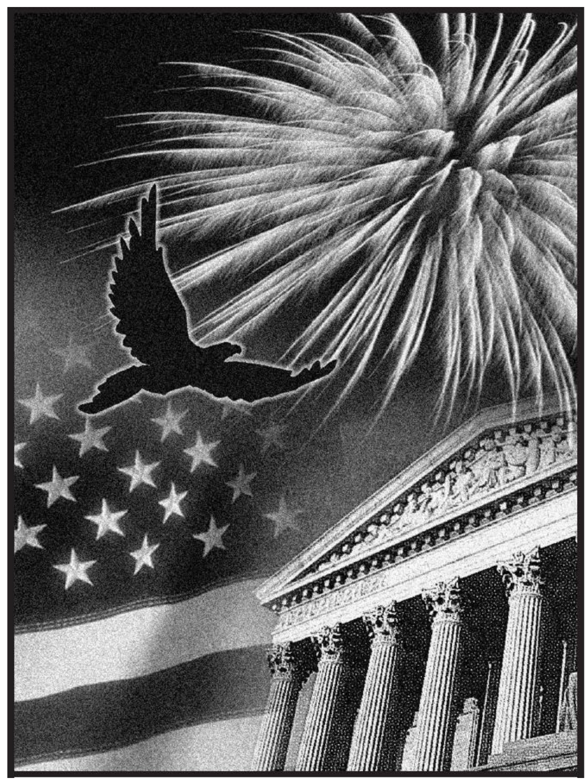
Publication 547

Casualties, Disasters, and Thefts

For use in preparing **2023** Returns

Volume 1 of 2



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Future Developments

For the latest information about developments related to Pub. 547, such as legislation enacted after it was published, go to *IRS.gov/Pub547*.

What's New

Disaster-related benefits extension. At the time this publication was going to print, new legislation was being considered that would extend the rules for the treatment of certain disaster-related personal casualty losses.

To see if this legislation was enacted and how these rules would be extended, go to *IRS.gov/Pub547*.

Reminders

Special rules and return procedures expanded for claiming qualified disaster-related personal casualty losses. The

Taxpayer Certainty and Disaster Tax Relief Act of 2019 and the Taxpayer Certainty and Disaster Tax Relief Act of 2020 expanded the special rules and return procedures for personal casualty losses attributable to certain major federal disasters that were declared in 2018, 2019, and 2020.

Qualified disaster losses in those tax years may be claimed on Form 4684. See *Qualified disaster loss*, later, for more information.

TIP *If applicable, you may have to file an amended return on Form 1040-X to claim these benefits on your 2018, 2019, and/or 2020 returns. Form 1040X is available at IRS.gov/Form1040X. Prior revisions of Form 4684 are available at IRS.gov/Form4684. See How to report the loss on Form 1040X, later.*

Limitation on personal casualty and theft losses. For tax years 2018 through 2025, if you are an individual, casualty or theft losses of personal-use property are deductible only if the loss is attributable to a federally declared disaster.

Personal casualty and theft losses attributable to a federally declared disaster are subject to the $100 per casualty and 10% of your adjusted gross income (AGI) reductions unless they are attributable to a qualified disaster loss.

Personal casualty and theft losses attributable to a qualified disaster loss are not subject to the 10% of the AGI reduction and the $100 reduction is increased to $500.

An exception to the rule above, limiting the personal casualty and theft loss deduction to losses attributable to a federally declared disaster, applies if you have personal casualty gains for the tax year. For more information, see *Deduction Limits*, later.

Special rules for capital gains invested in qualified opportunity funds (QOFs). If you have a capital gain for 2023, you can invest that gain into a QOF and elect to defer part or all of the gain that you would otherwise include in income until December 31, 2026. You may also be able to permanently exclude gain from the sale or exchange of an investment in a QOF if the investment is held for at least 10 years. For information about how to elect to use these special rules, see the Instructions for Form 8949, Sales and Other Dispositions of Capital Assets. For additional information, see *Opportunity Zones Frequently Asked Questions* on IRS.gov.

Deferral of gain invested in a QOF. If you realize a gain from an actual, or deemed, sale or exchange with an unrelated person and during the 180day period beginning on the date realizing the gain, invested an amount of the gain in a QOF, you may be able to elect to temporarily defer part or all of the gain that would otherwise be included in income. If you make the election, the gain is included in taxable income only to the extent, if any, that the amount of realized gain exceeds the aggregate amount invested in a QOF during the 180 - day period beginning on the date the gain was realized.

How to report. Report the gain as it would otherwise be reported if you were not making the election. Report the election for the amount invested in a QOF on Form 8949. See the Instructions for Form 8949 for information on how to make the election. You will need to attach Form 8997 annually until you dispose of the QOF investment. See the Form 8997 instructions for more information.

QOF investment. If you held a qualified investment in a QOF at any time during the year, you must file your return with Form 8997 attached. See the Form 8997 instructions.

Photographs of missing children. The Internal Revenue Service is a proud partner with the *National Center for Missing &*

Exploited Children® (NCMEC). 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 1800THELOST (18008435678) 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).
- Schedule A (Form 1040NR) (for nonresident aliens).
- Schedule D (Form 1040).
- Form 4797.

For details on which form to use, see *How To Report Gains and Losses*, later.

Condemnations. For information on condemnations of property, see *Involuntary Conversions* in chapter 1 of Pub. 544, Sales and Other Dispositions of Assets.

Workbooks for casualties and thefts. Pub. 584, Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property), 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.

Pub. 584B, Business Casualty, Disaster, and Theft Loss Workbook, 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 suggestions for future editions.

You can send us comments through IRS.gov/FormComments. Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can’t respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications. **Don’t** send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at IRS.gov/Help/ITA where you can find topics by using the search feature or viewing the categories listed.

Getting tax forms, instructions, and publications. Go to IRS.gov/Forms to download current and prior-year forms, instructions, and publications.

Ordering tax forms, instructions, and publications. Go to *IRS.gov/OrderForms* to order current forms, instructions, and publications; call 800-829-3676 to order prior-year forms and instructions. The IRS will process your order for forms and publications as soon as possible. **Don't** resubmit requests you've already sent us. You can get forms and publications faster online.

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

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

☐ **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

☐ **Schedule A (Form 1040-NR)** Itemized Deductions (for nonresident aliens)

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

☐ **4684** Casualties and Thefts

☐ **4797** Sales of Business Property

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

Casualty

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

- A sudden event is one that is swift, not gradual or progressive.
- An unexpected event is one that is ordinarily unanticipated and unintended.
- An unusual event is one that isn’t a day-to-day occurrence and that isn’t typical of the activity in which you were engaged.

Casualty losses are deductible during the tax year that the loss is sustained. This is generally the tax year that the loss occurred. However, a casualty loss may be sustained in a year after the casualty occurred. See *When To Report Gains and Losses* and Table 3, later.

Definitions. Three specific types of casualty losses are described in this publication.

1. Federal casualty losses.
2. Disaster losses.
3. Qualified disaster losses.

All three types of losses refer to federally declared disasters, but the requirements for each loss vary. A federally declared disaster is a disaster determined by the President of the United States to warrant assistance by the federal government under the Stafford Act. A federally declared disaster includes (a) a major disaster declaration, or (b) an emergency declaration under the Stafford Act.

Federal casualty loss. A federal casualty loss is an individual's casualty or theft loss of personal-use property that is attributable to a federally declared disaster. The casualty loss must occur in a state receiving a federal disaster declaration. If you suffered a federal casualty loss, you are eligible to claim a casualty loss deduction. If you suffered a casualty or theft loss of personal-use property that wasn't attributable to a federally declared disaster, it isn't a federal casualty loss, and you may not claim a casualty loss deduction unless the exception applies. See the *Caution* under *Deductible losses*, later.

Disaster loss. A disaster loss is a loss that is attributable to a federally declared disaster and that occurs in an area eligible for assistance pursuant to the Presidential declaration. The disaster loss must occur in a county eligible for public or individual assistance (or both). Disaster losses aren't limited to individual personal-use property and may be claimed for individual business or income-producing property and by corporations, S corporations, and partnerships. If you suffered a disaster loss, you are eligible to claim a casualty loss deduction and to elect to claim the loss in the preceding tax year. See *Disaster Area Losses*, later.

Qualified disaster loss. A qualified disaster loss also includes an individual's casualty and theft loss of personal-use property that is attributable to:

- A major disaster declared by the President under section 401 of the Stafford Act in 2016;
- Hurricane Harvey;
- Tropical Storm Harvey;
- Hurricane Irma;
- Hurricane Maria;
- The California wildfires in 2017 and January 2018;

- A major disaster that was declared by the President under section 401 of the Stafford Act and that occurred in 2018 and before December 21, 2019, and continued no later than January 19, 2020 (except those attributable to the California wildfires in January 2018 that received prior relief); and
- A major disaster that was declared by the President during the period between January 1, 2020, and February 25, 2021. Also, this disaster must have an incident period that began on or after December 28, 2019, and on or before December 27, 2020, and must have ended no later than January 26, 2021. The definition of a qualified disaster loss does not extend to any major disaster that has been declared only by reason of COVID19 (because the incident period for COVID19 extended beyond January 26, 2021). Thus, given that the incident period for COVID19

generally ran from January 20, 2020, to May 11, 2023, a loss due to COVID19 is not a qualified disaster loss.

If you suffered a qualified disaster loss, you are eligible to claim a casualty loss deduction, to elect to claim the loss in the preceding tax year, and to deduct the loss without itemizing other deductions on Schedule A (Form 1040).

See *IRS.gov/DisasterTaxRelief* for date-specific declarations associated with these disasters and for more information.

Deductible losses. For tax years 2018 through 2025, if you are an individual, casualty losses of personal-use property are deductible only if the loss is attributable to a federally declared disaster (federal casualty loss). Personal-use property is other than business property or income-producing property. If the event causing you to suffer a personal casualty loss (not attributed to a federally declared disaster) occurred before January 1, 2018, but the casualty loss wasn't sustained until January 1, 2018, or later, the casualty loss isn't deductible. See *When To Report Gains and Losses*, later, for more information on when a casualty loss is sustained.

Example. As a result of a storm, a tree fell on your house in December 2021, and you suffered $5,000 in damage. The President didn't declare the storm a federally declared disaster. You filed a claim with your insurance company and reasonably expected the entire amount of the claim to be covered by your insurance company. In January 2023, your insurance company paid you $3,000 and determined it didn't owe you the remaining $2,000 from your claim. The $2,000 personal casualty loss is sustained in 2023 even though the storm occurred in 2021. Thus, the $2,000 isn't a federal casualty loss and isn't deductible as a casualty loss under the new limitations.

An exception to the rule limiting the deduction for personal casualty and theft losses to federal casualty losses applies where you have personal casualty gains. In this case, you may deduct personal casualty losses that aren't attributable to a federally declared disaster to the extent they don't exceed your personal casualty gains.

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 isn’t deductible, even to the extent the loss doesn’t exceed your personal casualty gains, 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). However, see *Special Procedure for Damage From Corrosive Drywall*, later.

Family pet. Loss of property due to damage by a family pet isn’t 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 wasn’t unexpected and unusual, the loss isn’t deductible as a casualty loss.

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. 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 must generally 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

Because the personal casualty losses claimed under this special procedure aren't attributable to a federally declared disaster, they're only deductible to the extent such losses don't exceed your personal casualty gains.

If you suffered property losses due to the effects of certain imported drywall installed in homes between 2001 and 2009, 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 2023 are deductible on your 2023 tax return and amounts you paid for repairs in 2022 are deductible on your 2022 tax return.

Note. If you paid for any repairs before 2023 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 twostep 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 *CPSC.gov/en/Safety-Education/Safety -Education-Centers/Drywall-Information-Center*.

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 won’t 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 201036.”

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. Don't 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) doesn't 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 can't claim a casualty loss deduction using this special procedure.

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 10–18. 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 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.

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

Theft loss deduction limited. For tax years 2018 through 2025, if you are an individual, casualty and theft losses of personal-use property are deductible only if the losses are attributable to a federally declared disaster (federal casualty loss).

An exception to the rule limiting the deduction for personal casualty and theft losses to federal casualty losses applies where you have personal casualty gains. In this case, you may deduct personal casualty losses that aren't attributable to a federally declared disaster to the extent they don't exceed your personal casualty gains.

Example. Martin and Grace experienced multiple personal casualties in 2023. Grace's diamond necklace was stolen, resulting in a $15,500 casualty loss. Martin and Grace also lost their camper as a result of a lightning strike. They have replacement-value insurance on the camper, so they have a $13,000 gain. Finally, they lost their car in a flood determined to be a federally declared disaster, resulting in a casualty loss of $25,000. Because Martin and Grace experienced a $13,000 personal casualty gain as a result of the replacement-value insurance, they can offset that gain with a portion of their loss attributable to the stolen necklace and claim the full federal casualty loss of $25,000 subject to the $100 and 10% of AGI reductions.

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. 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. Sudden, unexpected, and unusual events were defined earlier under *Casualty*.

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 20099, 200914 I.R.B. 735 (available at *IRS.gov/irb/200914_IRB#RR20099*).
- Revenue Procedure 200920, 200914 I.R.B. 749 (available at *IRS.gov/irb/200914_IRB#RP200920*).
- Revenue Procedure 201158, 201150 I.R.B. 849 (available at *IRS.gov/irb/201150_IRB#RP201158*).

If you qualify to use Revenue Procedure 200920, as modified by Revenue Procedure 201158, and you choose to follow the procedures in the guidance, first fill out Section C of Form 4684 to determine the amount to enter on Section B, line 28. Skip lines 19 through 27, but you must fill out Section B, lines 29 through 39, as appropriate. Section C of Form 4684 replaces Appendix A in Revenue Procedure 200920. You don’t need to complete Appendix A. For more information, see the above revenue ruling and revenue procedures, and the Instructions for Form 4684.

If you choose not to use the procedures in Revenue Procedure 200920, as modified by Revenue Procedure 201158, you may claim your theft loss by filling out Section B, lines 19 through 39, as appropriate.

Note that the personal-use property limitation for tax years 2018 through 2025 does not apply to losses on income-producing property, such as losses from Ponzi-type investment schemes.

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 (to the extent the loss doesn’t exceed your personal casualty gains).
- As a nonbusiness bad debt.

You can no longer claim any miscellaneous itemized deductions, including the deduction for an ordinary loss on deposits in insolvent or bankrupt financial institutions.

Casualty loss. You can choose to deduct a loss on deposits as a casualty 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 is generally 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 loss, you can’t 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 can’t change it without permission from the IRS.

Casualty loss limitation. If you are an individual, casualty losses of personal-use property are deductible only if the loss is attributable to a federally declared disaster. An exception to the rule limiting the deduction for personal casualty and theft losses to federal casualty losses applies where you have personal casualty gains. Because a loss on deposits isn’t attributable to a federally declared disaster, you may deduct losses on deposits as personal casualty losses only to the extent they don’t exceed your personal casualty gains.

Nonbusiness bad debt. If you don’t choose to claim the loss as a casualty loss for purposes of offsetting gains, 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.

Table 1. **Reporting Loss on Deposits**

IF you choose to report the loss as a...	THEN report it on...
casualty loss (see Casualty loss limitation under *Loss on Deposits*)	Form 4684 and Schedule A (Form 1040).
nonbusiness bad debt	Form 8949 and Schedule D (Form 1040).

More information. For more information, see *Deposit in Insolvent or Bankrupt Financial Institution* in Pub. 550.

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 didn’t reduce your tax in the earlier year, you don’t have to include that part of the recovery in your income. For more information, see *Recoveries* in Pub. 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 must also 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 of the following.

- 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.

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

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

It is important that you have records that will prove your deduction. If you don’t 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, 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 isn't 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. Don't 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. Don't include the reimbursement in gross income. If you don't 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 FMV

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 FMV 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 because 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 didn't 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 Pub. 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 can also be used to establish certain decreases. See *Appraisal*, *Cost of cleaning up or making repairs*, and *Special Procedure—Safe Harbor Methods for Determining Casualty and Theft Losses* below.

Appraisal. An appraisal to determine the difference between the FMV of the property immediately before a casualty or theft and immediately afterward 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 isn't 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 isn't excessive.
- The repairs take care of the damage only.
- The value of the property after the repairs isn't, 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 the manufacturer and the model of your car may be useful in figuring the value of your car. You can use the retail value for your car listed in the book and modify it by such factors as mileage and the condition of your car to determine its value. The prices aren't 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 isn't 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 isn't usually a measure of its true value.

Special Procedure—Safe Harbor Methods for Determining Casualty and Theft Losses

To figure the amount of your casualty and theft losses, you must generally determine the actual reduction in the FMV of lost or damaged property using a competent appraisal or the cost of repairs you actually make. But the special safe harbor methods in Revenue Procedure 2018-08, 2018-2 I.R.B. 286, allow you to determine the decrease in FMV in other ways.

If you are an individual, casualty losses of personal-use property are deductible only if the loss is attributable to a federally declared disaster.

An exception to the rule limiting the deduction for personal casualty and theft losses applies if you have personal casualty gains. In this case, you may deduct personal casualty losses that aren’t attributable to a federally declared disaster to the extent they don’t exceed your personal casualty gains.

Special procedure for determining casualty and theft losses generally. Revenue Procedure 201808, 20182 I.R.B. 286, available at *IRS.gov/irb/201802_IRB#RP201808*, provides safe harbor methods that you may use to figure the amount of your casualty and theft losses of your personal-use residential real property and personal belongings. If you qualify for and use a safe harbor method described in Revenue Procedure 201808, the IRS won’t challenge your determination. The use of a safe harbor method described in Revenue Procedure 201808 isn’t mandatory.

Personal-use residential real property safe harbor methods. Personal-use residential real property is generally real property, including improvements, that is owned by the individual who suffered a casualty loss and that contains at least one personal residence. It doesn’t include a personal residence if any part of the personal residence is used as rental property or contains a home office used in a trade or business or transaction entered into for profit. For more details, see Revenue Procedure 201808.

The safe harbor methods for personal-use residential real property available through Revenue Procedure 201808 are the following.

- Estimated repair cost method.
- De minimis method.
- Insurance method.
- Federally declared disaster method—contractor safe harbor.

- Federally declared disaster method—disaster loan appraisal.

Estimated repair cost method. The estimated repair cost safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property using the lesser of two repair estimates prepared by separate and independent licensed contractors. The estimates must detail the itemized costs to restore your property to its condition immediately before the casualty. The estimated repair cost safe harbor method is limited to casualty losses of $20,000 or less.

De minimis method. The de minimis safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property based on a written good-----faith estimate of the cost of repairs required to restore your property to its condition immediately before the casualty. You must keep documentation showing how you estimated the amount of your loss. The de minimis safe harbor method is available for casualty losses of $5,000 or less.

Insurance method. The insurance safe harbor method allows you to figure the decrease in the FMV of your personal-use residential real property based upon the estimated loss in reports prepared by your homeowners or flood insurance company. These reports must set forth the estimated loss you sustained from the damage to or the destruction of your property.

Federally declared disaster method—contractor safe harbor. If the loss occurred in a disaster area and was due to a federally declared disaster, then you may use the contractor safe harbor method or the disaster loan appraisal method. Under the contractor safe harbor method, you may use the contract price for the repairs specified in a contract prepared by an independent and licensed contractor to determine the decrease in the FMV of your personal-use residential real property. This safe harbor method doesn’t apply unless you are subject to a binding contract signed by you and the contractor setting forth the itemized costs to restore your personal-use residential real property to its condition immediately before the casualty.

Federally declared disaster method—disaster loan appraisal. Under the disaster loan appraisal safe harbor method, you may use an appraisal prepared to obtain a loan of federal funds or a loan guarantee from the federal government that identifies your estimated loss from a federally declared disaster to determine the decrease in the FMV of your personal-use residential real property.

Personal belongings safe harbor methods. Personal belongings generally include items of tangible personal property owned by an individual who suffered a casualty or theft loss if they aren’t used in a trade or business. Personal belongings don’t include an item that maintains or increases its value over time or certain other types of property. For more details, see Revenue Procedure 201808. The safe harbor methods for personal belongings are the de minimis method and the replacement cost safe harbor method for federally declared disasters.

De minimis method. Under the de minimis method, you can make a good-faith estimate of the decrease in the FMV of your personal belongings. You must maintain records describing your affected personal belongings as well as your methodology for estimating your loss. This method is limited to losses of $5,000 or less.

Replacement cost safe harbor method for federally declared disasters. The replacement cost safe harbor method for federally declared disasters allows you to determine the FMV of your personal belongings located in a disaster area immediately before a federally declared disaster to figure the amount of your casualty or theft loss. To use the replacement cost safe harbor method, you must first determine the current cost to replace your personal belonging with a new one and then reduce that amount by 10% for each year you have owned the personal belonging. See the Personal Belongings Valuation Table in Revenue Procedure 201808. If you choose to use the replacement cost safe harbor method, then you must use that method for all your personal belongings, with certain exceptions identified in Revenue Procedure 201808.

Each of these safe harbor methods is subject to additional rules and exceptions. For additional information, see Revenue Procedure 201808.

Decreases to safe harbor loss amount. The loss determined through the safe harbor methods must be reduced by the value of any repairs provided by a third party at no cost (for example, work done by volunteers or via donations) to you. Additionally, reduce your loss by the amount of any insurance, reimbursements, or other compensation received.

Reporting requirements on Form 4684. Attach a statement to Form 4684 stating that you used Revenue Procedure 201808 to determine the amount of your casualty loss. Include the specific safe harbor method used. When completing Form 4684, don’t enter an amount on line 5 or line 6 for each property. Instead, enter the decrease in the FMV determined under the relevant safe harbor method on line 7.

For losses due to Hurricane Harvey, Hurricane Irma, and Hurricane Maria, see Revenue Procedure 201809, 20182 I.R.B. 290, available at IRS.gov/irb/2018-02_IRB#RP-2018-09, for the cost indexes safe harbor method.

Figuring Decrease in FMV—Items Not To Consider

You generally shouldn’t 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 isn’t part of a casualty or theft loss. The amount you spend on insurance or to board up your house against a storm isn’t 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 can’t 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, aren't 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 isn't part of a casualty or theft loss.

Example. You bought a new chair 4 years ago for $300. In April, a flood destroyed the chair. You estimate that it would cost $500 to replace it. If you had sold the chair before the flood, you estimate that you could have received only $100 for it because it was 4 years old. The chair wasn't insured. Your loss is $100, the FMV of the chair before the flood. It isn't $500, the replacement cost.

Sentimental value. Don't 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, as limited by your adjusted basis in the property.

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, isn't 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 aren’t a part of the loss. They are expenses in determining your tax liability. For tax years 2018 through 2025, they can no longer be deducted as miscellaneous itemized deductions.

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 Pub. 551.

Inherited property and the section 1022 election. If you inherited property from someone who died in 2010 and the executor of the decedent’s estate made a section 1022 election using Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent, special rules regarding the basis would apply.

An executor of an estate of a decedent who died in 2010 could elect to apply a modified carryover basis treatment to property acquired from the decedent.

For more detailed information about the Section 1022 Election, see Notice 201166, 201135 I.R.B. 184, available at *IRS.gov/irb/2011-35_IRB#NOT2011-66*. For optional safe harbor guidance under section 1022, see Revenue Procedure 201141, 201135 I.R.B. 188, available at *IRS.gov/irb/2011-35_IRB#RP2011-41*.

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 Pub. 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 don’t have a casualty or theft loss to the extent you are reimbursed.

If in the year of the casualty there is a claim for reimbursement with a reasonable prospect of recovery, the loss isn’t sustained until you know with reasonable certainty whether such reimbursement will be received. 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 don’t receive payment until a later tax year. See *Reimbursement Received After Deducting Loss*, later.

Failure to file a claim for reimbursement. If your property is covered by insurance, you should file a timely insurance claim for reimbursement of your loss. If you don’t file an insurance claim, you can’t deduct the full unrecovered amount as a casualty or theft loss and only the part of the loss that isn’t covered by your insurance policy is deductible.

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

Example. Your car insurance policy includes comprehensive coverage with a $1,000 deductible. Because your insurance doesn’t cover the first $1,000 of damages resulting from a storm, the $1,000 is deductible (subject to the $100 and 10% rules, discussed later). This is true, even if you don’t file an insurance claim, because your insurance policy won’t reimburse 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 don’t 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 doesn’t reduce your casualty loss on the damaged home.

Insurance payments for living expenses. You don’t 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 don’t 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 Schedule 1 (Form 1040), line 8z. However, if the casualty occurs in a federally declared disaster area, none of the insurance payments are taxable. See *Qualified disaster relief payments*, later, under *Disaster Area Losses*.

A temporary increase in your living expenses is the difference between the actual living expenses you and your family incurred during the period you couldn’t 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 didn’t because of the casualty or the threat of one.

Example. As a result of a hurricane, 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 hurricane	$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 June 2021. You regained use of your home in November 2022. The insurance payments you received in 2021 and 2022 were $1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 2022 Form 1040. If, in 2023, you receive further payments to cover the living expenses you had in 2021 and 2022, you must include those payments in income on your 2023 Form 1040 or 1040-SR.

Disaster relief. Food, medical supplies, and other forms of assistance you receive don’t 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 aren't 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 Stafford Act aren't included in your income. See *Federal disaster relief grants*, later, under *Disaster Area Losses.*

Loan proceeds. Don't reduce your casualty loss by loan proceeds you use to rehabilitate or replace property on which you are claiming a casualty loss deduction. If you have a federal loan that is canceled (forgiven), see *Federal loan canceled*, 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.

If you paid amounts to repair damage to a personal residence with a deteriorating concrete foundation and claimed a deduction on an original or amended federal income tax return and payments were made to you (or on your behalf to contractors) by the Connecticut Foundation Solutions Indemnity Company (CFSIC), you must include some or part of the payments in your gross income. See Announcement 20205, 202019 I.R.B. 796 (available at IRS.gov/irb/ 2020-19 IRB#ANN-2020-5).

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

Example. Your personal car had an FMV of $2,000 when it was destroyed in a collision with another car in 2022. The accident was due to the negligence of the other driver. At the end of 2022, there was a reasonable prospect that the owner of the other car would reimburse you in full. You didn’t have a deductible loss in 2022.

In January 2023, 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. You can deduct the loss in 2023 (to the extent it doesn’t exceed your 2023 personal casualty gains) that is figured by applying the deduction limits (discussed later).

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

Example. In 2022, a hurricane that was a federally declared disaster destroyed your motorboat. Your loss was $3,000, and you estimated that your insurance would cover $2,500 of it. You didn't itemize deductions on your 2022 return nor did you increase your standard deduction by the amount of your loss. When the insurance company reimburses you for the loss, you don't report any of the reimbursement as income. This is true even if it is for the full $3,000 because you didn't deduct the loss on your 2022 return. The loss didn't reduce your tax.

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

Actual reimbursement same as expected. If you later receive exactly the reimbursement you expected to receive, you don’t have to include any of the reimbursement in your income and you can’t deduct any additional loss.

Example. In December 2023, your personal car was damaged in a flood that was a federally declared disaster. Repairs to the car cost $950. You had $100 deductible comprehensive insurance. Your insurance company agreed to reimburse you for the rest of the damage. Because you expected a reimbursement from the insurance company, you didn’t have a casualty loss deduction in 2023.

Due to the $100 rule, you can’t deduct the $100 you paid as the deductible. When you receive the $850 from the insurance company in 2024, don’t report it as income.

Deduction Limits

After you have figured the amount of your casualty or theft loss, you must figure how much of the loss you can deduct.

The deduction for casualty and theft losses of personal-use property is limited. 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. Personal casualty and theft losses attributable to a federally declared disaster are subject to the $100 per casualty and 10% rules, discussed later. The $100 and 10% rules are also summarized in Table 2.

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

		$100 Rule	10% Rule
General Application		You must reduce each casualty or theft loss by $100 when figuring your deduction. Apply this rule to personal-use property after you have figured the amount of your loss.*	You must reduce your total casualty or theft loss attributable to a federally declared disaster by 10% of your AGI. Apply this rule to personal-use property after you reduce each loss by $100 (the $100 rule).**
Single Event		Apply this rule only once, even if many pieces of property are affected.	Apply this rule only once, even if many pieces of property are affected.
More Than One Event		Apply to the loss from each event.	Apply to the total of all your losses from all federally declared disasters.
More Than One Person— With Loss From the Same Event (other than a married couple filing jointly)		Apply separately to each person.	Apply separately to each person.
Married Couple— With Loss From the Same Event	Filing Joint Return	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.
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.

* Qualified disaster losses must be reduced by $500 when figuring your deduction. See *Disaster Area Losses*, later, for more information.

** The 10% rule doesn't apply to qualified disaster losses. See *Disaster Area Losses*, later, for more information.

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An exception to the rule above, limiting the personal casualty and theft loss deduction to losses attributable to a federally declared disaster, applies if you have personal casualty gains for the tax year. In this case, you may reduce your personal casualty gains by any casualty losses not attributable to a federally declared disaster. Any excess gain is used to reduce losses from a federally declared disaster. The 10% rule is applied to any federal disaster losses that remain.

Losses on business property and income-producing property aren’t 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.

$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, including those losses not attributable to a federally declared disaster that are applied to reduce your personal casualty gains. It doesn't 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 isn't deductible.

Qualified disaster losses must be reduced by $500. See Disaster Area Losses, later, for more information.

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 tornado that damages both your home and your car parked in your driveway.

Example 1. A tornado 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 October, 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 a storm in January. Your loss after the insurance reimbursement was $75. In February, your car was damaged in another storm. This time your loss after the insurance reimbursement was $90. Apply the $100 rule to each separate casualty loss. Since neither storm resulted in a loss of over $100, you aren’t entitled to any deduction for these storms.

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

Example. Hurricane winds 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 doesn’t 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 claim 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 spouses 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 your total federal casualty losses by 10% of your AGI. Apply this rule after you reduce each loss by $100. For more information, see the Instructions for Form 4684. If you have both gains and losses from casualties or thefts, see *Gains and losses*, later in this discussion.

Example. In September, your house was damaged by a tropical storm that was a federally declared disaster. Your loss after insurance reimbursement was $2,000. Your AGI for the year the loss was sustained is $29,500. Figure your casualty 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	$2,950
5.	**Casualty loss deduction**	**$ -0-**

You don’t have a casualty loss deduction because your loss ($1,900) is less than 10% of your AGI ($2,950).

The 10% rule doesn’t apply to qualified disaster losses. See Disaster Area Losses*, later, for more information.*

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 your total federal casualty losses by 10% of your AGI.

Example. In March, your car was destroyed in a flood that was a federally declared disaster. You didn’t have insurance on your car, so you didn’t receive any insurance reimbursement. Your loss on the car was $1,800. In November, another flood, which was also a federally declared disaster, 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 from your insurer was $2,100. Your AGI for the year that the floods 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 doesn’t 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 spouses 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 your 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 federal casualty losses by 10% of your AGI.

Casualty or theft gains don't 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 AGI. The rest, if any, is your deductible loss from personal-use property.

If you have losses not attributable to a federally declared disaster, see *Line 14* in the Instructions for Form 4684. Losses not attributable to a federally declared disaster can be used only to offset gains.

If you have qualified disaster losses, see *Line 15* in the Instructions for Form 4684 for more details.

Example. Your theft loss after reducing it by reimbursements and by $100 is $2,700. Your casualty gain is $700. Because your theft loss wasn't attributable to a federally declared disaster, you can only use $700 of your loss to offset the $700 casualty gain.

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 doesn't apply to your gains. If you have losses not attributable to a federally declared disaster, see *Line 14* in the Instructions for Form 4684.

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 (Form 1040).

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 tornado destroyed your lakeside cottage, which cost $144,800 (including $14,500 for the land) several years ago. (Your land wasn't damaged.) This was your only casualty or theft loss for the year. The FMV of the property immediately before the tornado was $180,000 ($145,000 for the cottage and $35,000 for the land). The FMV immediately after the tornado was $35,000 (value of the land). You collected $130,000 from the insurance company. Your AGI for the year the tornado 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 tornado	$180,000
3.	FMV of entire property after tornado	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 hurricane destroyed your home. The hurricane also damaged the shrubbery and trees in your yard. The hurricane was your only casualty or theft loss this year. Competent appraisers valued the property as a whole at $175,000 before the hurricane, but only $50,000 after the hurricane. Shortly after the hurricane, the insurance company paid you $95,000 for the loss. Your AGI 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 hurricane	$175,000
3. FMV of entire property after hurricane	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 any property that isn't 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 AGI to figure the loss deduction.

Example 1. In August, a storm that was determined to be a federally declared disaster 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 AGI 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 anti-que 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 wasn’t insured. You had purchased it for $250. Its FMV just before the accident was $500. In the same year, you also had a $2,000 casualty gain and a separate $5,000 casualty loss attributable to a federally declared disaster. Your AGI for the year 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 not attributable to a federally declared disaster after $100 rule		$1,470
11. Casualty gain		$2,000
12. Casualty loss not attributable to a federally declared disaster		1,470
13. Remaining gain after offsetting the loss not attributable to a federally declared disaster (line 11 – line 12; if zero or less, enter -0-)		$530
14. Casualty loss attributable to a federally declared disaster		$5,000
15. Subtract $100		100
16. Loss after $100 rule		$4,900
17. Subtract remaining gain (line 13)		530
18. Loss after subtracting gain		$4,370
19. Subtract 10% of $97,000 AGI		9,700
20. **Casualty loss deduction attributable to a federally declared disaster**		**$ -0-**

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