

Publication 547

Casualties, Disasters, and Thefts

For use in preparing

2024 Returns

Volume 2 of 3



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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.



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 2020-5, 2020-19 I.R.B. 796

(available at [IRS.gov/irb/ 2020-19 IRB#ANN-2020-5](https://www.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 2023. The accident was due to the negligence of the other driver. At the end of 2023, 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 2023.

In January 2024, 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 2024 (to the extent it doesn't exceed your 2024 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 2023, 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 2023 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 2023 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 2024, 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 2024.

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 2025, 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.

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.

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

Example 2. Thieves broke into your home in January and stole a ring and a fur coat. You had a loss of \$200 on the ring and \$700 on the coat. This is a single theft. The \$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.....	<u>100</u>
3. Loss after \$100 rule.....	\$1,900
4. Subtract 10% of \$29,500 AGI.....	<u>\$2,950</u>
5. Casualty loss deduction...	<u>\$ -0-</u>

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.

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

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

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	<u>50,000</u>
4.	Decrease in FMV of entire property (line 2 – line 3)	<u>125,000</u>
5.	Loss (smaller of line 1 or line 4).....	\$125,000
6.	Subtract insurance.....	<u>95,000</u>
7.	Loss after reimbursement.....	\$30,000
8.	Subtract \$100.....	<u>100</u>
9.	Loss after \$100 rule.....	\$29,900
10.	Subtract 10% of \$70,000 AGI	<u>7,000</u>
11.	Casualty loss deduction...	<u>\$ 22,700</u>

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)..... | <u>\$18,500</u> |
| 2. FMV before storm..... | \$17,000 |

3.	FMV after storm.....	<u>200</u>
4.	Decrease in FMV (line 2 – line 3).....	<u>\$16,800</u>
5.	Loss (smaller of line 1 or line 4).....	\$16,800
6.	Subtract insurance.....	<u>-0-</u>
7.	Loss after reimbursement.....	\$16,800
8.	Subtract \$100.....	<u>100</u>
9.	Loss after \$100 rule.....	\$16,700
10.	Subtract 10% of \$70,000 AGI	<u>7,000</u>
11.	Casualty loss deduction.....	<u>\$ 9,700</u>

Example 2. In June, you were involved in an auto accident that totally destroyed your personal car and your antique pocket watch. You had bought the car for \$30,000.

The FMV of the car just before the accident was \$17,500. Its FMV just after the accident was \$180 (scrap value). Your insurance company reimbursed you \$16,000.

Your watch 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.

	<u>Car</u>	<u>Watch</u>
1. Adjusted basis (cost)..	<u>\$30,000</u>	<u>\$250</u>
2. FMV before accident...	\$17,500	\$500
3. FMV after accident...	<u>180</u>	<u>-0-</u>

4.	Decrease in FMV (line 2 – line 3)....	<u>\$17,320</u>	<u>\$500</u>
5.	Loss (smaller of line 1 or line 4).....	\$17,320	\$250
6.	Subtract insurance..	<u>16,000</u>	<u>-0-</u>
7.	Loss after reimbursement.....	<u>\$1,320</u>	<u>\$250</u>
8.	Total loss.....		\$1,570
9.	Subtract \$100.....		<u>100</u>
10.	Loss not attributable to a federally declared disaster after \$100 rule.....		<u>\$1,470</u>
11.	Casualty gain.....		\$2,000
12.	Casualty loss not attributable to a federally declared disaster.		<u>1,470</u>

13. Remaining gain after offsetting the loss not attributable to a federally declared disaster(line 11 – line 12; if zero or less, enter -0-).....	<u>\$530</u>
14. Casualty loss attributable to a federally declared disaster.....	\$5,000
15. Subtract \$100.....	<u>100</u>
16. Loss after \$100 rule.....	\$4,900
17. Subtract remaining gain (line 13)	<u>530</u>
18. Loss after subtracting gain...	\$4,370
19. Subtract 10% of \$97,000 AGI.....	<u>9,700</u>
20. Casualty loss deduction attributable to a federally declared disaster.....	<u>\$ -0-</u>

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

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

You collected \$50,000 from the insurance company for the damage to your home, but your household furnishings weren't insured. Your AGI for the year the hurricane occurred

is \$65,000. You figure your casualty loss deduction from the hurricane in the following manner.

1.	Adjusted basis of real property (cost in this example)	<u>\$164,000</u>
2.	FMV of real property before hurricane.....	\$170,000
3.	FMV of real property after hurricane.....	<u>100,000</u>
4.	Decrease in FMV of real property (line 2 – line 3)...	<u>\$70,000</u>
5.	Loss on real property (smaller of line 1 or line 4)...	\$70,000
6.	Subtract insurance.....	<u>50,000</u>
7.	Loss on real property after reimbursement..	<u>\$20,000</u>
8.	Loss on furnishings.....	\$600
9.	Subtract insurance.....	-0-

10. Loss on furnishings after reimbursement....	<u>\$600</u>
11. Total loss (line 7 plus line 10)	\$20,600
12. Subtract \$100.....	<u>100</u>
13. Loss after \$100 rule	\$20,500
14. Subtract 10% of \$65,000 AGI.	<u>6,500</u>
15. Casualty loss deduction..	<u>\$14,000</u>

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

and personal use of the property. The \$100 rule and the 10% rule apply only to the casualty or theft loss on the personal-use portion of the property.

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

In March, a flood that was determined to be a federally declared disaster damaged the entire building. The FMV of the building was \$380,000 immediately before the flood and \$320,000 afterwards. Your insurance company reimbursed you \$40,000 for the flood damage. Depreciation on the business part of the building before the flood totaled \$24,000. Your adjusted gross income for the year the flood occurred is \$125,000.

You have a deductible business casualty loss of \$10,000. You don't have a deductible personal casualty loss because of the 10% rule. You figure your loss as follows.

		Business Part	Personal Part
1.	Cost (total \$400,000).....	\$200,000	\$200,000
2.	Subtract depreciation.....	<u>24,000</u>	<u>-0-</u>
3.	Adjusted basis....	<u>\$176,000</u>	<u>\$200,000</u>
4.	FMV before flood (total \$380,000)..	\$190,000	\$190,000
5.	FMV after flood (total \$320,000)..	<u>160,000</u>	<u>160,000</u>
6.	Decrease in FMV(line 4 – line 5).....	<u>\$30,000</u>	<u>\$30,000</u>
7.	Loss (smaller of line 3 or line 6)	\$30,000	\$30,000

8.	Subtract insurance.....	<u>20,000</u>	<u>20,000</u>
9.	Loss after reimbursement...	\$10,000	\$10,000
10.	Subtract \$100 on personal-use property.....	<u>-0-</u>	<u>100</u>
11.	Loss after \$100 rule.....	\$10,000	\$9,900
12.	Subtract 10% of \$125,000 AGI on personal-use property ...	<u>-0-</u>	<u>12,500</u>
13.	Deductible business loss..	<u>\$10,000</u>	
14.	Deductible personal loss.....		<u>\$ -0-</u>

Figuring a Gain

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

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

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

Amount you receive. The amount you receive includes any money plus the value of any property you receive minus any expenses you incur in obtaining reimbursement.

It also includes any reimbursement used to pay off a mortgage or other lien on the damaged, destroyed, or stolen property.

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

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

For information on this exclusion, see Pub. 523. If your gain is more than the amount you can exclude, but you buy replacement property, you may be able to postpone reporting the excess gain. See *Postponement of Gain*, later.

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

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



If you have a casualty or theft gain on personal-use property that you choose to postpone reporting (as explained next) and you also have another casualty or theft loss on personal-use property, don't consider the gain you are postponing when

figuring your casualty or theft loss deduction. See 10% Rule under Deduction Limits, earlier.

Postponement of Gain

Don't report a gain if you receive reimbursement in the form of property similar or related in service or use to the destroyed or stolen property. Your basis in the new property is generally the same as your adjusted basis in the property it replaces.

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

that is similar or related in service or use to the property. See Controlling interest in a corporation, later.

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

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

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

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

Buying replacement property from a related person. You can't postpone reporting a gain from a casualty or theft if you buy the replacement property from a related person (discussed later). This rule applies to the following taxpayers.

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

For casualties and thefts described in (3) above, gains can't be offset by any losses when determining whether the total gain is more than \$100,000. If the property is owned by a partnership, the \$100,000 limit applies to the partnership and each partner. If the property is owned by an S corporation, the \$100,000 limit applies to the S corporation and each shareholder.

Exception. This rule doesn't apply if the related person acquired the property from an unrelated person within the period of time allowed for replacing the destroyed or stolen property.

Related persons. Under this rule, related persons include, for example, a parent and child, a brother and sister, a corporation and an individual who owns more than 50% of its outstanding stock, and two partnerships in which the same C corporations own more than 50% of the capital or profits interests.

For more information on related persons, see *Nondeductible Loss under Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

Death of a taxpayer. If a taxpayer dies after having a gain but before buying replacement property, the gain must be reported for the year in which the decedent realized the gain. The executor of the estate or the person succeeding to the funds from the casualty or theft can't postpone reporting the gain by buying replacement property.

Replacement Property

You must buy replacement property for the specific purpose of replacing your destroyed or stolen property. Property you acquire as a gift or inheritance doesn't qualify.

You don't have to use the same funds you receive as reimbursement for your old property to acquire the replacement property.

If you spend the money you receive from the insurance company for other purposes, and borrow money to buy replacement property, you can still postpone reporting the gain if you meet the other requirements.

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

Similar or related in service or use.

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

Timber loss. Standing timber (not land) you bought with the proceeds from the sale of timber downed by a casualty (such as high winds, earthquakes, or volcanic eruptions) qualifies as replacement property.

If you bought the standing timber within the specified replacement period, you can postpone reporting the gain.

Owner-user. If you are an owner-user, “similar or related in service or use” means that replacement property must function in the same way as the property it replaces.

Example. Your home was destroyed by fire and you invested the insurance proceeds in a grocery store. Your replacement property isn’t similar or related in service or use to the destroyed property. To be similar or related in service or use, your replacement property must also be used by you as your home.

Main home in disaster area. Special rules apply to replacement property related to the damage or destruction of your main home (or its contents) if located in a federally declared disaster area. For more information, see *Gains Realized on Homes in Disaster Areas*, later.

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

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

Example. You owned land and a building you rented to a manufacturing company. The building was destroyed by a tornado. During the replacement period, you had a new building constructed. You rented out the new building for use as a wholesale grocery warehouse.

Because the replacement property is also rental property, the two properties are considered similar or related in service or use if there is a similarity in all of the following areas.

- Your management activities.
- The amount and kind of services you provide to your tenants.
- The nature of your business risks connected with the properties.

Business or income-producing property located in a federally declared disaster area. If your destroyed business or income-producing property was located in a federally declared disaster area, any tangible replacement property you acquire for use in any business is treated as similar or related in service or use to the destroyed property. The replacement property doesn't have to be located in the federally declared disaster area.

For more information, see *Disaster Area Losses*, later.

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

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

You aren't required to reduce the adjusted basis of the corporation's properties below your adjusted basis in the corporation's stock (determined after reduction by the amount of your postponed gain).

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

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

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

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

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

Basis of replacement property. You must reduce the basis of your replacement property (its cost) by the amount of

postponed gain. In this way, tax on the gain is postponed until you dispose of the replacement property.

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

Replacement Period

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

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

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

Example. You are a calendar year taxpayer. While you were on vacation, a valuable piece of antique furniture that cost \$2,200 was stolen from your home. You discovered the theft when you returned home on July 7, 2024. Your insurance company investigated the theft and didn't settle your claim until January 22, 2025, when they paid you \$3,000. You first realized a gain from the reimbursement for the theft during 2025, so you have until December 31, 2027, to replace the property.

Main home in disaster area. For your main home (or its contents) located in a federally declared disaster area,

the replacement period generally ends 4 years after the close of the first tax year in which any part of your gain is realized. See Disaster Area Losses, later.

Example. You are a calendar year taxpayer. A hurricane destroyed your home in September 2024. In December 2024, the insurance company paid you \$3,000 more than the adjusted basis of your home. The area in which your home is located isn't a federally declared disaster area. You first realized a gain from the reimbursement for the casualty in 2024, so you have until December 31, 2026, to replace the property. If your home had been in a federally declared disaster area, you would have until December 31, 2028, to replace the property.



The replacement period may vary for other events. For information on the replacement period following a condemnation of property, see Involuntary Conversions in chapter 1 of Pub. 544.

For information on the replacement period following the weather-related sale or exchange of livestock, see chapter 11 of Pub. 225.

Extension. You can request an extension of the replacement period. You should request the extension before the end of the replacement period. Ordinarily, requests for extensions aren't made or granted until near the end of the replacement period or the extended replacement period.

About the extension. Extensions are usually limited to a period of not more than 1 year. The high market value or scarcity of replacement property isn't sufficient grounds for granting an extension. If your replacement property is being constructed and you clearly show that the construction can't be completed within the replacement period, you may be granted an extension of the period.

Making your request. You can request an extension of the replacement period by faxing your written request to 877-477-9193 or mailing your request to Internal Revenue Service, 985 Michigan Ave., Stop 16, Detroit, MI 48226. The submission should include a cover sheet with the following information.

- Date.
- Your name, title, phone number, and address.
- Attention: SB/SE Field Examination Area Director [Your State].
- Subject: 1033 Extension Request for Replacement Period of Involuntarily Converted Property.
- Number of pages faxed (inclusive of cover sheet).

What to include in your request. Your request must contain all the details describing why you need the extension.

Include:

1. The name, address, and taxpayer identification number of the taxpayer,
2. A detailed description of the property converted,
3. Date the property was converted,
4. Adjusted basis of the property converted,
5. Date(s) and amount(s) of the payments received,
6. Copy of the return with the involuntary conversion of property at a gain and related deferral of the gain, and
7. A description of the actions taken to replace the property.

Filing after the replacement period. You can file a request within a reasonable time after the replacement period ends if you can show a good reason for the delay.

An extension may be granted if you can show that there is a reasonable cause for not making the replacement within the replacement period.

Gains Realized on Homes in Disaster Areas

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

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

2. Any other insurance proceeds you receive for the home or its contents are treated as received for a single item of property, and any replacement property you purchase that is similar or related in service or use to the home or its contents is treated as similar or related in service or use to that single item of property. Therefore, you can choose to recognize gain only to the extent the insurance proceeds treated as received for that single item of property exceed the cost of the replacement property.
3. If you choose to postpone any gain from the receipt of insurance or other reimbursement for your main home or any of its contents, the period in which you must purchase replacement property is extended until 4 years after the end of the first tax year in which any part of the gain is realized.

For details on how to postpone gain, see *How To Postpone a Gain*, later.

Example. Your main home and its contents were completely destroyed in 2024 by a tornado in a federally declared disaster area. In 2024, you received insurance proceeds of \$200,000 for the home, \$25,000 for unscheduled personal property in your home, \$5,000 for jewelry, and \$10,000 for a stamp collection.

No gain is recognized on the \$25,000 of insurance proceeds you received for the unscheduled personal property.

The jewelry and stamp collection were kept in your home and were scheduled property on your insurance policy. Your home and its replacement contents are considered a single item of property for the purpose of recognizing gain on the involuntary conversion your home and its contents.

If you reinvest the remaining insurance proceeds of \$215,000 in a replacement home and its replacement contents, you can elect to postpone any gain on your home, jewelry, or stamp collection.

If you reinvest less than the remaining \$215,000 of insurance proceeds in a replacement home and its replacement contents, you may have to recognize any gain to the extent the \$215,000 of insurance proceeds exceeds the amount you invest in a replacement home and its replacement contents.

See Pub. 523 for more information on gain that may be excluded on a sale, including the receipt of insurance proceeds for a destruction of your home.

To postpone the gain, you must purchase the replacement property before 2029. Your basis in the replacement property equals its cost decreased by the amount of any postponed gain.

How To Postpone a Gain

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

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

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

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

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

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

Replacement property acquired after return filed. If you intend to acquire replacement property after you file your return for the year in which you have the gain, your statement should also state that you are choosing to replace the property within the required replacement period.

You should then attach another statement to your return for the year in which you acquire the replacement property. This statement should contain detailed information on the replacement property.

If you acquire part of your replacement property in one year and part in another year, you must make a statement for each year. The statement should contain detailed information on the replacement property acquired in that year.

Substituting replacement property. Once you have acquired qualified replacement property that you designate as replacement property in a statement attached to your tax return, you can't later substitute other qualified replacement property. This is true even if you acquire the other property within the replacement period.

However, if you discover that the original replacement property wasn't qualified replacement property, you can (within the replacement period) substitute the new qualified replacement property.

Amended return. You must file an amended return (individuals use Form 1040-X) for the tax year of the gain in either of the following situations.

- You don't acquire replacement property within the required replacement period plus extensions. On this amended return, you must report the gain and pay any additional tax due.
- You acquire replacement property within the required replacement period plus extensions, but at a cost less than the amount you receive for the casualty or theft. On this amended return, you must report the portion of the gain that can't be postponed and pay any additional tax due.

Three-year limit. The period for assessing tax on any gain ends 3 years after the date you notify the director of the IRS for your area of any of the following.

- You replaced the property.
- You don't intend to replace the property.
- You didn't replace the property within the replacement period.

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

Example. Your property was destroyed in 2023 due to a federally declared disaster. Your insurance company reimbursed you \$10,000, of which \$5,000 was a gain. You reported the \$5,000 gain on your return for 2023 (the year you realized the gain) and paid the tax due. In 2024, you bought replacement property. Your replacement property cost \$9,000.

Because you reinvested all but \$1,000 of your reimbursement, you can now postpone reporting \$4,000 ($\$5,000 - \$1,000$) of your gain.

To postpone reporting your gain, file an amended return for 2023 using Form 1040-X. You should attach an explanation showing that you previously reported the entire gain from the casualty but you now want to report only the part of the gain (\$1,000) equal to the part of the reimbursement not spent for replacement property.

When To Report Gains and Losses

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

You must include this gain in your income in the year you receive the reimbursement, unless you choose to postpone reporting the gain, as explained earlier.

Losses. Generally, you can deduct a casualty loss that isn't reimbursable only in the tax year in which the casualty occurred. This is true even if you don't repair or replace the damaged property until a later year. (However, see Disaster Area Losses, later, for an exception.)

You can deduct theft losses that aren't reimbursable only in the year you discover your property was stolen.

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 aren't sure whether part of your casualty or theft loss will be reimbursed, don't deduct that part

until the tax year when you become reasonably certain that it won't be reimbursed. The later tax year is when your loss is sustained.

Loss on deposits. If your loss is a loss on deposits at an insolvent or bankrupt financial institution, see *Loss on Deposits*, earlier.

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

Disaster Area Losses

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

A disaster loss is a loss that occurred in an area determined by the President of the United States to warrant assistance by the federal government under the Stafford Act and that is attributable to a federally declared disaster. Disaster areas include areas warranting public or individual assistance (or both). A federally declared disaster includes a major disaster or emergency declaration.



A list of the areas warranting public or individual assistance (or both) under the Stafford Act is available at [FEMA.gov/Disaster](https://www.fema.gov/disaster).

FEMA disaster declaration numbers. If you are reporting a casualty or theft loss attributable to a federally declared disaster, check the box and enter the DR or EM declaration number assigned by FEMA in the space provided above line 1 on your 2024 Form 4684. A list of federally declared disasters and FEMA disaster declaration numbers is available at [FEMA.gov/Disaster](https://www.fema.gov/disaster).

The FEMA disaster declaration number consists of the letters “DR” and four numbers, or the letters “EM” and four numbers. For example, enter “DR-4832” in the respective entry spaces for the Tennessee Tropical Storm Helene.

Disaster year. The disaster year is the tax year in which you sustained the loss attributable to a federally declared disaster.

Generally, a disaster loss is sustained in the year the disaster occurred. However, a disaster loss may also be sustained in a year after the disaster occurred. For example, if a claim for reimbursement exists for which there is a reasonable prospect of recovery, no part of the loss for which reimbursement may be received is sustained until it can be ascertained with reasonable certainty whether you will be reimbursed.

When to deduct the loss. You must generally deduct a casualty loss in the disaster year. However, if you have a casualty loss from a federally declared disaster that occurred in an area warranting public or individual assistance (or both), you can elect to deduct that loss on your return or amended return for the tax year immediately preceding the disaster year. If you make this election, the loss is treated as having occurred in the preceding year.

A list of areas warranting public or individual assistance (or both) is available at the FEMA website at [FEMA.gov/Disaster](https://www.fema.gov/Disaster).

You must make the election to take your casualty loss for the disaster in the preceding year on or before the date that is 6 months after the regular due date for filing your original return (without extensions) for the disaster year. If you are a calendar year taxpayer, you have until October 15, 2025, to amend your 2023 tax return to claim a casualty loss that occurred during 2024.

How to deduct your loss in the preceding year. If you have already filed your return for the preceding year, you can elect to claim a disaster loss against that year's income by filing an amended return. Individuals file an amended return on Form 1040-X. (See *How to report the loss on Form 1040-X*, later.)

To make this election, complete Part I of Section D on the 2023 Form 4684 and attach it to your 2023 return or amended return that claims the disaster loss deduction.

You must make an election to deduct the loss in the preceding year on or before the date that is 6 months after the regular due date for filing your original return (without extensions) for the disaster year. For individual calendar year taxpayers, the deadline for electing to take a 2024 disaster loss on your 2023 tax return is October 15, 2025. See the 2023 Instructions for Form 4684 for more detailed information on how to claim these losses on your original or amended 2023 return.

If you claimed a deduction for a disaster loss on the tax return for the disaster year and you wish to deduct the loss in the preceding year, you must file an amended return to remove the previously deducted loss on or

before the date you file the return or amended return for the preceding year that includes the disaster loss deduction.



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

Revoking the election to deduct the loss in the preceding year. Complete Part II of Section D on the 2023 Form 4684 if you want to revoke a 2024 disaster year election to deduct a federally declared disaster loss in the preceding tax year. Attach the completed Section D to an amended return for the preceding year (that is, to an amended 2023 return for the revocation of a 2024 disaster year election).

Your amended return revoking the election must be filed on or before the date that is 90 days after the due date for making the

election **and** on or before the date you file any return or amended return for the year that includes the disaster loss.

Your amended return (revoking the previous disaster loss election) should refigure your tax liability as a result of revoking the election. You must pay or make arrangements to pay any tax and interest due as a result of the revocation.

Qualified disaster losses. A qualified disaster loss includes an individual's casualty or 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 10, 2025. Also, this disaster must have an incident period that began on or after December 28, 2019, and on or before December 12, 2024, and must have ended no later than January 11, 2025.

Note. The definition of a qualified disaster loss does not extend to any major disaster that has been declared only by reason of COVID-19.

If you suffered a qualified disaster loss, you are eligible to claim a casualty loss deduction and to elect to claim the loss in the preceding tax year.

See [IRS.gov/DisasterTaxRelief](https://www.irs.gov/DisasterTaxRelief) for date-specific declarations associated with these disasters and for more information.

Increased standard deduction reporting.

If you have a net qualified disaster loss on Form 4684, line 15, and you aren't itemizing your deductions, you can claim an increased standard deduction using Schedule A (Form 1040) by doing the following.

1. Enter the amount from Form 4684, line 15, on the dotted line next to line 16 on Schedule A and the description "Net Qualified Disaster Loss."
2. Also, enter on the dotted line next to line 16 your standard deduction amount and the description "Standard Deduction Claimed With Qualified Disaster Loss."

3. Combine these two amounts and enter on line 16 of Schedule A and Form 1040 or 1040-SR, line 12.



The alternative minimum tax adjustment for the standard deduction is made retroactively inapplicable to net qualified disaster losses. See Taxpayers who also file the 2024 Form 6251, Alternative Minimum Tax for Individuals, in the Instructions for Form 4684 for more information.

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