifiable event that is sudden, unexpected, or unusual.

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.

Farm Property Losses

You can deduct certain casualty or theft losses that occur in the business of farming. The following is a discussion of some losses you can deduct and some you can't deduct.

Livestock or produce bought for resale. Casualty or theft losses of livestock or produce bought for resale are deductible if you report your income on the cash method. If you report your income on an accrual method, take casualty and theft losses on property bought for resale by omitting the item from the closing inventory for the year of the loss. You can't take a separate deduction.

Livestock, plants, produce, and crops raised for sale. Losses of livestock, plants, produce, and crops raised for sale are generally not deductible if you report your income on the cash method. You have already deducted the cost of raising these items as farm expenses, so their basis is equal to zero.

For plants with a preproductive period of more than 2 years, you may have a deductible loss if you have a tax basis in the plants. You usually have a tax basis if you capitalized the expenses associated with these plants under the uniform capitalization rules. The uniform capitalization rules are discussed in chapter 6.

If you report your income on an accrual method, casualty or theft losses are deductible only if you included the items in your inventory at the beginning of your tax year. You get the deduction by omitting the item from your inventory at the close of your tax year. You can't take a separate casualty or theft deduction.

Income loss. A loss of future income isn't deductible.

Example. A severe flood destroyed your crops. Because you are a cash method taxpayer and already deducted the cost of raising the crops as farm expenses, this loss isn't deductible, as explained above under *Livestock, plants, produce, and crops raised for sale*. You estimate that the crop loss will reduce your farm income by $25,000. This loss of future income is also not deductible.

Loss of timber. If you sell timber downed as a result of a casualty, you may have a reportable gain. If you use the proceeds to buy qualified replacement property, you can postpone reporting the gain. See *Timber loss* in the section *Post poning Gain*, later.

Property used in farming. Casualty and theft losses of property used in your farm business usually result in deductible losses. If a fire or storm destroyed your barn, or you lose by casualty or theft farm equipment or an animal you bought for draft, breeding, dairy, or sport, you may have a deductible loss. See *How To Figure a Loss*, later.

Raised draft, breeding, dairy, or sporting animals. Generally, losses of raised draft, breeding, dairy, or sporting animals don't result in deductible casualty or theft losses because you have no basis in the animals. However, you may have a basis in the animal and therefore may be able to claim a deduction if you use inventories to determine your income and you included the animals in your inventory.

When you include livestock in inventory, its last inventory value is its basis. When you lose an inventoried animal held for draft, breeding, dairy, or sport by casualty or theft during the year, decrease ending inventory by the amount you included in inventory for the animal. You can't take a separate deduction.

How To Figure a Loss

How you figure a deductible casualty or theft loss depends on whether the loss was to farm or personal-use property and whether the property was stolen or partly or completely destroyed.

Farm property. Farm property is the property you use in your farming business. If your farm property was completely destroyed or stolen, 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

You can use the schedules in Pub. 584-B to list your stolen, damaged, or destroyed business property and to figure your loss.

If your farm property was partially damaged, use the following steps to figure your casualty loss.

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

Personal-use property. For tax years 2018 through 2025, personal casualty and theft losses of an individual are deductible only to the extent they're attributable to a federally declared disaster. An exception to the rule limiting the deduction for personal casualty and theft losses to federal disaster losses applies where you have personal casualty gains to the extent the losses don't exceed your gains.

Personal-use property is property used by you or your family members for personal purposes and not used in your farm business or for income-producing purposes. The following items are examples of personal-use property.

- Your main home.
- Furniture and electronics used in your main home and not used in a home office or for business purposes.
- Clothing and jewelry.
- An automobile used for nonbusiness purposes.