2005 DISASTER LOSSES KIT

FOR INDIVIDUALS

HELP FROM THE IRS

IRS Department of the Treasury Internal Revenue Service

Publication 2194 (Rev. 12-2005)
Catalog Number 24928R

www.irs.gov

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Disaster Losses Kit for Individuals

Introduction

If you were affected this year by a major disaster or emergency in your area, this Disaster Losses Kit can help you claim unreimbursed casualty losses on property that was destroyed by a natural disaster.

To qualify for disaster loans and grants from other federal agencies, you must have filed all required federal tax returns. IRS understands that many of your tax records may have been lost or destroyed. We can provide copies or transcripts of your previously filed tax returns free of charge, when you submit Form 4506, *Request for Copy of Tax Return*, or Form 4506-T, *Request for Transcript of Tax Return,* included in the Disaster Kit. Just write the name of the disaster in red at the top of the form before submitting (for example, Hurricane Katrina).

If you need additional forms or publications, there are several ways you can obtain them. You can download forms from www.irs.gov. You can also order forms or publications at no cost by calling 1-800-829-3676. If you need additional tax assistance, please call 1-800-829-1040.

Casualty Losses – Document List

Make Disaster Tax Relief Filing Easy

If you need assistance in preparing your returns, the IRS will help you.

If you are able to provide any of the following information, it will assist the IRS in calculating your casualty loss:

- Complete list of personal and non-real estate items lost in the disaster. **Publication 584,** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property) and **Publication 584-B,** Business Casualty, Disaster, and Theft Loss Workbook, will assist you in compiling these items. You may also use the lists prepared by FEMA and add the additional Fair Market Value information.
- If available, bring copies of your federal tax returns for the last three years.
- If you claimed a casualty loss on your last year's return or any prior year return, please bring a copy of the amended returns or any other documentation, if available.
- Insurance reimbursement documentation, if applicable.
- All types of Federal Emergency Management Agency's reimbursement documentation, if applicable.
- All Small Business Administration appraisals, if applicable.
- The fair market value of your home and real estate before the casualty.
- Any contractor estimates and repairs or replacement costs to damaged property.
- If you previously elected the standard deduction, bring copies of your prior state tax withholding, real property taxes, personal property, home mortgage interest, and charitable contributions paid in the prior year.

Securing copies of previously filed returns, providing Form W-2 or Form 1099 data, expediting current year return processing, expediting issuance of replacement checks, delaying notices, and waiving penalties are also helpful services the IRS can provide, if needed.

IRS
Department of the Treasury
Internal Revenue Service
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www.irs.gov

Department of the Treasury
Internal Revenue Service

Notice 1350-A

(November 2005)

Request for Copies of Tax Returns or Transcripts of Tax Returns for Taxpayers Affected by Presidentially Declared Disasters

You can use Form 4506, Request for Copy of Tax Return (Rev. November 2005), to order a copy of your tax return. Generally, there is a $39.00 fee for requesting each copy of a tax return. If your main home, principal place of business, or tax records are located in a Presidentially declared disaster area, the fee will be waived if the assigned disaster designation (for example, “Hurricane Katrina”) is written in red across the top of the form when filed.

You can use Form 4506-T, Request for Transcript of Tax Return (Rev. November 2005), to order a transcript of your tax return. The transcript provides most of the line entries from the tax return and usually contains the information that a third party requires. You can also call 1-800-829-1040 to order a transcript.

Form **4506**

(Rev. November 2005)

Department of the Treasury
Internal Revenue Service

Request for Copy of Tax Return

▶ **Do not sign this form unless all applicable lines have been completed. Read the instructions on page 2.**

▶ **Request may be rejected if the form is incomplete, illegible, or any required line was blank at the time of signature.**

OMB No. 1545-0429

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

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

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

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

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

Caution: *If a third party requires you to complete Form 4506,* ***do not*** *sign Form 4506 if lines 6 and 7 are blank.*

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

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

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

___/___/_____ ___/___/_____ ___/___/_____ ___/___/_____

___/___/_____ ___/___/_____ ___/___/_____ ___/___/_____

8 **Fee.** There is a $39 fee for each return requested. **Full payment must be included with your request or it will be rejected. Make your check or money order payable to "United States Treasury." Enter your SSN or EIN and "Form 4506 request" on your check or money order.**

a	Cost for each return	$ 39.00
b	Number of returns requested on line 7	
c	Total cost. Multiply line 8a by line 8b	$

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

Signature of taxpayer(s). I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax return requested. If the request applies to a joint return, **either** husband or wife must sign. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506 on behalf of the taxpayer.

Telephone number of taxpayer on line 1a or 2a
(   )

Sign Here

▶ **Signature** (see instructions) Date

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

▶ **Spouse's** signature Date

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 41721E Form **4506** (Rev. 11-2005)

General Instructions

Section references are to the Internal Revenue Code.

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

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

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

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

Note. *If you are requesting more than one return and the chart below shows two different service centers, mail your request to the service center based on the address of your most recent return.*

Chart for individual returns (Form 1040 series)

If you filed an individual return and lived in:	Mail to the "Internal Revenue Service" at:
District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont	RAIVS Team 310 Lowell St. Stop 679 Andover, MA 01810
Alabama, Delaware, Florida, Georgia, North Carolina, Rhode Island, South Carolina, Virginia	RAIVS Team 4800 Buford Hwy. Stop 91 Chamblee, GA 30341
Arkansas, Kansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas, West Virginia	RAIVS Team 3651 South Interregional Hwy. Stop 6716 AUSC Austin, TX 78741
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming	RAIVS Team 5045 E. Butler Ave. Stop 38101 Fresno, CA 93727
Connecticut, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, North Dakota, Ohio, Wisconsin	RAIVS Team 2306 E. Bannister Road Stop 6705–B41 Kansas City, MO 64130
New Jersey, Pennsylvania, a foreign country, or A.P.O. or F.P.O. address	RAIVS Team DP 135SE Philadelphia, PA 19255-0695

Chart for all other returns

If you lived in or your business was in:	Mail to the "Internal Revenue Service" at:
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	RAIVS Team P.O. Box 9941 Mail Stop 6734 Ogden, UT 84409
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	RAIVS Team P.O. Box 145500 Stop 2800 F Cincinnati, OH 45250
A foreign country, or A.P.O. or F.P.O. address	RAIVS Team DP 135SE Philadelphia, PA 19255-0695

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

Signature and date. Form 4506 must be signed and dated by the taxpayer listed on line 1a or 2a. If you completed line 5 requesting the return be sent to a third party, the IRS must receive Form 4506 within 60 days of the date signed by the taxpayer or it will be rejected.

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

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

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

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

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

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

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

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

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

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

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 4506 simpler, we would be happy to hear from you. You can write to Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the form to this address. Instead, see *Where to file* on this page.

Form **4506-T**

(Rev. November 2005)

Department of the Treasury
Internal Revenue Service

Request for Transcript of Tax Return

▶ **Do not sign this form unless all applicable lines have been completed. Read the instructions on page 2.**

▶ **Request may be rejected if the form is incomplete, illegible, or any required line was blank at the time of signature.**

OMB No. 1545-1872

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

1a Name shown on tax return. If a joint return, enter the name shown first.

1b First social security number on tax return or employer identification number (see instructions)

2a If a joint return, enter spouse's name shown on tax return

2b Second social security number if joint tax return

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

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

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

Caution: *If a third party requires you to complete Form 4506-T,* ***do not*** *sign Form 4506-T if lines 6 and 9 are blank.*

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

a **Return Transcript,** which includes most of the line items of a tax return as filed with the IRS. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120A, Form 1120H, Form 1120L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days . . . . ☐

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

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

7 **Verification of Nonfiling,** which is proof from the IRS that you **did not** file a return for the year. Most requests will be processed within 10 business days . . . . ☐

8 **Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript.** The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2003, filed in 2004, will not be available from the IRS until 2005. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 45 days . . ☐

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

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

____/____/______ ____/____/______ ____/____/______ ____/____/______

Signature of taxpayer(s). I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, **either** husband or wife must sign. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer.

Telephone number of taxpayer on line 1a or 2a
( )

Sign Here

▶ **Signature** (see instructions) Date

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

▶ **Spouse's signature** Date

General Instructions

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

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

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

Note. *If you are requesting more than one transcript or other product and the chart below shows two different service centers, mail your request to the service center based on the address of your most recent return.*

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

If you filed an individual return and lived in:	Mail or fax to the "Internal Revenue Service" at:
District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont	RAIVS Team 310 Lowell St. Stop 679 Andover, MA 01810 978-247-9255
Alabama, Delaware, Florida, Georgia, North Carolina, Rhode Island, South Carolina, Virginia	RAIVS Team 4800 Buford Hwy. Stop 91 Chamblee, GA 30341 678-530-5326
Arkansas, Kansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas, West Virginia	RAIVS Team 3651 South Interregional Hwy. Stop 6716 AUSC Austin, TX 78741 512-460-2272
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming	RAIVS Team 5045 E. Butler Ave. Stop 38101 Fresno, CA 93727 559-253-4990
Connecticut, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, North Dakota, Ohio, Wisconsin	RAIVS Team 2306 E. Bannister Road Stop 6705–B41 Kansas City, MO 64130 816-823-7667
New Jersey, Pennsylvania, a foreign country, or A.P.O. or F.P.O. address	RAIVS Team DP 135SE Philadelphia, PA 19255-0695 215-516-2931

Chart for all other transcripts

If you lived in or your business was in:	Mail or fax to the "Internal Revenue Service" at:
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	RAIVS Team P.O. Box 9941 Mail Stop 6734 Ogden, UT 84409 801-620-6922
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	RAIVS Team P.O. Box 145500 Stop 2800 F Cincinnati, OH 45250 859-669-3592
A foreign country, or A.P.O. or F.P.O. address	RAIVS Team DP 135SE Philadelphia, PA 19255-0695 215-516-2931

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

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

Signature and date. Form 4506-T must be signed and dated by the taxpayer listed on line 1a or 2a. If you completed line 5 requesting the information be sent to a third party, the IRS must receive Form 4506-T within 60 days of the date signed by the taxpayer or it will be rejected.

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

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

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

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

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

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

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

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

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

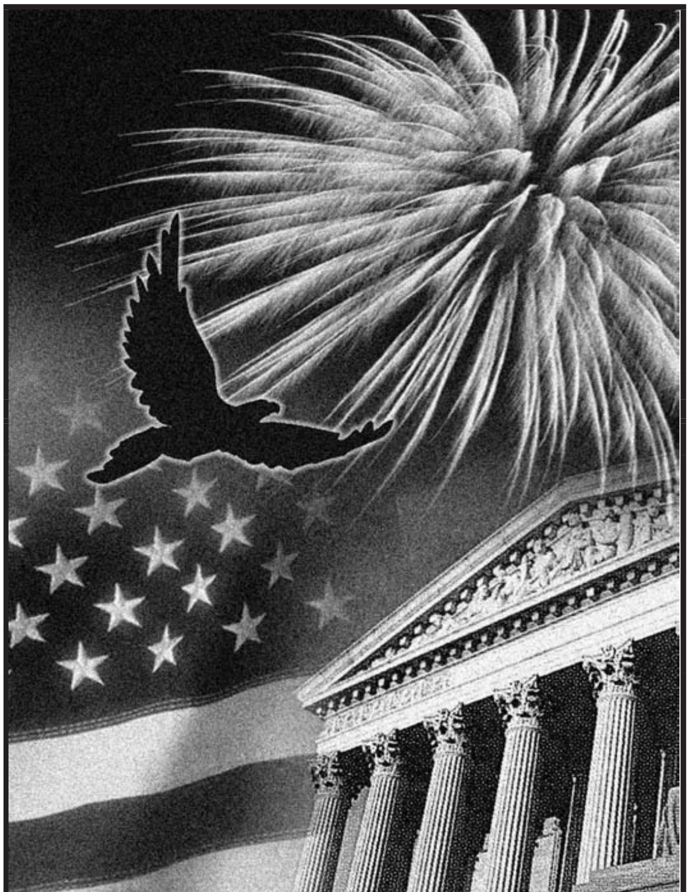
If you have comments concerning the accuracy of these time estimates or suggestions for making Form 4506-T simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the form to this address. Instead, see *Where to file* on this page.

Department
of the
Treasury
**Internal
Revenue
Service**

Publication 584
(Rev. December 2005)
Cat. No. 15151M

Casualty, Disaster, and Theft Loss Workbook

(Personal-Use Property)



Get forms and other information faster and easier by:

Internet • www.irs.gov

What's New

Hurricane Katrina losses. Losses of personal-use property that arose in the Hurricane Katrina disaster area after August 24, 2005, and that were caused by Hurricane Katrina, are not subject to the $100 rule or the 10% rule, defined later under *Deduction limits.*

Introduction

This workbook is designed to help you figure your loss on personal-use property in the event of a disaster, casualty, or theft. It contains schedules to help you figure the loss to your main home, its contents, and your motor vehicles. However, these schedules are for your information only. You must complete Form 4684, Casualties and Thefts, to report your loss.

How To Use This Workbook

You can use this workbook by following these five steps.

1. Read Publication 547 to learn about the tax rules for casualties, disasters, and thefts.
2. Know the definitions of cost or other basis and fair market value, discussed later.
3. Fill out Schedules 1 through 20.
4. Read the instructions for Form 4684.
5. Fill out Form 4684 using the information you entered in Schedules 1 through 20.

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

Take what's in...	And enter it on Form 4684...
Column 1	Line 1
Column 2	Line 1
Column 3	Line 1
Column 4	Line 2
Column 5	Line 3
Column 6	Line 5
Column 7	Line 6
Column 8	Line 7
Column 9	Line 8
Column 10	Line 9

Losses

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

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

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

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

Cost or other basis. Cost or other basis usually means original cost plus improvements. If you did not acquire the property by purchasing it, your basis is determined as discussed in Publication 551, Basis of Assets.

Fair market value. Fair market value is the price for which you could sell your property to a willing buyer, when neither of you has to sell or buy and both of you know all the relevant facts. When filling out Schedules 1 through 20, you need to know the fair market value of the property immediately before and immediately after the disaster, casualty, or theft.

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

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

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

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

1. You must reduce each casualty or theft loss by $100 ($100 rule).
2. You must further reduce the total of all your losses by 10% of your adjusted gross income (10% rule).

Hurricane Katrina losses. The above two limits do not apply to casualty or theft losses that arose in the Hurricane Katrina disaster area after August 24, 2005, and that were caused by Hurricane Katrina.

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

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

How to Get Tax Help

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

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

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

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit *www.irs.gov/advocate*.

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

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

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

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

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

National Distribution Center
P.O. Box 8903
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CD-ROM for tax products. You can order Publication 1796, IRS Tax Products CD-ROM, and obtain:

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD-ROM from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for $25 (plus a $5 handling fee).

CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide CD-ROM for 2005, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.
- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz*.

Schedule 1. **Entrance Hall**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Chairs									
Clock									
Curtains									
Draperies									
Lamps									
Mirrors									
Pictures									
Rugs									
Tables									
Umbrella stands									
Wall fixtures									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 2. **Living Room**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Accessories									
Blinds									
Bookcases									
Books									
Chairs									
Chests									
Clocks									
Coffee table									
Curtains									
Desk									
Draperies									
Fireplace hardware									
Lamps									
Magazine rack									
Mirrors									
Piano									
Pictures									
Pillows									
Radio									
Rugs & pads									
Shades									
Shutters									
Sofa									
Stereo									
Television									
Wall fixtures									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 3. **Dining Room**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Buffet									
Chairs									
China cabinet									
Chinaware									
Crystal									
Curtains									
Draperies									
Glassware									
Mirrors									
Pictures									
Rugs & pads									
Silver flatware									
Silver tea set									
Silver items									
Table									
Tea cart									
Wall fixtures									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 4. **Kitchen**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Blender									
Broiler									
Canned goods									
Can opener									
Clock									
Coffee maker									
Curtains									
Cutlery									
Dishes									
Dishwasher									
Food processor									
Freezer									
Frozen food									
Glassware									
Ice crusher									
Microwave oven									
Mixer									
Pots and pans									
Radio									
Refrigerator									
Stove									
Table and chairs									
Telephone									
Toaster									
Trash compactor									
Utensils									
Wall accessories									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 5. **Den**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Bookcase									
Books									
CD player									
Chairs									
Computer									
Clock									
Curtains									
Desk									
Draperies									
DVD player									
Lamps									
Mirrors									
Pictures									
Pillows									
Radio									
CDs/Records									
Rugs & pads									
Telephone									
Sofa									
Stereo									
Tables									
Television									
VCR									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 6. **Bedrooms**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Bed covers									
Beds									
Bedside tables									
Bureaus									
Chairs									
Chests									
Clocks									
Clothes hamper									
Desks									
Dresser									
Jewelry box									
Lamps									
Linens									
Mirrors									
Pictures									
Radio									
Rugs & pads									
Telephone									
Television									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 7. **Bathrooms**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Bath mats									
Clothes hamper									
Curtains									
Hair dryers									
Linens									
Mirrors									
Pictures									
Razor									
Scales									
Towel rack									
Wall fixtures									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 8. **Recreation Room**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Billiard table									
Books									
Card table									
CD player									
Chairs									
Clocks									
Curtains									
DVD player									
Games									
Lamps									
Pictures									
Ping Pong table									
Pool table									
Radio									
CDs/Records									
Rugs									
Sofa									
Stereo									
Tables									
Television									
VCR									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 9. **Laundry and Basement**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Chairs									
Dryer									
Electric iron									
Food freezer									
Ironing board									
Ladder									
Luggage									
Tables									
Tools									
Tubs									
Washing machine									
Work bench									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 10. **Garage**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Bicycles									
Garden hose									
Garden tools									
Hedger									
Ladder									
Lawn mower									
Snow blower									
Sprayer									
Spreader									
Tiller									
Tools									
Wheelbarrow									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 11. **Sporting Equipment**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Boat & motor									
Cameras									
Camping equipment									
Field glasses									
Fishing tackle									
Golf clubs									
Guns									
Lawn games									
Projectors									
Tennis rackets									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 12. **Men's Clothing**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Belts									
Boots									
Gloves									
Handkerchiefs									
Hats									
Overcoats									
Raincoats									
Shirts									
Shoes									
Shorts									
Slacks									
Socks									
Sport jackets									
Suits									
Sweaters									
Ties									
Underwear									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 13. **Women's Clothing**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Belts									
Blouses									
Boots									
Coats									
Dresses									
Furs									
Gloves									
Hats									
Hosiery									
Jackets									
Lingerie									
Scarves									
Shirts									
Shoes									
Skirts									
Slacks									
Suits									
Sweaters									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 14. **Children's Clothing**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Blouses									
Boots									
Coats									
Dresses									
Gloves									
Hats									
Shirts									
Shoes									
Skirts									
Slacks									
Socks									
Sport jackets									
Stockings									
Suits									
Sweaters									
Underwear									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 15. **Jewelry**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Bracelets									
Brooches									
Earrings									
Engagement ring									
Necklaces									
Pins									
Rings									
Studs									
Watches									
Wedding rings									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 16. **Electrical Appliances**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Air conditioner									
Blankets									
Dehumidifier									
Fans									
Floor polisher									
Grill									
Heating pad									
Humidifier									
Sewing machine									
Sun lamp									
Vacuum cleaner									
*If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).									

Schedule 17. **Linens**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Bath mats									
Bedspreads									
Blankets									
Comforters									
Mattress pads									
Napkins									
Pillows									
Pillowcases									
Placemats									
Quilts									
Sheets									
Tablecloths									
Towels									
Washcloths									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 18. **Miscellaneous**

(1) Item	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))
Barbeque									
Lawn furniture									
Musical instruments									
Outdoor shed									
Picnic set									
Porch furniture									
Swing set									
Toys									

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 19. **Motor Vehicles**

(1) Vehicle (kind, make and model)	(2) No. of items	(3) Date acquired	(4) Cost or other basis	(5) Insurance or other reimbursement*	(6) Fair market value before casualty	(7) Fair market value after casualty	(8) Decrease in fair market value	(9) Smaller of column (4) or column (8)	(10) Casualty/Theft Loss (column (9) minus column (5))

***If column (5) is greater than column (4), you have a gain. Skip columns (6) through (10).**

Schedule 20. **Home (Excluding Contents)**

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

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

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

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

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

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

Worksheet A Instructions.

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

IF...		THEN...
you inherited your home	1	skip lines 1–4 of the worksheet.
	2	find your basis using the rules under *Inherited Property* in Publication 551. Enter this amount on line 5 of the worksheet.
	3	fill out the rest of the worksheet.
you received your home as a gift	1	read *Property Received as Gift* in Publication 551 and enter on lines 1 and 3 of the worksheet either the donor's adjusted basis or the home's fair market value at the time of the gift, whichever is appropriate.
	2	if you can add any federal gift tax to your basis, enter that amount on line 5 of the worksheet.
	3	fill out the rest of the worksheet.
you received your home as a trade	1	the basis of your home is generally the fair market value of the other property at the time of the trade. Enter this amount on line 1 of the worksheet. (But if you received your home as a trade for your previous home before May 7, 1997, and had a gain on the trade that you postponed using Form 2119, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out the rest of the worksheet.
you built your home	1	add the purchase price of the land and the cost of building the home. Enter that total on line 1 of the worksheet. (However, if you filed a Form 2119 to postpone gain on the sale of a previous home before May 7, 1997, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out the rest of the worksheet.
you received your home from your spouse after July 18, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 of the worksheet your spouse's cost or other (adjusted) basis in the home just before you received it.
	3	fill out the rest of the worksheet, making adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you after July 18, 1984		fill out one worksheet, including adjustments to basis for events both before and after the transfer.
you received your home from your spouse before July 19, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 of the worksheet the home's fair market value at the time you received it.
	3	fill out the rest of the worksheet, making adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, and your spouse transferred his or her interest in the home to you before July 19, 1984	1	fill out a worksheet, lines 1–13, making adjustments to basis only for events before the transfer.
	2	multiply the amount on line 13 of that worksheet by one-half (0.5) to get the adjusted basis of your half-interest at the time of the transfer.
	3	multiply the fair market value of the home at the time of the transfer by one-half (0.5). Generally, this is the basis of the half-interest that your spouse owned.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a second worksheet.
	5	complete the rest of the second worksheet, making adjustments to basis only for events after the transfer.

Worksheet A Instructions. *(Continued)*

IF...		**THEN...**
you owned your home jointly with your spouse who died	1	fill out a worksheet, lines 1 – 13, making adjustments to basis only for events before your spouse's death.
	2	multiply the amount on line 13 of that worksheet by one-half (0.5) to get the adjusted basis of your half-interest on the date of death.
	3	figure the basis for the half-interest owned by your spouse. This is one-half of the fair market value on the date of death (or alternate valuation date). (The basis in your half will remain one-half of the adjusted basis determined in step 2.)
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a second worksheet.
	5	complete the rest of the second worksheet, making adjustments to basis only for events after your spouse's death.
you owned your home jointly with your spouse who died, and your permanent home is in a community property state	1	skip lines 1 – 4 of the worksheet.
	2	enter the amount of your basis on line 5 of the worksheet. Generally, this is the fair market value of the home at the time of death. (But see *Community Property* in Publication 551 for special rules.)
	3	fill out the rest of the worksheet, making adjustments to basis only for events after your spouse's death.
your home was ever damaged as a result of a prior casualty	1	on line 8 of the worksheet, enter any amounts you spent to restore the home to its condition before the prior casualty.
	2	on line 11 enter: any insurance reimbursements you received (or expect to receive) for the prior loss, and any deductible casualty losses from prior years not covered by insurance.
the person who sold you your home paid points on your loan and you bought your home after 1990 but before April 4, 1994.		on line 2 enter the seller-paid points only if you deducted them as home mortgage interest in the year paid (unless you used the seller-paid points to reduce the amount on line 1).
the person who sold you your home paid points on your loan and you bought your home after April 3, 1994		on line 2 enter the seller-paid points even if you did not deduct them (unless you used the seller-paid points to reduce the amount on line 1).
you used part of the property as your home and part of it for business or to produce rental income		you must allocate the entries on Worksheet A between the personal part (column (a)) and the business/rental part (column (b)).
none of these items apply		fill out the entire worksheet.

Department of the Treasury

Internal Revenue Service

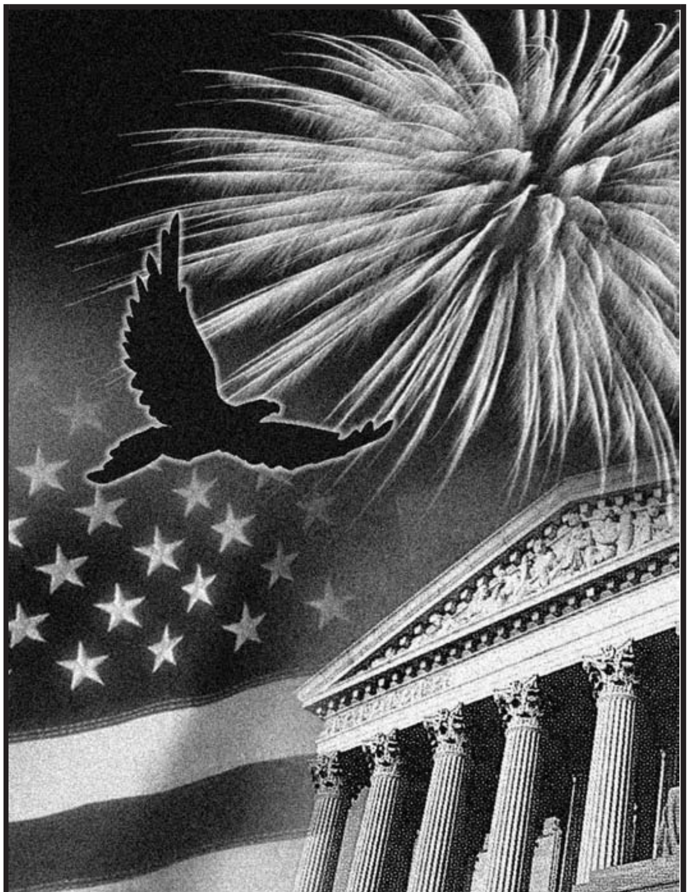
Publication 547

Cat. No. 15090K

Casualties, Disasters, and Thefts

For use in preparing

2005 Returns



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Contents

What's New

Disaster mitigation. Qualified disaster mitigation payments are now nontaxable. Also, if you have a gain on the sale or other transfer of property to the government under a hazard mitigation program, you may not have to report the gain. For more information, see *Qualified disaster mitigation payments* and *Sale of property under hazard mitigation program* later under *Disaster Area Losses*.

If you received a qualified disaster mitigation payment or had a gain on the sale or other transfer of property to the government under a hazard mitigation program, previously included it in your income, and the time limit for amending your return for that year has not expired, you may be entitled to a refund of taxes paid. To claim any refund, individuals must file Form 1040X, Amended U.S. Individual Income Tax Return. Form 1040X must be filed within 3 years after the date you filed the original return or within 2 years after the date you paid the tax, whichever is later. A return filed early is considered filed on the due date.

Katrina Emergency Tax Relief Act of 2005. This Act provides tax relief for persons affected by Hurricane Katrina. Under the Act, you may be entitled to other tax benefits not covered in this publication. For more details, see Publication 4492.

CAUTION

At the time this publication went to print, Congress was considering legislation that would provide additional tax relief for those affected by Hurricanes Katrina, Rita, and Wilma. For more details, and to *find out if this legislation was enacted, see Publication 4492.*

Extended replacement period for property located in the Hurricane Katrina disaster area. The replacement period for property in the Hurricane Katrina disaster area that was damaged, destroyed, or stolen after August 24, 2005, has been extended from 2 to 5 years. For more information, see *Replacement Period* later.

Limits on personal casualty or theft losses suspended. If your loss arose in the Hurricane Katrina disaster area, the $100 rule and 10% rule do not apply. For more information, see *Deduction Limits* later. Qualifying losses include losses from flooding or other casualty, and from theft, that arose in the Hurricane Katrina disaster area and were caused by Hurricane Katrina. The **Hurricane Katrina disaster area** includes the states of Alabama, Florida, Louisiana, and Mississippi.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains the tax treatment of casualties, thefts, and losses on deposits. A casualty occurs when your property is damaged as a result of a disaster such as a storm, fire, car accident, or similar event. A theft occurs when someone steals your property. A loss on deposits occurs when your financial institution becomes insolvent or bankrupt.

This publication discusses the following topics.

- Definitions of a casualty, theft, and loss on deposits.
- How to figure the amount of your gain or loss.
- How to treat insurance and other reimbursements you receive.
- The deduction limits.
- When and how to report a casualty or theft.
- The special rules for disaster area losses.

Forms to file. When you have a casualty or theft, you have to file Form 4684. You will also have to file one or more of the following forms.

- Schedule A (Form 1040).
- 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 Publication 544.

Workbooks for casualties and thefts. Publication 584 is available to help you make a list of your stolen or damaged personal-use property and figure your loss. It includes schedules to help you figure the loss on your home and its contents, and your motor vehicles.

Publication 584-B is available to help you make a list of your stolen or damaged business or income-producing property and figure your loss.

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

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

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

Tax questions. If you have a tax question, visit *www.irs.gov* or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

Ordering forms and publications. Visit *www.irs.gov/formspubs* to download forms and publications, call 1-800-829-3676, or write to the National Distribution Center at the address shown under *How To Get Tax Help* in the back of this publication.

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

- ❏ **Schedule A (Form 1040)** Itemized Deductions
- ❏ **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 is not a day-to-day occurrence and that is not typical of the activity in which you were engaged.

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

- Car accidents (but see *Nondeductible losses,* next, for exceptions).
- Earthquakes.
- Fires (but see *Nondeductible losses,* next, for exceptions).
- Floods.
- Government-ordered demolition or relocation of a home that is unsafe to use because of a disaster as discussed under *Disaster Area Losses,* later.
- Mine cave-ins.
- Shipwrecks.
- Sonic booms.
- Storms, including hurricanes and tornadoes.
- Terrorist attacks.
- Vandalism.
- Volcanic eruptions.

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

- Accidentally breaking articles such as glassware or china under normal conditions.
- A family pet.
- 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 next).

Progressive deterioration. Loss of property due to progressive deterioration is not deductible as a casualty loss. This is because the damage results from a steadily operating cause or a normal process, rather than from a sudden

Table 1. **Reporting Loss on Deposits**

IF you choose to report the loss as a(n)...	THEN report it on...
casualty loss	Form 4684 and Schedule A (Form 1040).
ordinary loss	Schedule A (Form 1040).
nonbusiness bad debt	Schedule D (Form 1040).

event. The following are examples of damage due to progressive deterioration.

- The steady weakening of a building due to normal wind and weather conditions.
- The deterioration and damage to a water heater that bursts. However, the rust and water damage to rugs and drapes caused by the bursting of a water heater does qualify as a casualty.
- Most losses of property caused by droughts. To be deductible, a drought-related loss generally must be incurred in a trade or business or in a transaction entered into for profit.
- Termite or moth damage.
- The damage or destruction of trees, shrubs, or other plants by a fungus, disease, insects, worms, or similar pests. However, a sudden destruction due to an unexpected or unusual infestation of beetles or other insects may result in a casualty loss.

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.

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

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

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

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

Mislaid or lost property. The simple disappearance of money or property is not a theft. However, an accidental loss or disappearance of property can qualify as a casualty if it results from an identifiable event that is sudden, unexpected, or unusual. Sudden, unexpected, and unusual events were defined earlier.

Example. A car door is accidentally slammed on your hand, breaking the setting of your diamond ring. The diamond falls from the ring and is never found. The loss of the diamond is a casualty.

Loss on Deposits

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

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

Casualty loss or ordinary loss. You can choose to deduct a loss on deposits as a casualty loss or as an ordinary loss for any year in which you can reasonably estimate how much of your deposits you have lost in an insolvent or bankrupt financial institution. The choice generally is made on the return you file for that year and applies to all your losses on deposits for the year in that particular financial institution. If you treat the loss as a casualty or ordinary loss, you cannot treat the same amount of the loss as a nonbusiness bad debt when it actually becomes worthless. However, you can take a nonbusiness bad debt deduction for any amount of loss that is more than the estimated amount you deducted as a casualty or ordinary loss. Once you make the choice, you cannot change it without permission from the Internal Revenue Service.

If you claim an ordinary loss, report it as a miscellaneous itemized deduction on Schedule A (Form 1040), line 22. The maximum amount you can claim is $20,000 ($10,000 if you are married filing separately) reduced by any expected state insurance proceeds. Your loss is subject to the 2%-of-adjusted-gross-income limit. You cannot choose to claim an ordinary loss if any part of the deposit is federally insured.

Nonbusiness bad debt. If you do not choose to deduct the loss as a casualty loss or as an ordinary loss, you must wait until the year the actual loss is determined and deduct the loss as a nonbusiness bad debt in that year.

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

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

Deducted loss recovered. If you recover an amount you deducted as a loss in an earlier year, you may have to include the amount recovered in your income for the year of recovery. If any part of the original deduction did not reduce your tax in the earlier year, you do not have to include that part of the recovery in your income. For more information, see *Recoveries* in Publication 525.

Proof of Loss

To deduct a casualty or theft loss, you must be able to show that there was a casualty or theft. You also must be able to support the amount you take as a deduction.

Casualty loss proof. For a casualty loss, you should be able to show all the following.

- The type of casualty (car accident, fire, storm, etc.) and when it occurred.
- That the loss was a direct result of the casualty.
- That you were the owner of the property, or if you leased the property from someone else, that you were contractually liable to the owner for the damage.
- Whether a claim for reimbursement exists for which there is a reasonable expectation of recovery.

Theft loss proof. For a theft loss, you should be able to show all the following.

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

RECORDS

It is important that you have records that will prove your deduction. If you do not have the actual records to support your deduction, you can use other satisfactory evidence to support it.

Figuring a Loss

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

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

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

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

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

Business or income-producing property. If you have business or income-producing property, such as rental property, and it is stolen or completely destroyed, the decrease in FMV is not considered. Your loss is figured as follows:

Your adjusted basis in the property

MINUS

Any salvage value

MINUS

Any insurance or other reimbursement you receive or expect to receive

Loss of inventory. There are two ways you can deduct a casualty or theft loss of inventory, including items you hold for sale to customers.

One way is to deduct the loss through the increase in the cost of goods sold by properly reporting your opening and closing inventories. Do not claim this loss again as a casualty or theft loss. If you take the loss through the increase in the cost of goods sold, include any insurance or other reimbursement you receive for the loss in gross income.

The other way is to deduct the loss separately. If you deduct it separately, eliminate the affected inventory items from the cost of goods sold by making a downward adjustment to opening inventory or purchases. Reduce the loss by the reimbursement you received. Do not include the reimbursement in gross income. If you do not receive the reimbursement by the end of the year, you may not claim a loss to the extent you have a reasonable prospect of recovery.

Leased property. If you are liable for casualty damage to property you lease, your loss is the amount you must pay to repair the property minus any insurance or other reimbursement you receive or expect to receive.

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

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

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

See *Real property* under *Figuring the Deduction,* later.

Decrease in Fair Market Value

Fair market value (FMV) is the price for which you could sell your property to a willing buyer when neither of you has to sell or buy and both of you know all the relevant facts.

The decrease in FMV used to figure the amount of a casualty or theft loss is the difference between the property's fair market value immediately before and immediately after the casualty or theft.

FMV of stolen property. The FMV of property immediately after a theft is considered to be zero since you no longer have the property.

Example. Several years ago, you purchased silver dollars at face value for $150. This is your adjusted basis in the property. Your silver dollars were stolen this year. The FMV of the coins was $1,000 just before they were stolen, and insurance did not cover them. Your theft loss is $150.

Recovered stolen property. Recovered stolen property is your property that was stolen and later returned to you. If you recovered property after you had already taken a theft loss deduction, you must refigure your loss using the smaller of the property's adjusted basis (explained later) or the decrease in FMV from the time just before it was stolen until the time it was recovered. Use this amount to refigure your total loss for the year in which the loss was deducted.

If your refigured loss is less than the loss you deducted, you generally have to report the difference as income in the recovery year. But report the difference only up to the amount of the loss that reduced your tax. For more information on the amount to report, see *Recoveries* in Publication 525.

Figuring Decrease in FMV — Items To Consider

To figure the decrease in FMV because of a casualty or theft, you generally need a competent appraisal. However, other measures also can be used to establish certain decreases. See *Appraisal* and *Cost of cleaning up or making repairs,* next.

Appraisal. An appraisal to determine the difference between the FMV of the property immediately before a casualty or theft and immediately afterwards should be made by a competent appraiser. The appraiser must recognize the effects of any general market decline that may occur along with the casualty. This information is needed to limit any deduction to the actual loss resulting from damage to the property.

Several factors are important in evaluating the accuracy of an appraisal, including the following.

- The appraiser's familiarity with your property before and after the casualty or theft.
- The appraiser's knowledge of sales of comparable property in the area.
- The appraiser's knowledge of conditions in the area of the casualty.
- The appraiser's method of appraisal.

TIP *You may be able to use an appraisal that you used to get a federal loan (or a federal loan guarantee) as the result of a Presidentially declared disaster to establish the amount of your disaster loss. For more information on disasters, see* Disaster Area Losses, *later.*

Cost of cleaning up or making repairs. The cost of repairing damaged property is not part of a casualty loss. Neither is the cost of cleaning up after a casualty. But you can use the cost of cleaning up or of making repairs after a casualty as a measure of the decrease in FMV if you meet all the following conditions.

- The repairs are actually made.
- The repairs are necessary to bring the property back to its condition before the casualty.
- The amount spent for repairs is not excessive.
- The repairs take care of the damage only.
- The value of the property after the repairs is not, due to the repairs, more than the value of the property before the casualty.

Landscaping. The cost of restoring landscaping to its original condition after a casualty may indicate the decrease in FMV. You may be able to measure your loss by what you spend on the following.

- Removing destroyed or damaged trees and shrubs, minus any salvage you receive.
- Pruning and other measures taken to preserve damaged trees and shrubs.
- Replanting necessary to restore the property to its approximate value before the casualty.

Car value. Books issued by various automobile organizations that list your car may be useful in figuring the value of your car. You can use the books' retail values and modify them by factors such as the mileage and condition of your car to figure its value. The prices are not official, but they may be useful in determining value and suggesting relative prices for comparison with current sales and offerings in your area. If your car is not listed in the books, determine its value from other sources. A dealer's offer for your car as a trade-in on a new car is not usually a measure of its true value.

Figuring Decrease in FMV — Items Not To Consider

You generally should not consider the following items when attempting to establish the decrease in FMV of your property.

Cost of protection. The cost of protecting your property against a casualty or theft is not part of a casualty or theft loss. The amount you spend on insurance or to board up your house against a storm is not part of your loss. If the property is business property, these expenses are deductible as business expenses.

If you make permanent improvements to your property to protect it against a casualty or theft, add the cost of these improvements to your basis in the property. An example would be the cost of a dike to prevent flooding.

Related expenses. The incidental expenses due to a casualty or theft, such as expenses for the treatment of personal injuries, for temporary housing, or for a rental car, are not part of your casualty or theft loss. However, they may be deductible as business expenses if the damaged or stolen property is business property.

Replacement cost. The cost of replacing stolen or destroyed property is not part of a casualty or theft loss.

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

Sentimental value. Do not consider sentimental value when determining your loss. If a family portrait, heirloom, or keepsake is damaged, destroyed, or stolen, you must base your loss only on its FMV.

Decline in market value of property in or near casualty area. A decrease in the value of your property because it is in or near an area that suffered a casualty, or that might again suffer a casualty, is not to be taken into consideration. You have a loss only for actual casualty damage to your property. However, if your home is in a federally declared disaster area, see *Disaster Area Losses,* later.

Costs of photographs and appraisals. Photographs taken after a casualty will be helpful in establishing the condition and value of the property after it was damaged. Photographs showing the condition of the property after it was repaired, restored, or replaced may also be helpful.

Appraisals are used to figure the decrease in FMV because of a casualty or theft. See *Appraisal*, earlier, under *Figuring Decrease in FMV — Items To Consider*, for information about appraisals.

The costs of photographs and appraisals used as evidence of the value and condition of property damaged as a result of a casualty are not a part of the loss. They are expenses in determining your tax liability. You can claim these costs as a miscellaneous itemized deduction subject to the 2%-of-adjusted-gross-income limit on Schedule A (Form 1040).

Adjusted Basis

The measure of your investment in the property you own is its basis. For property you buy, your basis is usually its cost to you. For property you acquire in some other way, such as inheriting it, receiving it as a gift, or getting it in a nontaxable exchange, you must figure your basis in another way, as explained in Publication 551.

Adjustments to basis. While you own the property, various events may take place that change your basis. Some events, such as additions or permanent improvements to the property, increase basis. Others, such as earlier casualty losses and depreciation deductions, decrease basis. When you add the increases to the basis and subtract the decreases from the basis, the result is your adjusted basis. See Publication 551 for more information on figuring the basis of your property.

Insurance and Other Reimbursements

If you receive an insurance or other type of reimbursement, you must subtract the reimbursement when you figure your loss. You do not have a casualty or theft loss to the extent you are reimbursed.

If you expect to be reimbursed for part or all of your loss, you must subtract the expected reimbursement when you figure your loss. You must reduce your loss even if you do not receive payment until a later tax year. See *Reimbursement Received After Deducting Loss,* later.

Failure to file a claim for reimbursement. If your property is covered by insurance, you must file a timely insurance claim for reimbursement of your loss. Otherwise, you cannot deduct this loss as a casualty or theft.

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

Example. You have a car insurance policy with a $500 deductible. Because your insurance did not cover the first $500 of an auto collision, the $500 would be deductible (subject to the $100 and 10% rules, discussed later). This is true, even if you do not file an insurance claim, because your insurance policy would never have reimbursed you for the deductible.

Types of Reimbursements

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

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

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

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

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

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

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

Inclusion in income. If these insurance payments are more than the temporary increase in your living expenses, you must include the excess in your income. Report this amount on Form 1040, line 21. However, if the casualty occurs in a Presidentially declared disaster area, none of the insurance payments are taxable. See *Qualified disaster relief payments*, later, under *Disaster Area Losses*.

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

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

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

Example. As a result of a fire, you vacated your apartment for a month and moved to a motel. You normally pay $525 a month for rent.

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

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

**If your loss arose in the Hurricane Katrina disaster area after August 24, 2005, and was caused by Hurricane Katrina, the $100 and 10% rules do not apply.*

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

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

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

Example. Your main home was destroyed by a tornado in August 2003. You regained use of your home in November 2004. The insurance payments you received in 2003 and 2004 were $1,500 more than the temporary increase in your living expenses during those years. You include this amount in income on your 2004 Form 1040. If, in 2005, you receive further payments to cover the living expenses you had in 2003 and 2004, you must include those payments in income on your 2005 Form 1040.

Disaster relief. Food, medical supplies, and other forms of assistance you receive do not reduce your casualty loss, unless they are replacements for lost or destroyed property.

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

Disaster unemployment assistance payments are unemployment benefits that are taxable.

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

Reimbursement Received After Deducting Loss

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

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

Example. Your personal car had a FMV of $2,000 when it was destroyed in a collision with another car in 2004. The accident was due to the negligence of the other driver. At the end of 2004, there was a reasonable prospect that the owner of the other car would reimburse you in full. You did not have a deductible loss in 2004.

In January 2005, the court awards you a judgment of $2,000. However, in July it becomes apparent that you will be unable to collect any amount from the other driver. Since this is your only casualty or theft loss, you can deduct the loss in 2005 that is figured by applying the deduction limits (discussed later).

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

Example. In 2004, a hurricane destroyed your motorboat. Your loss was $3,000, and you estimated that your insurance would cover $2,500 of it. You did not itemize deductions on your 2004 return, so you could not deduct the loss. When the insurance company reimburses you for the loss, you do not report any of the reimbursement as income. This is true even if it is for the full $3,000 because you did not deduct the loss on your 2004 return. The loss did not reduce your tax.

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

Actual reimbursement same as expected. If you receive exactly the reimbursement you expected to receive, you do not have any amount to include in your income or any loss to deduct.

Example. In December 2005, you had a collision while driving your personal car. Repairs to the car cost $950. You had $100 deductible collision insurance. Your insurance company agreed to reimburse you for the rest of the damage. Because you expected a reimbursement from the insurance company, you did not have a casualty loss deduction in 2005.

Due to the $100 rule, you cannot deduct the $100 you paid as the deductible. When you receive the $850 from the insurance company in 2006, do not report it as income.

Deduction Limits

TIP *If your loss arose in the Hurricane Katrina disaster area after August 24, 2005, and was caused by Hurricane Kartrina, the $100 and 10% rules (defined later) do not apply.*

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

The deduction for casualty and theft losses of employee property and personal-use property is limited. A loss on employee property is subject to the 2% rule, discussed next. A loss on property you own for your personal use is subject to the $100 and 10% rules, discussed later. The 2%, $100, and 10% rules are also summarized in *Table 2.*

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

2% Rule

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

$100 Rule

TIP *If your loss arose in the Hurricane Katrina disaster area after August 24, 2005, and was caused by Hurricane Katrina, this rule does not apply.*

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

Example. You have $250 deductible collision insurance on your car. The car is damaged in a collision. The insurance company pays you for the damage minus the $250 deductible. The amount of the casualty loss is based solely on the deductible. The casualty loss is $150 ($250 – $100) because the first $100 of a casualty loss on personal-use property is not deductible.

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

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

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

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

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

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

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

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

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

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

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

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

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

10% Rule

TIP *If your loss arose in the Hurricane Katrina disaster area after August 24, 2005, and was caused by Hurricane Katrina, this rule does not apply.*

You must reduce the total of all your casualty or theft losses on personal-use property by 10% of your adjusted gross income. Apply this rule after you reduce each loss by $100. If you have both gains and losses from casualties or thefts, see *Gains and losses,* later in this discussion.

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

1. Loss after insurance	$2,000
2. Subtract $100	100

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

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

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

Example. In March, you had a car accident that totally destroyed your car. You did not have collision insurance on your car, so you did not receive any insurance reimbursement. Your loss on the car was $1,200. In November, a fire damaged your basement and totally destroyed the furniture, washer, dryer, and other items you had stored there. Your loss on the basement items after reimbursement was $1,700. Your adjusted gross income for the year that the accident and fire occurred is $25,000. You figure your casualty loss deduction as follows.

	Car	Basement
1. Loss	$1,200	$1,700
2. Subtract $100 per incident	100	100
3. Loss after $100 rule	$1,100	$1,600
4. Total loss		$2,700
5. Subtract 10% of $25,000 AGI		2,500
6. **Casualty loss deduction**		$ 200

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

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

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

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

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

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

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

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

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

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

Figuring the Deduction

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

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

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

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

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

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

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

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

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

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

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

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

	Car	Watch
1. Adjusted basis (cost)	$30,000	$250
2. FMV before accident	$17,500	$500
3. FMV after accident	180	-0-
4. Decrease in FMV (line 2 – line 3)	$17,320	$500

5. Loss (smaller of line 1 or line 4)	$17,320	$250
6. Subtract insurance	16,000	-0-
7. Loss after reimbursement	$1,320	$250
8. Total loss		$1,570
9. Subtract $100		100
10. Loss after $100 rule		$1,470
11. Subtract 10% of $97,000 AGI		9,700
12. **Casualty loss deduction**		**$ -0-**

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

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

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

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

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

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

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

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

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

Figuring a Gain

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

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

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

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

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

Main home destroyed. If you have a gain because your main home was destroyed, you generally can exclude the gain from your income as if you had sold or exchanged your home. You may be able to exclude up to $250,000 of the gain (up to $500,000 if married filing jointly). For information on this exclusion, see Publication 523. If your gain is more than the amount you can exclude, but you buy replacement property, you may be able to postpone reporting the excess gain. See *Postponement of Gain,* later.

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

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

CAUTION *If you have a casualty or theft gain on personal-use property that you choose to postpone reporting (as explained next) and you also have another casualty or theft loss on personal-use property, do not consider the gain you are postponing when figuring your casualty or theft loss deduction. See* 10% Rule *under* Deduction Limits, *earlier.*

Postponement of Gain

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

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

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

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

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

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

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

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

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

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

Related persons. Under this rule, related persons include, for example, a corporation and an individual who owns more than 50% of its outstanding stock and two partnerships in which the same C corporations own more than 50% of the capital or profits interests. For more information on related persons, see *Nondeductible Loss* under *Sales and Exchanges Between Related Persons* in chapter 2 of Publication 544.

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

Replacement Property

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

You do not have to use the same funds you receive as reimbursement for your old property to acquire the replacement property. If you spend the money you receive from the insurance company for other purposes, and borrow money to buy replacement property, you can still postpone reporting the gain if you meet the other requirements.

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

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

Timber loss. Standing timber you bought with the proceeds from the sale of timber downed by a casualty (such as high winds, earthquakes, or volcanic eruptions) qualifies as replacement property. If you bought the standing timber within the specified replacement period, you can postpone reporting the gain.

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

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

Main home in disaster area. Special rules apply to replacement property related to the damage or destruction of your main home (or its contents) if located in a federally declared disaster area. For more information, see *Gains Realized on Homes in Disaster Areas* in the Instructions for Form 4684.

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

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

Example. You owned land and a building you rented to a manufacturing company. The building was destroyed by fire. During the replacement period, you had a new building constructed. You rented out the new building for use as a wholesale grocery warehouse. Because the replacement property is also rental property, the two properties are considered similar or related in service or use if there is a similarity in all the following areas.

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

Business or income-producing property located in a Presidentially declared disaster area. If your destroyed business or income-producing property was located in a Presidentially declared disaster area, any tangible replacement property you acquire for use in any business is treated as similar or related in service or use to the destroyed property. For more information, see *Disaster Area Losses,* later.

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

Basis adjustment to corporation's property. The basis of property held by the corporation at the time you acquired control must be reduced by the amount of your postponed gain, if any. You are not required to reduce the adjusted basis of the corporation's properties below your adjusted basis in the corporation's stock (determined after reduction by the amount of your postponed gain).

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

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

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

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

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

Basis of replacement property. You must reduce the basis of your replacement property (its cost) by the amount of postponed gain. In this way, tax on the gain is postponed until you dispose of the replacement property.

Example. A fire destroyed your rental home that you never lived in. The insurance company reimbursed you $67,000 for the property, which had an adjusted basis of $62,000. You had a

Table 3. **When To Deduct a Casualty or Theft Loss**

IF you have a loss...	THEN deduct it in the year...
from a casualty	the loss occurred.
in a Presidentially declared disaster area	the disaster occurred or the year immediately before the disaster.
from a theft	the theft was discovered.
on a deposit treated as a casualty	a reasonable estimate can be made.

gain of $5,000 from the casualty. If you have another rental home constructed for $110,000 within the replacement period, you can postpone reporting the gain. You will have reinvested all the reimbursement (including your entire gain) in the new rental home. Your basis for the new rental home will be $105,000 ($110,000 cost – $5,000 postponed gain).

Replacement Period

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

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

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

Example. You are a calendar year taxpayer. While you were on vacation, a valuable piece of antique furniture that cost $2,200 was stolen from your home. You discovered the theft when you return home on August 10, 2005. Your insurance company investigated the theft and did not settle your claim until January 2, 2006, when they paid you $3,000. You first realized a gain from the reimbursement for the theft during 2006, so you have until December 31, 2008, to replace the property.

Main home in disaster area. For your main home (or its contents) located in a Presidentially declared disaster area, the replacement period 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 2005. In December 2005, the insurance company paid you $3,000 more than the adjusted basis of your home. The area in which your home is located is not a Presidentially declared disaster area. You first realized a gain from the reimbursement for the casualty in 2005, so you have until December 31, 2007, to replace the property. If your home had been in a Presidentially declared disaster area, you would have until December 31, 2009, to replace the property.

Property in the Hurricane Katrina disaster area. For property located in the Hurricane Katrina disaster area that was destroyed, damaged, or stolen after August 24, 2005, as a result of Hurricane Katrina, the replacement period ends 5 years after the close of the first tax year in which any part of your gain is realized. This 5-year replacement period applies only if substantially all of the use of the replacement property is in the Hurricane Katrina disaster area.

Property in the New York Liberty Zone. For property located in the New York Liberty Zone that was damaged or destroyed as a result of the September 11, 2001, terrorist attacks, the replacement period ends 5 years after the close of the first tax year in which any part of your gain is realized. This 5-year replacement period applies only if substantially all of the use of the replacement property is in the City of New York, New York.

Area defined. The New York Liberty Zone is the area located on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the Borough of Manhattan in the City of New York, New York.

Extension. You may get an extension of the replacement period if you apply to the director of the Internal Revenue Service for your area. Your application must contain all the details about the need for the extension. You should make the application before the end of the replacement period.

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

Ordinarily, requests for extensions are not made or granted until near the end of the replacement period or the extended replacement period. Extensions are usually limited to a period of not more than 1 year. The high market value or scarcity of replacement property is not sufficient grounds for granting an extension. If your replacement property is being constructed and you clearly show that the construction cannot be completed within the replacement period, you may be granted an extension of the period.

How To Postpone a Gain

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

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

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

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

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

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

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

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

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

Substituting replacement property. Once you have acquired qualified replacement property that you designate as replacement property in a statement attached to your tax return, you cannot later substitute other qualified replacement property. This is true even if you acquire the other property within the replacement period. However, if you discover that the original replacement property was not qualified replacement property, you can (within the replacement period) substitute the new qualified replacement property.

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

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

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

- You replaced the property.

- You do not intend to replace the property.
- You did not replace the property within the replacement period.

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

Example. Your property was stolen in 2004. Your insurance company reimbursed you $10,000, of which $5,000 was a gain. You reported the $5,000 gain on your return for 2004 (the year you realized the gain) and paid the tax due. In 2005 you bought replacement property. Your replacement property cost $9,000. Since you reinvested all but $1,000 of your reimbursement, you can now postpone reporting $4,000 ($5,000 – $1,000) of your gain.

To postpone reporting your gain, file an amended return for 2004 using Form 1040X. You should attach an explanation showing that you previously reported the entire gain from the theft but you now want to report only the part of the gain ($1,000) equal to the part of the reimbursement not spent for replacement property.

When To Report Gains and Losses

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.

Casualty loss. Generally, you can deduct a casualty loss only in the tax year in which the casualty occurred. This is true even if you do not repair or replace the damaged property until a later year. (However, see *Disaster Area Losses,* later, for an exception.)

Theft loss. You generally can deduct theft losses only in the year you discover your property was stolen. You must be able to show there was a theft, but you do not have to know when the theft occurred. However, you should show when you discovered that your property was missing.

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

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

Disaster Area Losses

This section discusses the special rules that apply to Presidentially 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 Presidentially declared disaster is a disaster that occurred in an area declared by the President to be eligible for federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

TIP *A list of the areas warranting assistance under the Act for 2005 is available at the Federal Emergency Management Agency (FEMA) web site at www.fema.gov.*

When to deduct the loss. If you have a casualty loss from a disaster that occurred in a Presidentially declared disaster area, you can choose to deduct that loss on your return or amended return for the tax year immediately preceding the tax year in which the disaster happened. If you make this choice, the loss is treated as having occurred in the preceding year.

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

If you do not choose to deduct your loss on your return for the earlier year, deduct it on your return for the year in which the disaster occurred.

Example. You are a calendar year taxpayer. A flood damaged your home this June. The flood damaged or destroyed a considerable amount of property in your town. The President declared the area that includes your town a federal disaster area as a result of the flood. You can choose to deduct the flood loss on your home on last year's tax return. (See *How to deduct your loss in the preceding year*, later.)

Disaster loss to inventory. If your inventory loss is from a disaster in an area declared by the President of the United States to be eligible for federal assistance, you may choose to deduct the loss on your return or amended return for the immediately preceding year. However, decrease your opening inventory for the year of the loss so that the loss will not be reported again in inventories.

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

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

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

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

You do not have a casualty loss if your home is unsafe due to dangerous conditions existing before the disaster. (For example, your house is located in an area known for severe storms.) This is true even if your home is condemned.

Example. Due to a severe storm, the President declared the county you live in a federal disaster area. Although your home has only minor damage from the storm, a month later the county issues a demolition order. This order is based on a finding that your home is unsafe due to nearby mud slides caused by the storm. The loss in your home's value because the mud slides made it unsafe is treated as a casualty loss from a disaster. The loss in value is the difference between your home's FMV immediately before the disaster and immediately after the disaster.

How to deduct your loss in the preceding year. If you choose to deduct your loss on your return or amended return for the tax year immediately preceding the tax year in which the disaster happened, include a statement saying that you are making that choice. The statement can be made on the return or can be filed with the return. The statement should specify the date or dates of the disaster and the city, town, county, and state where the damaged or destroyed property was located at the time of the disaster.

Time limit for making choice. You must make this choice to take your casualty loss for the disaster in the preceding year by the later of the following dates.

- The due date (without extensions) for filing your income tax return for the tax year in which the disaster actually occurred.
- The due date (with extensions) for filing the return for the preceding tax year.

Example. If you are a calendar year taxpayer, you ordinarily have until April 17, 2006, to amend your 2004 tax return to claim a casualty loss that occurred during 2005.

Revoking your choice. You can revoke your choice within 90 days after making it by returning to the Internal Revenue Service any refund or credit you received from making the choice. However, if you revoke your choice before receiving a refund, you must return the refund within 30 days after receiving it for the revocation to be effective.

Figuring the loss deduction. You must figure the loss under the usual rules for casualty losses, as if it occurred in the year preceding the disaster. However, losses arising in the Hurricane Katrina disaster area after August 24, 2005, that were caused by Hurricane Katrina are not subject to the $100 rule or 10% rule (lines 9 and 11 in the following example). For more information on Hurricane Katrina disaster area losses, see Publication 4492.

Example. A disaster damaged your home and destroyed your furniture. This was your only casualty loss for the year. The President later declared the area to be eligible for federal assistance. The cost of your home and land was $134,000. The FMV immediately before the disaster was $147,500 and the FMV immediately afterward was $100,000. You separately figured the loss on each item of furniture (see *Figuring the Deduction,* earlier) and arrived at a total loss for furniture of $3,000. Your insurance did not cover this type of casualty loss, and you expect no reimbursement for either your home or your furniture.

You choose to amend your previous year's return to claim your casualty loss for the disaster. Your adjusted gross income on your previous year's return was $71,000. You figure your casualty loss as follows:

	House	Furnishings
1. Cost	$134,000	$10,000
2. FMV before disaster	$147,500	$8,000
3. FMV after disaster . .	100,000	5,000
4. Decrease in FMV (line 2 – line 3)	$47,500	$3,000
5. Smaller of line 1 or line 4	$47,500	$3,000
6. Subtract estimated insurance	-0-	-0-
7. Loss after reimbursement	$ 47,500	$3,000
8. Total loss		$50,500
9. Subtract $100		100
10. Loss after $100 rule		$50,400
11. Subtract 10% of $71,000 AGI		7,100
12. **Amount of casualty loss deduction**		**$43,300**

Claiming a disaster loss on an amended return. If you have already filed your return for the preceding year, you can claim a disaster loss against that year's income by filing an amended return. Individuals file an amended return on Form 1040X.

How to report the loss on Form 1040X. You should adjust your deductions on Form 1040X. The instructions for Form 1040X show how to do this. Explain the reasons for your adjustment and attach Form 4684 to show how you figured your loss. See *Figuring a Loss,* earlier.

If the damaged or destroyed property was nonbusiness property or employee property and you did not itemize your deductions on your original return, you must first determine whether the casualty loss deduction now makes it advantageous for you to itemize. It is advantageous to itemize if the total of the casualty loss deduction and any other itemized deductions is more than your standard deduction. If you itemize, attach Schedule A (Form 1040) and Form 4684 to your amended return. Fill out Form 1040X to refigure your tax on the rest of the form to find your refund.

Records. You should keep the records that support your loss deduction. You do not have to attach them to the amended return.

Need a copy of your tax return for the preceding year? It will be easier to prepare Form 1040X if you have a copy of your tax return for the preceding year. If you had your tax return completed by a tax preparer, he or she should be able to provide you with a copy of your return. If not, you can get a copy by filing Form 4506 with the IRS. There is a $39 fee for each return requested. However, if your main home, principal place of business, or tax records are located in a Presidentially declared disaster area, this fee will be waived. Write the name of the disaster in the top margin of Form 4506 (for example, "Hurricane Katrina").

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

Federal disaster relief grants. Do not include post-disaster relief grants received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act in your income if the grant payments are made to help you meet necessary expenses or serious needs for medical, dental, housing, personal property, transportation, or funeral expenses. Do not deduct casualty losses or medical expenses to the extent they are specifically reimbursed by these disaster relief grants. Unemployment assistance payments under the Act are taxable unemployment compensation.

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

Qualified disaster relief payments. Qualified disaster relief payments are not included in the income of individuals to the extent any expenses compensated by these payments are not otherwise compensated for by insurance or other reimbursement. These payments are not subject to income tax, self-employment tax, or employment taxes (social security, Medicare, and federal unemployment taxes). No withholding applies to these payments.

Qualified disaster relief payments include payments you receive (regardless of the source) for the following expenses.

- Reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a Presidentially declared disaster.
- Reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence due to a Presidentially declared disaster. (A personal residence can be a rented residence or one you own.)
- Reasonable and necessary expenses incurred for the repair or replacement of the contents of a personal residence due to a Presidentially declared disaster.

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

CAUTION

Qualified disaster relief payments do not include:

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

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

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

Special rules for main home in a disaster area. Special rules regarding gains may apply to insurance proceeds you receive because of the damage or destruction of your main home (whether owned or rented) or its contents. For a discussion of these rules, see *Gains Realized on Homes in Disaster Areas* in the Instructions for Form 4684.

Postponed Tax Deadlines

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

If any tax deadline is postponed, the IRS will publicize the postponement in your area and publish a news release, revenue ruling, revenue procedure, notice, announcement, or other guidance in the Internal Revenue Bulletin (IRB).

Who is eligible. If the IRS postpones a tax deadline, the following taxpayers are eligible for the postponement.

- Any individual whose main home is located in a covered disaster area (defined later).
- Any business entity or sole proprietor whose principal place of business is located in a covered disaster area.
- Any individual who is a relief worker affiliated with a recognized government or philanthropic organization and who is assisting in a covered disaster area.
- Any individual, business entity, or sole proprietor whose records are needed to meet a postponed deadline, provided those records are maintained in a covered disaster area. The main home or principal place of business does not have to be located in the covered disaster area.
- Any estate or trust that has tax records necessary to meet a postponed tax deadline, provided those records are maintained in a covered disaster area.
- The spouse on a joint return with a taxpayer who is eligible for postponements.
- Any other person determined by the IRS to be affected by a Presidentially declared disaster.

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

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

Contacting the Federal Emergency Management Agency (FEMA)

If you need to contact FEMA for general information, call 202-646-4600 (not a toll-free call) or visit its web site at *www.fema.gov*.

If you live in an area that was declared a disaster area by the President, you can get information from FEMA by calling the following phone numbers. These numbers are only activated after a Presidentially declared disaster.

- 1-800-621-3362.
- 1-800-462-7585, if you are a TTY/TDD user.

How To Report Gains and Losses

How you report gains and losses depends on whether the property was business, income-producing, or personal-use property.

Personal-use property. If you have a loss, use both of the following.

- Form 4684.
- Schedule A (Form 1040), Itemized Deductions.

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

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

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

Property held 1 year or less. Individuals report losses from income-producing property and property used in performing services as an employee on Schedule A (Form 1040). Gains from business and income-producing property are combined with losses from business property (other than property used in performing services as an employee) and the net gain or loss is reported on Form 4797. If you are not otherwise required to file Form 4797, only enter the net gain or loss on your tax return on the line identified as from Form 4797. Next to that line, enter “Form 4684.” Partnerships and S corporations should see the Form 4684 instructions to find out where to report these gains and losses.

Property held more than 1 year. If your losses from business and income-producing property are more than gains from these types of property, combine your losses from business property (other than property used in performing services as an employee) with total gains from business and income-producing property. Report the net gain or loss as an ordinary gain or loss on Form 4797. If you are not otherwise required to file Form 4797, only enter the net gain or loss on your tax return on the line identified as from Form 4797. Next to that line, enter “Form 4684.” Individuals deduct any loss of income-producing property and property used in performing services as an employee on Schedule A (Form 1040). Partnerships and S corporations should see Form 4684 to find out where to report these gains and losses.

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

Depreciable property. If the damaged or stolen property was depreciable property held more than 1 year, you may have to treat all or part of the gain as ordinary income to the extent of depreciation allowed or allowable. You figure the ordinary income part of the gain in Part III of Form 4797. See *Depreciation Recapture* in chapter 3 of Publication 544 for more information about the recapture rule.

Adjustments to Basis

If you have a casualty or theft loss, you must decrease your basis in the property by any insurance or other reimbursement you receive and by any deductible loss. The result is your adjusted basis in the property.

You must increase your basis in the property by the amount you spend on repairs that substantially prolong the life of the property, increase its value, or adapt it to a different use. To make this determination, compare the repaired property to the property before the casualty. Do not increase your basis in the property by any qualified disaster mitigation payments (discussed earlier under *Disaster Area Losses).* See *Adjusted Basis* in Publication 551 for more information on adjustments to basis.

If Deductions Are More Than Income

If your casualty or theft loss deduction causes your deductions for the year to be more than your income for the year, you may have a net operating loss (NOL). You can use an NOL to lower your tax in an earlier year, allowing you to get a refund for tax you already paid. Or, you can use it to lower your tax in a later year. You do not have to be in business to have an NOL from a casualty or theft loss. For more information, see Publication 536, Net Operating Losses (NOLs) for Individuals, Estates, and Trusts.

How To Get Tax Help

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

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

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

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit *www.irs.gov/advocate*.

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

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

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

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

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

National Distribution Center
P.O. Box 8903
Bloomington, IL 61702–8903

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

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD-ROM from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for $25 (plus a $5 handling fee).

CD-ROM for small businesses.

Publication 3207, The Small Business Resource Guide CD-ROM for 2005, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.
- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz*

Index

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

■

Form **4684**
(Rev. January 2006)
Department of the Treasury
Internal Revenue Service

Casualties and Thefts

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

OMB No. 1545-0177
2005
Attachment Sequence No. **26**

Name(s) shown on tax return	Identifying number

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

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

Property **A** ______
Property **B** ______
Property **C** ______
Property **D** ______

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

10	Casualty or theft loss. Add the amounts on line 9 in columns A through D	10	
11	Enter the **smaller** of line 10 or $100. But if the loss arose in the Hurricane Katrina disaster area after August 24, 2005; Hurricane Rita disaster area after September 22, 2005; or Hurricane Wilma disaster area after October 22, 2005, and was caused by that particular hurricane, enter -0-	11	
12	Subtract line 11 from line 10	12	
	Caution: *Use only one Form 4684 for lines 13 through 21.*		
13	Add the amounts on line 12 of all Forms 4684	13	
14	Add the amounts on line 4 of all Forms 4684	14	
15	• If line 14 is **more** than line 13, enter the difference here and on Schedule D. **Do not** complete the rest of this section (see instructions). • If line 14 is **less** than line 13, enter -0- here and go to line 16. • If line 14 is **equal** to line 13, enter -0- here. **Do not** complete the rest of this section.	15	
16	If line 14 is **less** than line 13, enter the difference	16	
17	Add the amounts on line 12 of all Forms 4684 on which you entered -0- on line 11	17	
18	Is line 17 less than line 16? ☐ **No.** Stop. Enter the amount from line 16 on Schedule A (Form 1040), line 19. Estates and trusts, enter the amount from line 16 on the "Other deductions" line of your tax return. ☐ **Yes.** Subtract line 17 from line 16.	18	
19	Enter 10% of your adjusted gross income from Form 1040, line 38. Estates and trusts, see instructions	19	
20	Subtract line 19 from line 18. If zero or less, enter -0-	20	
21	Add lines 17 and 20. Also enter the result on Schedule A (Form 1040), line 19. Estates and trusts, enter the result on the "Other deductions" line of your tax return	21	

For Paperwork Reduction Act Notice, see page 4 of the instructions. Cat. No. 12997O Form **4684** (2005) (Rev. 1-2006)

Name(s) shown on tax return. Do not enter name and identifying number if shown on other side. | **Identifying number**

SECTION B—Business and Income-Producing Property

Part I Casualty or Theft Gain or Loss (Use a separate Part I for each casualty or theft.)

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

Property **A** ______

Property **B** ______

Property **C** ______

Property **D** ______

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

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

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

(a) Identify casualty or theft		(b) Losses from casualties or thefts: (i) Trade, business, rental or royalty property	(b) (ii) Income-producing and employee property		(c) Gains from casualties or thefts includible in income
Casualty or Theft of Property Held One Year or Less					
32		( )	( )		
		( )	( )		
33 Totals. Add the amounts on line 32	33	( )	( )		
34 Combine line 33, columns (b)(i) and (c). Enter the net gain or (loss) here and on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions				34	
35 Enter the amount from line 33, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 27, and enter the amount from property used as an employee on Schedule A (Form 1040), line 22. Estates and trusts, partnerships, and S corporations, see instructions				35	
Casualty or Theft of Property Held More Than One Year					
36 Casualty or theft gains from Form 4797, line 32				36	
37		( )	( )		
		( )	( )		
38 Total losses. Add amounts on line 37, columns (b)(i) and (b)(ii)	38	( )	( )		
39 Total gains. Add lines 36 and 37, column (c)				39	
40 Add amounts on line 38, columns (b)(i) and (b)(ii)				40	
41 If the loss on line 40 is **more** than the gain on line 39:					
a Combine line 38, column (b)(i) and line 39, and enter the net gain or (loss) here. Partnerships (except electing large partnerships) and S corporations, see the note below. All others, enter this amount on Form 4797, line 14. If Form 4797 is not otherwise required, see instructions				41a	
b Enter the amount from line 38, column (b)(ii) here. Individuals, enter the amount from income-producing property on Schedule A (Form 1040), line 27, and enter the amount from property used as an employee on Schedule A (Form 1040), line 22. Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships (except electing large partnerships) and S corporations, see the note below. Electing large partnerships, enter on Form 1065-B, Part II, line 11				41b	
42 If the loss on line 40 is **less** than or **equal** to the gain on line 39, combine lines 39 and 40 and enter here. Partnerships (except electing large partnerships), see the note below. All others, enter this amount on Form 4797, line 3				42	

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

2005

Department of the Treasury
Internal Revenue Service

Instructions for Form 4684
(Rev. January 2006)

Casualties and Thefts

General Instructions

Section references are to the Internal Revenue Code.

What's New

1. To the extent your personal loss arose in the:

a. Hurricane Katrina disaster area after August 24, 2005,

b. Hurricane Rita disaster area after September 22, 2005, or

c. Hurricane Wilma disaster area after October 22, 2005,

and was caused by that particular hurricane, your deduction is figured without regard to the reduction of $100 per casualty or theft and the additional reduction of the aggregate net loss by 10% of adjusted gross income. See the instructions for line 11.

2. The replacement period for postponing gain on property located in the Hurricane Katrina disaster area that was converted after August 24, 2005, as a result of Hurricane Katrina, is extended to 5 years after the end of the first tax year in which any part of the gain on the conversion is realized, but only if substantially all of the use of the replacement property is in that disaster area.

Purpose of Form

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

Losses You Can Deduct

You can deduct losses from fire, storm, shipwreck, or other casualty, or theft (for example, larceny, embezzlement, and robbery).

If your property is covered by insurance, you must file a timely insurance claim for reimbursement of your loss. Otherwise, you cannot deduct the loss as a casualty or theft loss. However, the part of the loss that is not covered by insurance is still deductible.

Related expenses. The related expenses you have due to a casualty or theft, such as expenses for the treatment of personal injuries or for the rental of a car, are not deductible as casualty or theft losses.

Costs for protection against future casualties are not deductible but should be capitalized as permanent improvements. An example would be the cost of a levee to stop flooding.

Losses You Cannot Deduct

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.

Gain on Reimbursement

If the amount you receive in insurance or other reimbursement is more than the cost or other basis of the property, you have a gain. If you have a gain, you may have to pay tax on it, or you may be able to postpone the gain.

Do not report the gain on damaged, destroyed, or stolen property if you receive property that is similar or related to it in service or use. Your basis in the new property is the same as your basis in the old property.

Any tangible replacement property held for use in a trade or business is treated as similar or related in service or use to property held for use in a trade or business or for investment if:

- The property you are replacing was damaged or destroyed in a disaster, and
- The area in which the property was damaged or destroyed was declared by the President of the United States to warrant federal assistance because of that disaster.

Generally, you must recognize the gain if you receive unlike property or money as reimbursement. But you generally can choose to postpone all or part of the gain if, within 2 years of the end of the first tax year in which any part of the gain is realized, you purchase:

- Property similar or related in service or use to the damaged, destroyed, or stolen property, or
- A controlling interest (at least 80%) in a corporation owning such property.

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

- New York Liberty Zone (as defined in section 1400L(h)) and that property was converted as a result of the terrorist attacks on September 11, 2001, in the New York Liberty Zone, but only if substantially all of the use of the replacement property is in the city of New York, New York.
- Hurricane Katrina disaster area (as defined in the instructions for line 11) and that property was converted after August 24, 2005, as a result of Hurricane Katrina, but only if substantially all of the use of the replacement property is in that disaster area.

To postpone all of the gain, the cost of the replacement property must be equal to or more than the reimbursement you received for your property. If the cost of the replacement property is less than the reimbursement received, you must recognize the gain to the extent the reimbursement exceeds the cost of the replacement property.

If the replacement property or stock is acquired from a related person, gain generally cannot be postponed by:

- Corporations (other than S corporations),
- Partnerships more than 50% owned by one or more corporations (other than S corporations), or
- All other taxpayers, unless the aggregate realized gains on the involuntarily converted property are $100,000 or less for the tax year. This rule applies to partnerships and S corporations at both the entity and partner or shareholder level.

For details, see section 1033(i).

For details on how to postpone the gain, see Pub. 547, Casualties, Disasters, and Thefts.

If your main home was located in a Presidentially declared disaster area, and that home or any of its contents were damaged or destroyed due to the disaster, special rules apply. See *Gains Realized on Homes in Disaster Areas* on page 2.

When To Deduct a Loss

Deduct the part of your casualty or theft loss that is not reimbursable in the tax year the casualty occurred or the theft was discovered. However, a disaster loss and a loss from deposits in insolvent or bankrupt financial institutions may be treated differently. See *Disaster Losses* and *Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions* on page 2.

If you are not sure whether part of your casualty or theft loss will be reimbursed, do not deduct that part until the tax year when you become reasonably certain that it will not be reimbursed.

If you are reimbursed for a loss you deducted in an earlier year, include the reimbursement in your income in the year you received it, but only to the extent the deduction reduced your tax in an earlier year.

See Pub. 547 for special rules on when to deduct losses from casualties and thefts to leased property.

Cat. No. 12998Z

Disaster Losses

A disaster loss is a loss that occurred in an area determined by the President of the United States to warrant federal disaster assistance.

You can elect to deduct a disaster loss in the tax year immediately prior to the tax year in which the disaster occurred as long as the loss would otherwise be allowed as a deduction in the tax year it occurred.

This election must be made by filing your return or amended return for the prior year, and claiming your disaster loss on it, by the later of:

- The due date for filing your original return (without extensions) for the tax year in which the disaster actually occurred, or
- The due date for filing your original return (including extensions) for the tax year immediately prior to the tax year in which the disaster actually occurred.

You can revoke your election within 90 days after making it by returning to the IRS any refund or credit you received from the election. If you revoke your election before receiving a refund, you must repay the refund within 30 days after receiving it.

On the return on which you claim the disaster loss, specify the date(s) of the disaster and the city, town, county or parish, and state in which the damaged or destroyed property was located.

To determine the amount to deduct for a disaster loss, you must take into account as reimbursements any benefits you received from federal or state programs to restore your property.

If your home was located in a disaster area and your state or local government ordered you to tear it down or move it because it was no longer safe to use as a home, the loss in value because it is no longer safe is treated as a disaster loss. The order for you to tear down or move the home must have been issued within 120 days after the area was officially declared a disaster area.

For purposes of figuring the disaster loss, use the value of your home before you moved it or tore it down as its fair market value (FMV) after the casualty.

Gains Realized on Homes in Disaster Areas

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

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

2. Any other insurance proceeds you receive for the home or its contents are treated as received for a single item of property, and any replacement property you purchase that is similar or related in service or use to the home or its contents is treated as similar or related in service or use to that single item of property. Therefore, you can choose to recognize gain only to the extent the insurance proceeds treated as received for that single item of property exceed the cost of the replacement property.

3. If you choose to postpone any gain from the receipt of insurance or other reimbursement for your main home or any of its contents, the period in which you must purchase replacement property is extended until 4 years after the end of the first tax year in which any part of the gain is realized. However, the 4-year period is extended to 5 years if your main home or any of its contents were located in the:

a. New York Liberty Zone (as defined in section 1400L(h)) and that property was converted as a result of the terrorist attacks on September 11, 2001, in the New York Liberty Zone, but only if substantially all of the use of the replacement property is in the city of New York, New York.

b. Hurricane Katrina disaster area (as defined in the instructions for line 11) and that property was converted after August 24, 2005, as a result of Hurricane Katrina, but only if substantially all of the use of the replacement property is in that disaster area.

Example. Your main home and its contents were completely destroyed in 2005 by a tornado in a Presidentially declared disaster area. In 2005, you received insurance proceeds of $200,000 for the home, $25,000 for unscheduled personal property in your home, $5,000 for jewelry, and $10,000 for a stamp collection. The jewelry and stamp collection were kept in your home and were scheduled property on your insurance policy. No gain is recognized on the $25,000 you received for the unscheduled personal property. If you reinvest the remaining proceeds of $215,000 in a replacement home, any type of replacement contents (whether scheduled or unscheduled), or both, you can elect to postpone any gain on your home, jewelry, or stamp collection. If you reinvest less than $215,000, any gain is recognized only to the extent $215,000 exceeds the amount you reinvest in a replacement home, any type of replacement contents (whether scheduled or unscheduled), or both. To postpone gain, you must purchase the replacement property before 2010.Your basis in the replacement property equals its cost decreased by the amount of any postponed gain.

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

Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions

If you are an individual who incurred a loss from a deposit in a bank, credit union, or other financial institution because of the bankruptcy or insolvency of that institution and you can reasonably estimate your loss, you can elect to deduct the loss as:

- A casualty loss to personal use property on Form 4684, or
- An ordinary loss (miscellaneous itemized deduction) on Schedule A (Form 1040), Itemized Deductions, line 22. You cannot elect the ordinary loss deduction if any part of the deposits related to the loss is federally insured. The maximum amount you can claim is $20,000 ($10,000 if you are married filing separately). Your deduction is reduced by any expected state insurance proceeds and is subject to the 2% adjusted gross income limit.

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

If you are a 1% or more owner or an officer of the financial institution, or are related to any such owner or officer, you cannot deduct the loss as a casualty loss or as an ordinary loss. See Pub. 550, Investment Income and Expenses, for the definition of “related.”

If you elect to deduct the loss as a casualty loss or as an ordinary loss and you have more than one account in the same financial institution, you must include all your accounts. Once you make the election, you cannot change it without permission from the IRS. See Notice 89-28, 1989-1 C.B. 667, for more details.

To elect to deduct the loss as a casualty loss, complete Form 4684 as follows: On line 1, enter the name of the financial institution and “Insolvent Financial Institution.” Skip lines 2 through 9. Enter the amount of the loss on line 10, and complete the rest of Section A.

If, in a later year, you recover an amount you deducted as a loss, you may have to include in your income the amount recovered for that year. For details, see *Recoveries* in Pub. 525, Taxable and Nontaxable Income.

Specific Instructions

Which Sections To Complete

Use Section A to figure casualty or theft gains and losses for property that is not used in a trade or business or for income-producing purposes.

Nonbusiness casualty or theft losses are deductible only to the extent that the amount of the loss from each separate casualty or theft is more than $100 and the total amount of all losses (as so reduced) during the year is more than 10% of adjusted gross income (Form 1040, line 38). However, these limits do not apply to losses that arose in the:

- Hurricane Katrina disaster area after August 24, 2005,

• Hurricane Rita disaster area after September 22, 2005, or
• Hurricane Wilma disaster area after October 22, 2005,
and were caused by that particular hurricane.

Use Section B to figure casualty or theft gains and losses for property that is used in a trade or business or for income-producing purposes.

If property is used partly in a trade or business and partly for personal purposes, such as a personal home with a rental unit, figure the personal part in Section A and the business part in Section B.

Section A—Personal Use Property

Use a separate column for lines 1 through 9 to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of lines 1 through 9.

Use a separate Form 4684 through line 12 for each casualty or theft involving property not used in a trade or business or for income-producing purposes.

Do not include any loss previously deducted on an estate tax return.

If you are liable for casualty or theft losses to property you lease from someone else, see Pub. 547.

Line 2

Cost or other basis usually means original cost plus improvements. Subtract any postponed gain from the sale of a previous main home. Special rules apply to property received as a gift or inheritance. See Pub. 551, Basis of Assets, for details.

Line 3

Enter on this line the amount of insurance or other reimbursement you received or expect to receive for each property. Include your insurance coverage whether or not you are filing a claim for reimbursement. For example, your car worth $2,000 is totally destroyed in a collision. You are insured with a $500 deductible, but decide not to report it to your insurance company because you are afraid the insurance company will cancel your policy. In this case, enter $1,500 on this line.

If you expect to be reimbursed but have not yet received payment, you must still enter the expected reimbursement from the loss. If, in a later tax year, you determine with reasonable certainty that you will not be reimbursed for all or part of the loss, you can deduct for that year the amount of the loss that is not reimbursed.

Types of reimbursements. Insurance is the most common way to be reimbursed for a casualty or theft loss, but if:
• Part of a federal disaster loan is forgiven, the part you do not have to pay back is considered a reimbursement.
• The person who leases your property must make repairs or must repay you for any part of a loss, the repayment and the cost of the repairs are considered reimbursements.
• A court awards you damages for a casualty or theft loss, the amount you are able to collect, minus lawyers' fees and other necessary expenses, is a reimbursement.
• You accept repairs, restoration, or cleanup services provided by relief agencies, it is considered a reimbursement.
• A bonding company pays you for a theft loss, the payment is also considered a reimbursement.

Lump-sum reimbursement. If you have a casualty or theft loss of several assets at the same time and you receive a lump-sum reimbursement, you must divide the amount you receive among the assets according to the fair market value of each asset at the time of the loss.

Grants, gifts, and other payments. Grants and other payments you receive to help you after a casualty are considered reimbursements only if they must be used specifically to repair or replace your property. Such payments will reduce your casualty loss deduction. If there are no conditions on how you have to use the money you receive, it is not a reimbursement.

Use and occupancy insurance. If insurance reimburses you for your loss of business income, it does not reduce your casualty or theft loss. The reimbursement is income, and is taxed in the same manner as your business income.

Line 4

If you are entitled to an insurance payment or other reimbursement for any part of a casualty or theft loss but you choose not to file a claim for the loss, you cannot realize a gain from that payment or reimbursement. Therefore, figure the gain on line 4 by subtracting your cost or other basis in the property (line 2) only from the amount of reimbursement you actually received. Enter the result on line 4, but do not enter less than zero.

If you filed a claim for reimbursement but did not receive it until after the year of the casualty or theft, include the gain in your income in the year you received the reimbursement.

Lines 5 and 6

Fair market value (FMV) is the price at which the property would be sold between a willing buyer and a willing seller, each having knowledge of the relevant facts. The difference between the FMV immediately before the casualty or theft and the FMV immediately after represents the decrease in FMV because of the casualty or theft.

The FMV of property after a theft is zero if the property is not recovered.

FMV is generally determined by a competent appraisal. The appraiser's knowledge of sales of comparable property about the same time as the casualty or theft, knowledge of your property before and after the occurrence, and the methods of determining FMV are important elements in proving your loss.

The appraised value of property immediately after the casualty must be adjusted (increased) for the effects of any general market decline that may occur at the same time as the casualty or theft. For example, the value of all nearby property may become depressed because it is in an area where such occurrences are commonplace. This general decline in market value is not part of the property's decrease in FMV as a result of the casualty or theft.

Replacement cost or the cost of repairs is not necessarily FMV. However, you may be able to use the cost of repairs to the damaged property as evidence of loss in value if:
• The repairs are necessary to restore the property to the condition it was in immediately before the casualty,
• The amount spent for repairs is not excessive,
• The repairs only correct the damage caused by the casualty, and
• The value of the property after the repairs is not, as a result of the repairs, more than the value of the property immediately before the casualty.

To figure a casualty loss to real estate not used in a trade, business, or for income-producing purposes, measure the decrease in value of the property as a whole. All improvements, such as buildings, trees, and shrubs, are considered together as one item. Figure the loss separately for other items. For example, figure the loss separately for each piece of furniture.

Line 11

If your loss arose in the:
• Hurricane Katrina disaster area after August 24, 2005,
• Hurricane Rita disaster area after September 22, 2005, or
• Hurricane Wilma disaster area after October 22, 2005,
and was caused by that particular hurricane, you do not have to reduce your loss by $100. Enter zero on this line. Qualifying losses include losses from flooding or other casualty, and from theft, that arose in these hurricane disaster areas and were caused by these particular hurricanes.

The **Hurricane Katrina disaster area** includes the states of Alabama, Florida, Louisiana, and Mississippi. The **Hurricane Rita disaster area** includes the states of Louisiana and Texas. The **Hurricane Wilma disaster area** includes the state of Florida.

Line 15

If line 14 is more than line 13:
• Combine your short-term gains with your short-term losses and enter the net short-term gain or (loss) on Schedule D (Form 1040), line 4. Estates and trusts enter this amount on Schedule D (Form 1041), line 2.
• Combine your long-term gains with your long-term losses and enter the net long-term gain or (loss) on Schedule D (Form 1040), line 11. Estates and trusts enter this amount on Schedule D (Form 1041), line 7.

The holding period for long-term gains and losses is more than 1 year. For short-term gains and losses, it is 1 year or less. To figure the holding period, begin counting on the day after you received the property and include the day the casualty or theft occurred.

Line 19

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

Section B—Business and Income-Producing Property

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

Use a separate Form 4684, Section B, Part I, for each casualty or theft involving property used in a trade or business or for income-producing purposes. Use one Section B, Part II, to combine all Sections B, Part I.

For details on the treatment of casualties or thefts to business or income-producing property, including rules on the loss of inventory through casualty or theft, see Pub. 547.

If you had a casualty or theft loss involving a home you used for business or rented out, your deductible loss may be limited. First, complete Form 4684, Section B, lines 22 through 29. If the loss involved a home used for a business for which you are filing Schedule C (Form 1040), Profit or Loss From Business, figure your deductible casualty or theft loss on Form 8829, Expenses for Business Use of Your Home. Enter on Form 4684, line 30, the deductible loss from Form 8829, line 33, and "See Form 8829" above line 30. For a home you rented out or used for a business for which you are not filing Schedule C (Form 1040), see section 280A(c)(5) to figure your deductible loss. Attach a statement showing your computation of the deductible loss, enter that amount on line 30 and "See attached statement" above line 30.

Note. A gain or loss from a casualty or theft of property used in a passive activity is not taken into account in determining the loss from a passive activity unless losses similar in cause and severity recur regularly in the activity. See Form 8582, Passive Activity Loss Limitations, and its instructions for details.

Section 179 Property of a Partnership or S corporation

Partnerships (other than electing large partnerships) and S corporations that have a casualty or theft involving property for which the section 179 expense deduction was previously claimed and passed through to the partners or shareholders must not use Form 4684 to report the transaction. Instead, see the Instructions for Form 4797 for details on how to report it. Partners and S corporation shareholders who receive a Schedule K-1 reporting such a transaction should see the Instructions for Form 4797 for details on how to figure the amount to enter on Form 4684, line 20.

Line 23

Cost or adjusted basis usually means original cost plus improvements, minus depreciation allowed or allowable (including any section 179 expense deduction), amortization, depletion, etc. Special rules apply to property received as a gift or inheritance. See Pub. 551 for details.

Line 24

See the instructions for line 3.

Line 25

See the instructions for line 4.

Lines 26 and 27

See the instructions for lines 5 and 6 for details on determining FMV.

Loss on each item figured separately. Unlike a casualty loss to personal use real estate, in which all improvements are considered one item, a casualty loss to business or income-producing property must be figured separately for each item. For example, if casualty damage occurs to both a building and to trees on the same piece of real estate, measure the loss separately for the building and for the trees.

Line 31

If the amount on line 31 includes losses on property held 1 year or less, and losses on property held for more than 1 year, you must allocate the amount between lines 32 and 37 according to how long you held each property. Enter on line 32 all gains and losses on property held 1 year or less. Enter on line 37 all gains and losses on property held more than 1 year, except as provided in the instructions for line 36.

Part II, Column (a)

Use a separate line for each casualty or theft.

Part II, Column (b)(i)

Enter the part of line 31 from trade, business, rental, or royalty property (other than property you used in performing services as an employee).

Part II, Column (b)(ii)

Enter the part of line 31 from income-producing property and from property you used in performing services as an employee. Income-producing property is property held for investment, such as stocks, notes, bonds, gold, silver, vacant lots, and works of art.

Line 34

If Form 4797, Sales of Business Property, is not otherwise required, enter the amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Next to that line, enter "Form 4684."

Line 35

Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships (except electing large partnerships), enter on Form 1065, Schedule K, line 13d. Electing large partnerships, enter on Form 1065-B, Part II, line 11. S corporations, enter on Form 1120S, Schedule K, line 12d. Next to that line, enter "Form 4684."

Line 36

If you had a casualty or theft gain from certain trade, business, or income-producing property held more than 1 year, you may have to recapture part or all of the gain as ordinary income. See the instructions for Form 4797, Part III, for more information on the types of property subject to recapture. If recapture applies, complete Form 4797, Part III, and this line, instead of Form 4684, line 37.

Line 41a

Taxpayers, other than partnerships and S corporations, if Form 4797 is not otherwise required, enter the amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Next to that line, enter "Form 4684."

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	1 hr., 58 min.
Learning about the law or the form	27 min.
Preparing the form	1 hr., 7 min.
Copying, assembling, and sending the form to the IRS	34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

Department of the Treasury
Internal Revenue Service

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

Basis of Assets

Get forms and other information faster and easier by:

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Contents

Important Reminder

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

Introduction

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

This publication is divided into the following sections.

- Cost Basis
- Adjusted Basis
- Basis Other Than Cost

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

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

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

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

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

You can write to us at the following address:

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

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

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

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

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

Cost Basis

Terms you may need to know (see Glossary):

Business assets

Real property

Unstated interest

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

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

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

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

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

Stocks and Bonds

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

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

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

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

Real Property

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

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

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

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

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

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

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

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

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

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

b) Mortgage insurance premiums.

c) Loan assumption fees.

d) Cost of a credit report.

e) Fees for an appraisal required by a lender.

5) Fees for refinancing a mortgage.

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

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

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

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

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

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

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

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

1) Employee wages paid for the construction work.
2) Depreciation on equipment you own while it is used in the construction.
3) Operating and maintenance costs for equipment used in the construction.
4) The cost of business supplies and materials used in the construction.

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

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

Business Assets

Terms you may need to know (see Glossary):

Amortization

Capitalization

Depletion

Depreciation

Fair market value

Going concern value

Goodwill

Intangible property

Personal property

Recapture

Section 179 deduction

Section 197 intangibles

Tangible property

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

Uniform Capitalization Rules

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

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

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

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

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

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

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

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

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

1) Property you produce that you do not use in your trade, business, or activity conducted for profit.
2) Qualified creative expenses you pay or incur as a free-lance (self-employed) writer, photographer, or artist that are otherwise deductible on your tax return.
3) Property you produce under a long-term contract, except for certain home construction contracts.
4) Research and experimental expenses allowable as a deduction under section 174 of the Internal Revenue Code.
5) Costs for personal property acquired for resale if your (or your predecessor's) average annual gross receipts for the 3 previous tax years do not exceed $10 million.

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

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

Intangible Assets

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

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

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

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

Allocating the Basis

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

Group of Assets Acquired

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

Trade or Business Acquired

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

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

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

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

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

Land and Buildings

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

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted Basis

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

Increases to Basis

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

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

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

The following items increase the basis of property.

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

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

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

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

Assessments for Local Improvements

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

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

Deducting vs. Capitalizing Costs

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

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

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

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

Decreases to Basis

The following items reduce the basis of property.

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

Some of these items are discussed next.

Casualties and Thefts

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

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

Easements

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

Credit for Qualified Electric Vehicles

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

Gas-Guzzler Tax

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

Section 179 Deduction

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

Deduction for Clean-Fuel Vehicles and Refueling Property

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

Exclusion of Subsidies for Energy Conservation Measures

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

Depreciation

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

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

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

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

For information on figuring depreciation, see Publication 946.

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

Canceled Debt Excluded From Income

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

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

1) Debt canceled in a bankruptcy case or when you are insolvent.
2) Qualified farm debt.
3) Qualified real property business debt (provided you are not a C corporation).

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

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

Postponed Gain From Sale of Home

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

Adoption Tax Benefits

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

Employer-Provided Child Care

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

Example

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

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

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

Basis Other Than Cost

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

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

Property Received for Services

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

Bargain Purchases

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

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

Restricted Property

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

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

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

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

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

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

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

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

Taxable Exchanges

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

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

Involuntary Conversions

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

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

1) Decrease the basis by the following.
   a) Any loss you recognize on the conversion.
   b) Any money you receive that you do not spend on similar property.
2) Increase the basis by the following.
   a) Any gain you recognize on the conversion.
   b) Any cost of acquiring the replacement property.

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

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

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

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

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

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

Nontaxable Exchanges

Terms you may need to know (see Glossary):

Intangible property

Like-kind property

Personal property

Real property

Tangible property

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

Like-Kind Exchanges

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

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

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

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

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

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

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

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

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

1) Dispositions due to the death of either related person.
2) Involuntary conversions.
3) Dispositions in which neither the original exchange nor the subsequent disposition had as a main purpose the avoidance of federal income tax.

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

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

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

Partially Nontaxable Exchange

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

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

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

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

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

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

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

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

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

Sale and Purchase

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

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

Partial Business Use of Property

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

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

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

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

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

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

Property Transferred From a Spouse

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

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

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

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

Property Received as a Gift

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

FMV Less Than Donor's Adjusted Basis

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

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

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

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

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

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

FMV Equal to or More Than Donor's Adjusted Basis

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

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

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

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

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

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

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

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

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

Inherited Property

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

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

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

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

Community Property

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

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

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

Property Held by Surviving Tenant

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

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

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

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

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

Qualified Joint Interest

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

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

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

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

Farm or Closely Held Business

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

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

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

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

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

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

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

Property Changed to Business or Rental Use

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

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

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

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

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

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

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

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

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

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

How To Get Tax Help

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

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

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

To contact your Taxpayer Advocate:

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

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

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

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

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

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

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

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

Phone. Many services are available by phone.

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

■

Index

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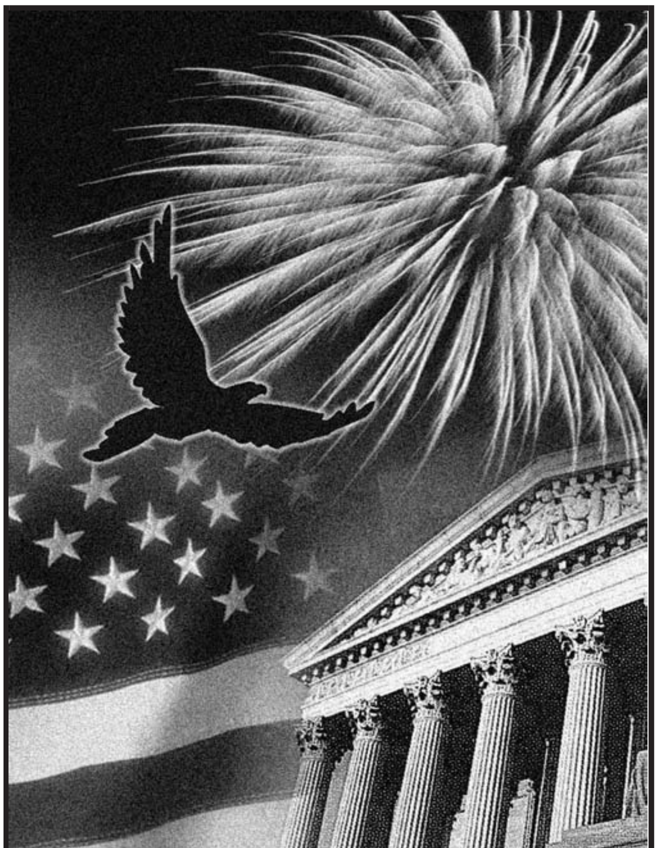
Department of the Treasury
Internal Revenue Service

Publication 536
Cat. No. 46569U

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

For use in preparing

2005 Returns



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Contents

What's New

Pending legislation. At the time this publication went to print, Congress was considering legislation that would provide additional tax relief for individuals affected by Hurricanes Katrina, Rita, and Wilma. For more details, and to find out if this legislation was enacted, see Pub. 4492.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

If your deductions for the year are more than your income for the year, you may have a net operating loss (NOL). An NOL year is the year in which an NOL occurs. You can use an NOL by deducting it from your income in another year or years.

What this publication covers. This publication discusses NOLs for individuals, estates, and trusts. It covers:

- How to figure an NOL,
- When to use an NOL,
- How to claim an NOL deduction, and
- How to figure an NOL carryover.

To have an NOL, your loss must generally be caused by deductions from your:

- Trade or business,
- Work as an employee,
- Casualty and theft losses,
- Moving expenses, or
- Rental property.

A loss from operating a business is the most common reason for an NOL.

Partnerships and S corporations generally cannot use an NOL. However, partners or shareholders can use their separate shares of the partnership's or S corporation's business income and business deductions to figure their individual NOLs.

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

What is not covered in this publication? The following topics are not covered in this publication.

- Bankruptcies. See Publication 908, Bankruptcy Tax Guide.
- NOLs of Corporations. See Publication 542, Corporations.
- Specified liability losses. See the instructions for Form 1045, Application for Tentative Refund.

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

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6406
Washington, DC 20224

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

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

Tax questions. If you have a tax question, visit *www.irs.gov* or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

Ordering forms and publications. Visit *www.irs.gov/formspubs* to download forms and publications, call 1-800-829-3676, or write to the National Distribution Center at the address shown under *How To Get Tax Help* in the back of this publication.

Useful Items

You may want to see:

Form (and Instructions)

- ❏ **1040X** Amended U.S. Individual Income Tax Return
- ❏ **1045** Application for Tentative Refund

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

NOL Steps

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

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

Individuals — Form 1040, line 41.

Estates and trusts — Form 1041, line 22.

If the amount on that line is not negative, stop here — you do not have an NOL.

Step 2. Determine whether you have an NOL and its amount. See *How To Figure an NOL,* later. If you do not have an NOL, stop here.

Step 3. Decide whether to carry the NOL back to a past year or to waive the carryback period and instead carry the NOL forward to a future year. See *When To Use an NOL,* later.

Step 4. Deduct the NOL in the carryback or carryforward year. See *How To Claim an NOL Deduction,* later. If your NOL deduction is equal to or less than your taxable income without the deduction, stop here — you have used up your NOL.

Step 5. Determine the amount of your unused NOL. See *How To Figure an NOL Carryover,* later. Carry over the unused NOL to the next carryback or carryforward year and begin again at Step 4.

Note. If your NOL deduction includes more than one NOL amount, apply Step 5 separately to each NOL amount, starting with the amount from the earliest year.

How To Figure an NOL

If your deductions for the year are more than your income for the year, you may have an NOL.

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

- Any deduction for personal exemptions.
- Capital losses in excess of capital gains.
- The section 1202 exclusion of 50% of the gain from the sale or exchange of qualified small business stock.
- Nonbusiness deductions in excess of nonbusiness income.
- Net operating loss deduction.

Schedule A (Form 1045). Use Schedule A (Form 1045) to figure an NOL. The following discussion explains Schedule A and includes an illustrated example.

First, complete Schedule A, line 1, using amounts from your return. If line 1 is a negative amount, you may have an NOL.

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

Nonbusiness deductions (line 6). Enter on line 6 deductions that are not connected to your trade or business or your employment. Examples of deductions not related to your trade or business are:

- Alimony,
- Contributions to an IRA or other self-employed retirement plan,
- Itemized deductions (except for casualty and theft losses, state income tax on business profits, and any employee business expenses), and
- The standard deduction (if you do not itemize your deductions).

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

- State income tax on business profits.
- Moving expenses.
- The deduction of one-half of your self-employment tax or your deduction for self-employed health insurance.
- Rental losses.
- Loss on the sale or exchange of business real estate or depreciable property.
- Your share of a business loss from a partnership or S corporation.
- Ordinary loss on the sale or exchange of stock in a small business corporation or a small business investment company.
- If you itemize your deductions, casualty and theft losses (even if they involve nonbusiness property) and employee business expenses (such as union dues, uniforms, tools, education expenses, and travel and transportation expenses).
- Loss on the sale of accounts receivable (if you use an accrual method of accounting).
- Interest and litigation expenses on state and federal income taxes related to your business.
- Unrecovered investment in a pension or annuity claimed on a decedent's final return.
- Payment by a federal employee to buy back sick leave used in an earlier year.

Nonbusiness income (line 7). Enter on line 7 only income that is not related to your trade or business or your employment. For example, enter your annuity income, dividends, and interest on investments. Also, include your share of nonbusiness income from partnerships and S corporations.

Do not include on line 7 the income you receive from your trade or business or your employment. This includes salaries and wages, self-employment income, and your share of business income from partnerships and S corporations. Also, do not include rental income or ordinary gain from the sale or other disposition of business real estate or depreciable business property.

Adjustment for section 1202 exclusion (line 17). Enter on line 17 any gain you excluded under section 1202 on the sale or exchange of qualified small business stock.

Adjustments for capital losses (lines 19–22). The amount deductible for capital losses is limited based on whether the losses are business capital losses or nonbusiness capital losses.

Nonbusiness capital losses. You can deduct your nonbusiness capital losses (line 2) only up to the amount of your nonbusiness capital gains without regard to any section 1202 exclusion (line 3). If your nonbusiness capital losses are more than your nonbusiness capital gains without regard to any section 1202 exclusion, you cannot deduct the excess.

Business capital losses. You can deduct your business capital losses (line 11) only up to the total of:

- Your nonbusiness capital gains that are more than the total of your nonbusiness capital losses and excess nonbusiness deductions (line 10), and
- Your total business capital gains without regard to any section 1202 exclusion (line 12).

NOLs from other years (line 23). You cannot deduct any NOL carryovers or carrybacks from other years. Enter the total amount of your NOL deduction for losses from other years.

Illustrated Schedule A (Form 1045)

The following example illustrates how to figure an NOL. It includes filled-in pages 1 and 2 of Form 1040 and Schedule A (Form 1045).

Example. Glenn Johnson is in the retail record business. He is single and has the following income and deductions on his Form 1040 for 2005.

INCOME

Wages from part-time job	$1,225
Interest on savings	425
Net long-term capital gain on sale of real estate used in business	2,000
Glenn's total income	$3,650

DEDUCTIONS

Net loss from business (gross income of $67,000 minus expenses of $72,000)	$5,000
Net short-term capital loss on sale of stock	1,000
Standard deduction	5,000
Personal exemption	3,200
Glenn's total deductions	$14,200

Glenn's deductions exceed his income by $10,550 ($14,200 – $3,650). However, to figure whether he has an NOL, certain deductions are not allowed. He uses Schedule A (Form 1045) to figure his NOL. See the illustrated Schedule A (Form 1045), later.

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

Nonbusiness net short-term capital loss	$1,000
Nonbusiness deductions (standard deduction, $5,000) minus nonbusiness income (interest, $425)	4,575
Deduction for personal exemption	3,200
Total adjustments to net loss	$8,775

Therefore, Glenn's NOL for 2005 is figured as follows:

Glenn's total 2005 income		$3,650
Less:		
Glenn's original 2005 total deductions	$14,200	
Reduced by the disallowed items	– 8,775	– 5,425
Glenn's NOL for 2005		$1,775

When To Use an NOL

Generally, if you have an NOL for a tax year ending in 2005, you must carry back the entire amount of the NOL to the 2 tax years before the NOL year (the carryback period), and then carry forward any remaining NOL for up to 20 years after the NOL year (the carryforward period). You can, however, choose not to carry back an NOL and only carry it forward. See *Waiving the Carryback Period*, later. You cannot deduct any part of the NOL remaining after the 20-year carryforward period.

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

Exceptions to 2-Year Carryback Rule

Eligible losses and farming losses, defined below, qualify for longer carryback periods.

Eligible loss. The carryback period for eligible losses is 3 years. An eligible loss is any part of an NOL that:

- Is from a casualty or theft, or
- Is attributable to a Presidentially declared disaster for a qualified small business.

Qualified small business. A qualified small business is a sole proprietorship or a partnership that has average annual gross receipts (reduced by returns and allowances) of $5 million or less during the 3-year period ending with the tax year of the NOL. If the business did not exist for this entire 3-year period, use the period the business was in existence.

Farming loss. The carryback period for a farming loss is 5 years. A farming loss is the smaller of:

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

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

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

Waiving the 5-year carryback. You can choose to treat a farming loss as if it were not a farming loss. If you make this choice, the carryback period will be 2 years. To make this choice, attach a statement to your 2005 income tax return filed on or before the due date (including extensions) that you are choosing to treat any 2005 farming losses as if they were not farming losses under section 172(i)(3) of the Internal Revenue Code. If you do not make this election on your timely filed return, you have until 6 months after the due date of the return (excluding extensions) to make the choice by filing an amended return. Attach a statement to your amended return and write "Filed pursuant to section 301.9100-2" at the top of the statement. Send your amended return to the same address that you filed your original return. Once you make this choice, it is irrevocable.

Note. If you choose not to carry back any of your farming loss, you need to attach a statement to your 2005 income tax return clearly identifying what carryback or carrybacks are being completely waived and stating that you are waiving them under sections 172(b)(3) and 172(i)(3) of the Internal Revenue Code. This choice, once made, is also irrevocable. See *Waiving the Carryback Period*, next.

Waiving the Carryback Period

You can choose not to carry back your NOL. If you make this choice, then you can use your NOL only in the 20-year carryforward period. (This choice means you also choose not to carry back any alternative tax NOL.)

To make this choice, attach a statement to your original return filed by the due date (including extensions) for the NOL year. This statement must show that you are choosing to waive the carryback period under section 172(b)(3) of the Internal Revenue Code.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2005** (99) IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2005, or other tax year beginning , 2005, ending , 20 OMB No. 1545-0074

Label

(See instructions on page 16.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Glenn M.	Last name: Johnson	**Your social security number**: 765 00 4321
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see page 16.: 5603 E. Main Street	Apt. no.	▲ You **must** enter your SSN(s) above. ▲
City, town or post office, state, and ZIP code. If you have a foreign address, see page 16.: Anytown, VA 20000		Checking a box below will not change your tax or refund.

Presidential Election Campaign ▶ Check here if you, or your spouse if filing jointly, want $3 to go to this fund (see page 16) ▶ ☑ **You** ☐ **Spouse**

Filing Status

Check only one box.

1 ☑ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (see page 17)

Exemptions

6a ☑ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a — Boxes checked on 6a and 6b: 1
b ☐ **Spouse**
c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 19)
			☐
			☐
			☐
			☐

If more than four dependents, see page 19.

No. of children on 6c who:
- lived with you
- did not live with you due to divorce or separation (see page 20)

Dependents on 6c not entered above

d Total number of exemptions claimed — Add numbers on lines above ▶ 1

Income

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

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

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

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	1,225	
8a	**Taxable** interest. Attach Schedule B if required		8a	425	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b			
9a	Ordinary dividends. Attach Schedule B if required		9a		
b	Qualified dividends (see page 23)	9b			
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)		10		
11	Alimony received		11		
12	Business income or (loss). Attach Schedule C or C-EZ		12	(5,000)	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13	1,000	*
14	Other gains or (losses). Attach Form 4797		14		
15a	IRA distributions 15a	b Taxable amount (see page 25)	15b		
16a	Pensions and annuities 16a	b Taxable amount (see page 25)	16b		
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17		
18	Farm income or (loss). Attach Schedule F		18		
19	Unemployment compensation		19		
20a	Social security benefits 20a	b Taxable amount (see page 27)	20b		
21	Other income. List type and amount (see page 29)		21		
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	(2,350)	

Adjusted Gross Income

23	Educator expenses (see page 29)	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses. Attach Form 3903	26			
27	One-half of self-employment tax. Attach Schedule SE	27			
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction (see page 30)	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid b Recipient's SSN ▶	31a			
32	IRA deduction (see page 31)	32			
33	Student loan interest deduction (see page 33)	33			
34	Tuition and fees deduction (see page 34)	34			
35	Domestic production activities deduction. Attach Form 8903	35			
36	Add lines 23 through 31a and 32 through 35			36	
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶			37	(2,350)

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 78. Cat. No. 11320B Form **1040** (2005)

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

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	(2,350)
39a	Check if: ☐ **You** were born before January 2, 1941, ☐ Blind. ☐ **Spouse** was born before January 2, 1941, ☐ Blind. **Total boxes checked ▶ 39a** ☐		
b	If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here ▶39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	5,000
41	Subtract line 40 from line 38	41	(7,350)
42	If line 38 is over $109,475, or you provided housing to a person displaced by Hurricane Katrina, see page 37. Otherwise, multiply $3,200 by the total number of exemptions claimed on line 6d	42	3,200
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	-0-
44	**Tax** (see page 37). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972	44	
45	**Alternative minimum tax** (see page 39). Attach Form 6251	45	
46	Add lines 44 and 45 ▶	46	
47	Foreign tax credit. Attach Form 1116 if required	47	
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Credit for the elderly or the disabled. Attach Schedule R	49	
50	Education credits. Attach Form 8863	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Child tax credit (see page 41). Attach Form 8901 if required	52	
53	Adoption credit. Attach Form 8839	53	
54	Credits from: **a** ☐ Form 8396 **b** ☐ Form 8859	54	
55	Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Form ________	55	
56	Add lines 47 through 55. These are your **total credits**	56	
57	Subtract line 56 from line 46. If line 56 is more than line 46, enter -0- ▶	57	

Standard Deduction for—

- People who checked any box on line 39a or 39b **or** who can be claimed as a dependent, see page 36.
- All others:

Single or Married filing separately, $5,000

Married filing jointly or Qualifying widow(er), $10,000

Head of household, $7,300

Other Taxes

58	Self-employment tax. Attach Schedule SE	58	
59	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	59	
60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	60	
61	Advance earned income credit payments from Form(s) W-2	61	
62	Household employment taxes. Attach Schedule H	62	
63	Add lines 57 through 62. This is your **total tax** ▶	63	

Payments

64	Federal income tax withheld from Forms W-2 and 1099	64	
65	2005 estimated tax payments and amount applied from 2004 return	65	
66a	**Earned income credit (EIC)**	66a	
b	Nontaxable combat pay election ▶ 66b		
67	Excess social security and tier 1 RRTA tax withheld (see page 59)	67	
68	Additional child tax credit. Attach Form 8812	68	
69	Amount paid with request for extension to file (see page 59)	69	
70	Payments from: **a** ☐ Form 2439 **b** ☐ Form 4136 **c** ☐ Form 8885	70	
71	Add lines 64, 65, 66a, and 67 through 70. These are your **total payments** ▶	71	

If you have a qualifying child, attach Schedule EIC.

Refund

Direct deposit? See page 59 and fill in 73b, 73c, and 73d.

72	If line 71 is more than line 63, subtract line 63 from line 71. This is the amount you **overpaid**	72	
73a	Amount of line 72 you want **refunded to you** ▶	73a	
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number		
74	Amount of line 72 you want **applied to your 2006 estimated tax** ▶	74	

Amount You Owe

75	**Amount you owe.** Subtract line 71 from line 63. For details on how to pay, see page 60 ▶	75	
76	Estimated tax penalty (see page 60)	76	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 61)? ☐ **Yes.** Complete the following. ☐ **No**

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

Sign Here

Joint return? See page 17. Keep a copy for your records.

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

Your signature	Date	Your occupation	Daytime phone number
Glenn M. Johnson	2-4-06	Self-employed	( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

Paid Preparer's Use Only

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

Schedule A—NOL (see page 5 of the instructions)

1	Enter the amount from your 2005 Form 1040, line 41. Estates and trusts, enter taxable income increased by the total of the charitable deduction, income distribution deduction, and exemption amount					1	(7,350)
2	Nonbusiness capital losses before limitation. Enter as a positive number			2	1,000		
3	Nonbusiness capital gains (without regard to any section 1202 exclusion)			3			
4	If line 2 is more than line 3, enter the difference; otherwise, enter -0-			4	1,000		
5	If line 3 is more than line 2, enter the difference; otherwise, enter -0-	5	-0-				
6	Nonbusiness deductions (see page 5 of the instructions)			6	5,000		
7	Nonbusiness income other than capital gains (see page 5 of the instructions)	7	425				
8	Add lines 5 and 7			8	425		
9	If line 6 is more than line 8, enter the difference; otherwise, enter -0-					9	4,575
10	If line 8 is more than line 6, enter the difference; otherwise, enter -0-. **But do not enter more than line 5**	10	-0-				
11	Business capital losses before limitation. Enter as a positive number			11			
12	Business capital gains (without regard to any section 1202 exclusion)	12	2,000				
13	Add lines 10 and 12			13	2,000		
14	Subtract line 13 from line 11. If zero or less, enter -0-			14	-0-		
15	Add lines 4 and 14			15	1,000		
16	Enter the loss, if any, from line 16 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 15, column (3), of Schedule D (Form 1041).) Enter as a positive number. If you do not have a loss on that line (and do not have a section 1202 exclusion), skip lines 16 through 21 and enter on line 22 the amount from line 15			16			
17	Section 1202 exclusion. Enter as a positive number					17	
18	Subtract line 17 from line 16. If zero or less, enter -0-			18	-0-		
19	Enter the loss, if any, from line 21 of Schedule D (Form 1040). (Estates and trusts, enter the loss, if any, from line 16 of Schedule D (Form 1041).) Enter as a positive number			19			
20	If line 18 is more than line 19, enter the difference; otherwise, enter -0-			20	-0-		
21	If line 19 is more than line 18, enter the difference; otherwise, enter -0-					21	-0-
22	Subtract line 20 from line 15. If zero or less, enter -0-					22	1,000
23	NOL deduction for losses from other years. Enter as a positive number					23	
24	**NOL.** Combine lines 1, 9, 17, 21, 22, and 23. If the result is less than zero, enter it here and on page 1, line 1a. If the result is zero or more, you **do not** have an NOL					24	(1,775)

Form **1045** (2005)

If you filed your return timely but did not file the statement with it, you must file the statement with an amended return for the NOL year within 6 months of the due date of your original return (excluding extensions). Enter "Filed pursuant to section 301.9100-2" at the top of the statement.

Once you elect to waive the carryback period, it is irrevocable. If you choose to waive the carryback period for more than one NOL, you must make a separate choice and attach a separate statement for each NOL year.

CAUTION: *If you do not file this statement on time, you cannot waive the carryback period.*

How To Carry an NOL Back or Forward

If you choose to carry back the NOL, you must first carry the entire NOL to the earliest carryback year. If your NOL is not used up, you can carry the rest to the next earliest carryback year, and so on.

If you do not use up the NOL in the carryback years, carry forward what remains of it to the 20 tax years following the NOL year. Start by carrying it to the first tax year after the NOL year. If you do not use it up, carry the unused part to the next year. Continue to carry any unused part of the NOL forward until the NOL is used up or you complete the 20-year carryforward period.

Example 1. You started your business as a sole proprietor in 2005 and had a $42,000 NOL for the year. No part of the NOL qualifies for the 3-year or 5-year carryback. You begin using your NOL in 2003, the second year before the NOL year, as shown in the following chart.

Year	Carryback/ Carryover	Unused Loss
2003	$42,000	$40,000
2004	40,000	37,000
2005 (NOL year)		
2006	37,000	31,500
2007	31,500	22,500
2008	22,500	12,700
2009	12,700	4,000
2010	4,000	−0−

If your loss were larger, you could carry it forward until the year 2025. If you still had an unused 2005 carryforward after the year 2025, you could not deduct it.

Example 2. Assume the same facts as in Example 1, except that $4,000 of the NOL is attributable to a casualty loss and this loss qualifies for a 3-year carryback period. You begin using the $4,000 in 2002. As shown in the following chart, $3,000 of this NOL is used in 2002. The remaining $1,000 is carried to 2003 with the $38,000 NOL that you must begin using in 2003.

Year	Carryback/ Carryover	Unused Loss
2002	$3,000	$1,000
2003	39,000	37,000
2004	37,000	34,000
2005 (NOL year)		
2006	34,000	28,500
2007	28,500	19,500
2008	19,500	9,700
2009	9,700	1,000
2010	1,000	−0−

How To Claim an NOL Deduction

If you have not already carried the NOL to an earlier year, your NOL deduction is the total NOL. If you carried the NOL to an earlier year, your NOL deduction is the NOL minus the amount you used in the earlier year or years.

If you carry more than one NOL to the same year, your NOL deduction is the total of these carrybacks and carryovers.

NOL more than taxable income. If your NOL is more than the taxable income of the year you carry it to (figured before deducting the NOL), you generally will have an NOL carryover to the next year. See *How To Figure an NOL Carryover,* later, to determine how much NOL you have used and how much you carry to the next year.

Deducting a Carryback

If you carry back your NOL, you can use either Form 1045 or Form 1040X. You can get your refund faster by using Form 1045, but you have a shorter time to file it. You can use Form 1045 to apply an NOL to all carryback years. If you use Form 1040X, you must use a separate Form 1040X for each carryback year to which you apply the NOL.

Estates and trusts not filing Form 1045 must file an amended Form 1041 (instead of Form 1040X) for each carryback year to which NOLs are applied. Use a copy of the appropriate year's Form 1041, check the Amended return box, and follow the Form 1041 instructions for amended returns. Include the NOL deduction with other deductions not subject to the 2% limit (line 15a). Also, see the special procedures for filing an amended return due to an NOL carryback, explained under *Form 1040X,* later.

Form 1045. You can apply for a quick refund by filing Form 1045. This form results in a tentative adjustment of tax in the carryback year. See the Form 1045 illustrated at the end of this discussion.

If the IRS refunds or credits an amount to you from Form 1045 and later determines that the refund or credit is too much, the IRS may assess and collect the excess immediately.

Generally, you must file Form 1045 on or after the date you file your tax return for the NOL year, but not later than one year after the NOL year. If the last day of the year falls on a Saturday, Sunday, or holiday, the form will be considered timely if postmarked on the next business day. For example, if you are a calendar year taxpayer with a carryback from 2005 to 2003, you must file Form 1045 on or after the date you file your tax return for 2005, but no later than January 2, 2007.

Form 1040X. If you do not file Form 1045, you can file Form 1040X to get a refund of tax because of an NOL carryback. File Form 1040X within 3 years after the due date, including extensions, for filing the return for the NOL year. For example, if you are a calendar year taxpayer and filed your 2002 return by the April 15, 2003, due date, you must file a claim for refund of 2000 tax because of an NOL carryback from 2002 by April 17, 2006.

Attach a computation of your NOL using Schedule A (Form 1045) and, if it applies, your NOL carryover using Schedule B (Form 1045), discussed later.

Refiguring your tax. To refigure your total tax liability for a carryback year, first refigure your adjusted gross income for that year. (On Form 1045, use lines 10 through 11 and the After carryback column for the applicable carryback year.) Use your adjusted gross income after applying the NOL deduction to refigure income or deduction items that are based on, or limited to, a percentage of your adjusted gross income. Refigure the following items.

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

If more than one of these items apply, refigure them in the order listed above, using your adjusted gross income after applying the NOL deduction and any previous item. (Enter your NOL deduction on Form 1045, line 10. On line 11, using the "After carryback" column, enter your adjusted gross income after applying the above refigured items but without the NOL deduction.)

Next, refigure your taxable income. (On Form 1045, use lines 12 through 15 and the "After carryback" column.) Use your refigured adjusted gross income (Form 1045, line 11, using the "After carryback" column) to refigure certain deductions and other items that are based on or limited to a percentage of your adjusted gross income. Refigure the following items.

- The itemized deduction for medical expenses.
- The itemized deduction for sales taxes if you figured this deduction using the sales tax tables (for carrybacks to 2004).
- The itemized deduction for casualty losses.
- Miscellaneous itemized deductions subject to the 2% limit.
- The overall limit on itemized deductions.

- The phaseout of the deduction for exemptions.

Do not refigure the itemized deduction for charitable contributions.

Finally, use your refigured taxable income (Form 1045, line 15, using the “After carryback” column) to refigure your total tax liability. Refigure your income tax, your alternative minimum tax, and any credits that are based on, or limited to, the amount of tax. (On Form 1045, use lines 16 through 25, and the “After carryback” column.) The earned income credit, for example, may be affected by changes to adjusted gross income or the amount of tax (or both) and, therefore, must be recomputed. If you become eligible for a credit because of the carryback, complete the form for that specific credit (such as the EIC Worksheet) for that year.

While it is necessary to refigure your income tax, alternative minimum tax, and credits, do not refigure your self-employment tax.

Deducting a Carryforward

If you carry forward your NOL to a tax year after the NOL year, list your NOL deduction as a negative figure on the Other income line of Form 1040 (line 21 for 2005). Estates and trusts include an NOL deduction on Form 1041 with other deductions not subject to the 2% limit (line 15a for 2005).

You must attach a statement that shows all the important facts about the NOL. Your statement should include a computation showing how you figured the NOL deduction. If you deduct more than one NOL in the same year, your statement must cover each of them.

Change in Marital Status

If you and your spouse were not married to each other in all years involved in figuring NOL carrybacks and carryovers, only the spouse who had the loss can take the NOL deduction. If you file a joint return, the NOL deduction is limited to the income of that spouse.

For example, if your marital status changes because of death or divorce, and in a later year you have an NOL, you can carry back that loss only to the part of the income reported on the joint return (filed with your former spouse) that was related to your taxable income. After you deduct the NOL in the carryback year, the joint rates apply to the resulting taxable income.

Refund limit. If you are not married in the NOL year (or are married to a different spouse), and in the carryback year you were married and filed a joint return, your refund for the overpaid joint tax may be limited. You can claim a refund for the difference between your share of the refigured tax and your contribution toward the tax paid on the joint return. The refund cannot be more than the joint overpayment. Attach a statement showing how you figured your refund.

Figuring your share of a joint tax liability. There are five steps for figuring your share of the refigured joint tax liability.

1. Figure your total tax as though you had filed as married filing separately.
2. Figure your spouse’s total tax as though your spouse had also filed as married filing separately.
3. Add the amounts in (1) and (2).
4. Divide the amount in (1) by the amount in (3).
5. Multiply the refigured tax on your joint return by the amount figured in (4). This is your share of the joint tax liability.

Figuring your contribution toward tax paid. Unless you have an agreement or clear evidence of each spouse’s contributions toward the payment of the joint tax liability, figure your contribution by adding the tax withheld on your wages and your share of joint estimated tax payments or tax paid with the return. If the original return for the carryback year resulted in an overpayment, reduce your contribution by your share of the tax refund. Figure your share of a joint payment or refund by the same method used in figuring your share of the joint tax liability. Use your taxable income as originally reported on the joint return in steps (1) and (2) above, and substitute the joint payment or refund for the refigured joint tax in step (5).

Change in Filing Status

If you and your spouse were married and filed a joint return for each year involved in figuring NOL carrybacks and carryovers, figure the NOL deduction on a joint return as you would for an individual. However, treat the NOL deduction as a joint NOL.

If you and your spouse were married and filed separate returns for each year involved in figuring NOL carrybacks and carryovers, the spouse who sustained the loss may take the NOL deduction on a separate return.

Special rules apply for figuring the NOL carrybacks and carryovers of married people whose filing status changes for any tax year involved in figuring an NOL carryback or carryover.

Separate to joint return. If you and your spouse file a joint return for a carryback or carryforward year, and were married but filed separate returns for any of the tax years involved in figuring the NOL carryback or carryover, treat the separate carryback or carryover as a joint carryback or carryover.

Joint to separate returns. If you and your spouse file separate returns for a carryback or carryforward year, but filed a joint return for any or all of the tax years involved in figuring the NOL carryover, figure each of your carryovers separately.

Joint return in NOL year. Figure each spouse’s share of the joint NOL through the following steps.

1. Figure each spouse’s NOL as if he or she filed a separate return. See *How To Figure an NOL,* earlier. If only one spouse has an NOL, stop here. All of the joint NOL is that spouse’s NOL.
2. If both spouses have an NOL, multiply the joint NOL by a fraction, the numerator of which is spouse A’s NOL figured in (1) and the denominator of which is the total of the spouses’ NOLs figured in (1). The result is spouse A’s share of the joint NOL. The rest of the joint NOL is spouse B’s share.

Example 1. Mark and Nancy are married and file a joint return for 2005. They have an NOL of $5,000. They carry the NOL back to 2003, a year in which Mark and Nancy filed separate returns. Figured separately, Nancy’s 2005 deductions were more than her income, and Mark’s income was more than his deductions. Mark does not have any NOL to carry back. Nancy can carry back the entire $5,000 NOL to her 2003 separate return.

Example 2. Assume the same facts as in Example 1, except that both Mark and Nancy had deductions in 2005 that were more than their income. Figured separately, his NOL is $1,800 and hers is $3,000. The sum of their separate NOLs ($4,800) is less than their $5,000 joint NOL because his deductions included a $200 net capital loss that is not allowed in figuring his separate NOL. The loss is allowed in figuring their joint NOL because it was offset by Nancy’s capital gains. Mark’s share of their $5,000 joint NOL is $1,875 ($5,000 × $1,800/$4,800) and Nancy’s is $3,125 ($5,000 − $1,875).

Joint return in previous carryback or carryforward year. If only one spouse had an NOL deduction on the previous year’s joint return, all of the joint carryover is that spouse’s carryover. If both spouses had an NOL deduction (including separate carryovers of a joint NOL, figured as explained in the previous discussion), figure each spouse’s share of the joint carryover through the following steps.

1. Figure each spouse’s modified taxable income as if he or she filed a separate return. See *Modified taxable income* under *How To Figure an NOL Carryover,* later.
2. Multiply the joint modified taxable income you used to figure the joint carryover by a fraction, the numerator of which is spouse A’s modified taxable income figured in (1) and the denominator of which is the total of the spouses’ modified taxable incomes figured in (1). This is spouse A’s share of the joint modified taxable income.
3. Subtract the amount figured in (2) from the joint modified taxable income. This is spouse B’s share of the joint modified taxable income.
4. Reduce the amount figured in (3), but not below zero, by spouse B’s NOL deduction.
5. Add the amounts figured in (2) and (4).
6. Subtract the amount figured in (5) from spouse A’s NOL deduction. This is spouse A’s share of the joint carryover. The rest of the joint carryover is spouse B’s share.

Example. Sam and Wanda filed a joint return for 2003 and separate returns for 2004 and 2005. In 2005, Sam had an NOL of $18,000 and Wanda had an NOL of $2,000. They choose to carry back both NOLs 2 years to their 2003 joint return and claim a $20,000 NOL deduction.

Their joint modified taxable income (MTI) for 2003 is $15,000, and their joint NOL carryover to

2004 is $5,000 ($20,000 − $15,000). Sam and Wanda each figure their separate MTI for 2003 as if they had filed separate returns. Then they figure their shares of the $5,000 carryover as follows.

Step 1.

Sam's separate MTI	$9,000
Wanda's separate MTI	+ 3,000
Total MTI	$12,000

Step 2.

Joint MTI	$15,000
Sam's MTI ÷ total MTI ($9,000 ÷ $12,000)	× .75
Sam's share of joint MTI	$11,250

Step 3.

Joint MTI	$15,000
Sam's share of joint MTI	− 11,250
Wanda's share of joint MTI	$3,750

Step 4.

Wanda's share of joint MTI	$3,750
Wanda's NOL deduction	− 2,000
Wanda's remaining share	$1,750

Step 5.

Sam's share of joint MTI	$11,250
Wanda's remaining share	+ 1,750
Joint MTI to be offset	$13,000

Step 6.

Sam's NOL deduction	$18,000
Joint MTI to be offset	− 13,000
Sam's carryover to 2004	$5,000
Joint carryover to 2004	$5,000
Sam's carryover	− 5,000
Wanda's carryover to 2004	$−0−

Wanda's $2,000 NOL deduction offsets $2,000 of her $3,750 share of the joint modified taxable income and is completely used up. She has no carryover to 2004. Sam's $18,000 NOL deduction offsets all of his $11,250 share of joint modified taxable income and the remaining $1,750 of Wanda's share. His carryover to 2004 is $5,000.

Illustrated Form 1045

The following example illustrates how to use Form 1045 to claim an NOL deduction in a carryback year. It includes a filled-in page 1 of Form 1045.

Example. Martha Sanders is a self-employed contractor. Martha's 2005 deductions are more than her 2005 income because of a business loss. She uses Form 1045 to carry back her NOL 2 years and claim an NOL deduction in 2003. (See the filled-in Form 1045 on page 10.) Her filing status in both years was single.

Martha figures her 2005 NOL on Schedule A, Form 1045 (not shown). (For an example using Schedule A, see *Illustrated Schedule A (Form 1045)* under *How To Figure an NOL,* earlier.) She enters the $10,000 NOL from Schedule A, line 24, on Form 1045, line 1a.

Martha completes lines 10 through 25, using the "Before carryback" column under the column for the second preceding tax year ended 12/31/03 on page 1 of Form 1045 using the following amounts from her 2003 return.

2003 Adjusted gross income		$50,000
Itemized deductions:		
Medical expenses [$6,000 − ($50,000 × 7.5%)]	$2,250	
State income tax	+ 2,000	
Real estate tax	+ 4,000	
Home mortgage interest	+ 5,000	
Total itemized deductions		$13,250
Exemption		$3,050
Income tax		$5,241
Self-employment tax		$6,120

Martha refigures her taxable income for 2003 after carrying back her 2005 NOL as follows:

2003 Adjusted gross income		$50,000
Less:		
NOL from 2005		−10,000
2003 Adjusted gross income after carryback		$40,000
Less:		
Itemized deductions:		
Medical expenses [$6,000 − ($40,000 × 7.5%)]	$3,000	
State income tax	+ 2,000	
Real estate tax	+ 4,000	
Home mortgage interest	+ 5,000	
Total itemized deductions		−14,000
Less:		
Exemption		− 3,050
2003 Taxable income after carryback		$22,950

Martha then completes lines 10 through 25, using the "After carryback" column under the column for the second preceding tax year ended 12/31/03. On line 10, Martha enters her $10,000 NOL deduction. Her new adjusted gross income on line 11 is $40,000 ($50,000 − $10,000). To complete line 12, she must refigure her medical expense deduction using her new adjusted gross income. Her refigured medical expense deduction is $3,000 [$6,000 − ($40,000 × 7.5%)]. This increases her total itemized deductions to $14,000 [$13,250 + ($3,000 − $2,250)].

Martha uses her refigured taxable income ($23,000) from line 15, and the tax tables in her 2003 Form 1040 instructions to find her income tax. She enters the new amount, $3,096, on line 16, and her new total tax liability, $9,216, on line 25.

Martha used up her $10,000 NOL in 2003 so she does not complete a column for the first preceding tax year ended 12/31/2004. The decrease in tax because of her NOL deduction (line 27) is $2,145.

Martha files Form 1045 after filing her 2005 return, but no later than January 2, 2007 (since December 31, 2006 is a Sunday). She mails it to the Internal Revenue Service Center where she filed her 2005 return and attaches a copy of her 2005 return (including the applicable forms and schedules).

Form **1045**

Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

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

OMB No. 1545-0098

2005

Type or print

Name(s) shown on return: Martha Sanders	Social security or employer identification number: 123-00-4567
Number, street, and apt. or suite no. If a P.O. box, see page 2 of the instructions. 9876 Holly Street	Spouse's social security number (SSN)
City, town or post office, state, and ZIP code. If a foreign address, see page 2 of the instructions. Yardley, PA 19067	Daytime phone number (041) 123-4567

1	This application is filed to carry back:	a Net operating loss (NOL) (Sch. A, line 24, page 2) $ 10,000	b Unused general business credit $	c Net section 1256 contracts loss $
2a	For the calendar year 2005, or other tax year beginning , 2005, ending , 20			b Date tax return was filed 3-5-2006

3 If this application is for an unused credit created by another carryback, enter year of first carryback ►

4 If you filed a joint return (or separate return) for some, but not all, of the tax years involved in figuring the carryback, list the years and specify whether joint (J) or separate (S) return for each ►

5 If SSN for carryback year is different from above, enter **a** SSN ► and **b** Year(s) ►

6 If you changed your accounting period, give date permission to change was granted ►

7 Have you filed a petition in Tax Court for the year(s) to which the carryback is to be applied? ☐ Yes ☑ No

8 Is any part of the decrease in tax due to a loss or credit from a tax shelter required to be registered? ☐ Yes ☑ No

9 If you are carrying back an NOL or net section 1256 contracts loss, did this cause the release of foreign tax credits or the release of other credits due to the release of the foreign tax credit (see page 2 of the instructions)? ☐ Yes ☑ No

Computation of Decrease in Tax (see page 3 of the instructions) **Note:** *If 1a and 1c are blank, skip lines 10 through 15.*	____ preceding tax year ended ►		2nd preceding tax year ended ► 12-31-03		1st preceding tax year ended ► 12-31-04	
	Before carryback	After carryback	Before carryback	After carryback	Before carryback	After carryback
10 NOL deduction after carryback (see page 3 of the instructions)				10,000		
11 Adjusted gross income			50,000	40,000		
12 Deductions (see page 4 of the instructions)			13,250	14,000		
13 Subtract line 12 from line 11			36,750	26,000		
14 Exemptions (see page 4 of the instructions)			3,000	3,050		
15 Taxable income. Line 13 minus line 14			33,750	22,950		
16 Income tax. See page 4 of the instructions and attach an explanation			5,465	3,096		
17 Alternative minimum tax						
18 Add lines 16 and 17			5,465	3,096		
19 General business credit (see page 4 of the instructions)						
20 Other credits. Identify						
21 Total credits. Add lines 19 and 20						
22 Subtract line 21 from line 18			5,465	3,096		
23 Self-employment tax			6,120	6,120		
24 Other taxes						
25 Total tax. Add lines 22 through 24			11,585	9,216		
26 Enter the amount from the "After carryback" column on line 25 for each year			9,274			
27 Decrease in tax. Line 25 minus line 26			2,311			

28 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1) (attach computation)

Sign Here

Under penalties of perjury, I declare that I have examined this application and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Keep a copy of this application for your records.

Your signature: Martha Sanders — Date: 4-11-2006

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

Preparer Other Than Taxpayer — Name ► Address ► Date

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 7 of the instructions. Cat. No. 10670A Form **1045** (2005)

How To Figure an NOL Carryover

If your NOL is more than your taxable income for the year to which you carry it (figured before deducting the NOL), you may have an NOL carryover. You must make certain modifications to your taxable income to determine how much NOL you will use up in that year and how much you can carry over to the next tax year. Your carryover is the excess of your NOL deduction over your modified taxable income for the carryback or carryforward year. If your NOL deduction includes more than one NOL, apply the NOLs against your modified taxable income in the same order in which you incurred them, starting with the earliest.

Modified taxable income. Your modified taxable income is your taxable income figured with the following changes.

1. You cannot claim an NOL deduction for the NOL carryover you are figuring or for any later NOL.
2. You cannot claim a deduction for capital losses in excess of your capital gains. Also, you must increase your taxable income by the amount of any section 1202 exclusion claimed on Schedule D (Form 1040).
3. You cannot claim a deduction for your exemptions for yourself, your spouse, or dependents.
4. You must figure any item affected by the amount of your adjusted gross income after making the changes in (1) and (2), above, and certain other changes to your adjusted gross income that result from (1) and (2). This includes income and deduction items used to figure adjusted gross income (for example, IRA deductions), as well as certain itemized deductions. To figure a charitable contribution deduction, do not include deductions for NOL carrybacks in the change in (1) but do include deductions for NOL carryforwards from tax years before the NOL year.

Your taxable income as modified cannot be less than zero.

Schedule B (Form 1045). You can use Schedule B (Form 1045) to figure your modified taxable income for carryback years and your carryover from each of those years. Do not use Schedule B for a carryforward year. If your 2005 return includes an NOL deduction from an NOL year before 2005 that reduced your taxable income to zero (to less than zero, if an estate or trust), see *NOL Carryover From 2005 to 2006,* later.

Illustrated Schedule B (Form 1045)

The following example illustrates how to figure an NOL carryover from a carryback year. It includes a filled-in Schedule B (Form 1045).

Example. Ida Brown runs a small clothing shop. In 2005, she has an NOL of $36,000 that she carries back to 2003. She has no other carrybacks or carryovers to 2003.

Ida's adjusted gross income in 2003 was $29,000, consisting of her salary of $30,000 minus a $1,000 capital loss deduction. She is single and claimed only one personal exemption of $3,050. During that year, she gave $1,450 in charitable contributions. Her medical expenses were $2,725. She also deducted $1,650 in taxes and $1,125 in home mortgage interest.

Her deduction for charitable contributions was not limited because her contributions, $1,450, were less than 50% of her adjusted gross income. The deduction for medical expenses was limited to expenses over 7.5% of adjusted gross income (.075 × $29,000 = $2,175; $2,725 − $2,175 = $550). The deductions for taxes and home mortgage interest were not subject to any limits. She was able to claim $4,775 ($1,450 + $550 + $1,650 + $1,125) in itemized deductions for 2003. She had no other deductions in 2003. Her taxable income for the year was $21,175.

Ida's $36,000 carryback will reduce her 2003 taxable income to zero. She completes the column for the second preceding tax year ended 12/31/03 of Schedule B (Form 1045) to figure how much of her NOL she uses up in 2003 and how much she can carry over to 2004. See the illustrated Schedule B shown on page 12. Ida does not complete the column for the first preceding tax year ended 12/31/04 because the $10,700 carryover to 2004 is completely used up that year. (See the information for line 9 below.)

Line 1. Ida enters $36,000, her 2005 net operating loss, on line 1.

Line 2. She enters $21,175, her 2003 taxable income, on line 2.

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

Line 5. Although Ida's entry on line 3 modifies her adjusted gross income, that does not affect any other items included in her adjusted gross income. Ida enters zero on line 5.

Line 6. Ida had itemized deductions and entered $1,000 on line 3, so she completes lines 10 through 34 to figure her adjustment to itemized deductions. On line 6, she enters the total adjustment from line 34.

Line 10. Ida's adjusted gross income for 2003 was $29,000.

Line 11. She adds lines 3 through 5 and enters $1,000 on line 11. (This is her net capital loss deduction added back, which modifies her adjusted gross income.)

Line 12. Her modified adjusted gross income for 2003 is now $30,000.

Line 13. On her 2003 tax return, she deducted $550 as medical expenses.

Line 14. Her actual medical expenses were $2,725.

Line 15. She multiplies her modified adjusted gross income, $30,000, by .075. She enters $2,250 on line 15.

Line 16. The difference between her actual medical expenses and the amount she is allowed to deduct is $475.

Line 17. The difference between her medical deduction and her modified medical deduction is $75. She enters this on line 17.

Line 18. She enters her modified adjusted gross income of $30,000 on line 18.

Line 19. She had no other carrybacks to 2003 and enters zero on line 19.

Line 20. Her modified adjusted gross income remains $30,000.

Line 21. Her actual contributions for 2003 were $1,450, which she enters on line 21.

Line 22. She now refigures her charitable contributions based on her modified adjusted gross income. Her contributions are well below the 50% limit, so she enters $1,450 on line 22.

Line 23. The difference is zero.

Lines 24 through 33. Ida had no casualty losses or deductions for miscellaneous items in 2003 so she leaves these lines blank.

Line 34. She combines lines 17, 23, 28, and 33 and enters $75 on line 34. She carries this figure to **line 6.**

Line 7. Ida enters the deduction for her personal exemption of $3,050 for 2003.

Line 8. After combining lines 2 through 7, Ida's modified taxable income is $25,300.

Line 9. Ida figures her carryover to 2004 by subtracting her modified taxable income (line 8) from her NOL deduction (line 1). She enters the $10,700 carryover on line 9. She also enters the $10,700 as her NOL deduction for 2004 on Form 1045, page 1, line 10, in the "After carryback" column under the column for the first preceding tax year ended 12/31/04. (For an illustrated example of page 1 of Form 1045, see *Illustrated Form 1045* under *How To Claim an NOL Deduction* earlier.)

Schedule B—NOL Carryover (see page 5 of the instructions)

	Complete one column before going to the next column. Start with the earliest carryback year.	2nd preceding tax year ended ▶ 12-31-03		____ preceding tax year ended ▶		____ preceding tax year ended ▶	
1	**NOL deduction** (see page 5 of the instructions). Enter as a positive number		36,000				
2	Taxable income before 2005 NOL carryback (see page 5 of the instructions). Estates and trusts, increase this amount by the sum of the charitable deduction and income distribution deduction	21,175					
3	Net capital loss deduction (see page 6 of the instructions)	1,000					
4	Section 1202 exclusion. Enter as a positive number	-0-					
5	Adjustment to adjusted gross income (see page 6 of the instructions)	-0-					
6	Adjustment to itemized deductions (see page 6 of the instructions)	75					
7	Individuals, enter deduction for exemptions. Estates and trusts, enter exemption amount	3,050					
8	Modified taxable income. Combine lines 2 through 7. If zero or less, enter -0-		25,300				
9	**NOL carryover** (see page 6 of the instructions). Subtract line 8 from line 1. If zero or less, enter -0-		10,700				
	Adjustment to Itemized Deductions (Individuals Only) Complete lines 10 through 34 for the carryback year(s) for which you itemized deductions **only** if line 3 or line 4 above is more than zero.						
10	Adjusted gross income before 2005 NOL carryback	29,000					
11	Add lines 3 through 5 above	1,000					
12	Modified adjusted gross income. Add lines 10 and 11	30,000					
13	Medical expenses from Sch. A (Form 1040), line 4 (or as previously adjusted)	550					
14	Medical expenses from Sch. A (Form 1040), line 1 (or as previously adjusted)	2,725					
15	Multiply line 12 by 7.5% (.075)	2,250					
16	Subtract line 15 from line 14. If zero or less, enter -0-	475					
17	Subtract line 16 from line 13		75				

Schedule B—NOL Carryover *(Continued)*

Complete one column before going to the next column. Start with the earliest carryback year.		2nd preceding tax year ended ▶ 12-31-03		____ preceding tax year ended ▶		____ preceding tax year ended ▶	
18	Modified adjusted gross income from line 12 on page 3	30,000					
19	Enter as a positive number any NOL carryback from a year before 2005 that was deducted to figure line 10 on page 3	-0-					
20	Add lines 18 and 19	30,000					
21	Charitable contributions from Sch. A (Form 1040), line 18 (or as previously adjusted)	1,450					
22	Refigured charitable contributions (see page 6 of the instructions)	1,450					
23	Subtract line 22 from line 21		-0-				
24	Casualty and theft losses from Form 4684, line 18 (or as previously adjusted)						
25	Casualty and theft losses from Form 4684, line 16 (or as previously adjusted)						
26	Multiply line 18 by 10% (.10)						
27	Subtract line 26 from line 25. If zero or less, enter -0-						
28	Subtract line 27 from line 24						
29	Miscellaneous itemized deductions from Sch. A (Form 1040), line 26 (or as previously adjusted)						
30	Miscellaneous itemized deductions from Sch. A (Form 1040), line 23 (or as previously adjusted)						
31	Multiply line 18 by 2% (.02)						
32	Subtract line 31 from line 30. If zero or less, enter -0-						
33	Subtract line 32 from line 29						
34	Complete the worksheet on page 8 of the instructions if line 18 is **more than** the applicable amount shown below (more than one-half that amount if married filing separately for that year). • $114,700 for 1995. • $117,950 for 1996. • $121,200 for 1997. • $124,500 for 1998. • $126,600 for 1999. • $128,950 for 2000. • $132,950 for 2001. • $137,300 for 2002. • $139,500 for 2003. • $142,700 for 2004. Otherwise, combine lines 17, 23, 28, and 33; enter the result here and on line 6 (page 3)		75				

Form **1045** (2005)

NOL Carryover From 2005 to 2006

If you had an NOL deduction carried forward from a year prior to 2005 that reduced your taxable income on your 2005 return to zero (to less than zero, if an estate or trust), complete Table 1, Worksheet for NOL Carryover From 2005 to 2006. It will help you figure your NOL to carry to 2006. Keep the worksheet for your records.

Worksheet Instructions

At the top of the worksheet, enter the NOL year for which you are figuring the carryover.

More than one NOL. If your 2005 NOL deduction includes amounts for more than one loss year, complete this worksheet only for one loss year. To determine which year, start with your earliest NOL and subtract each NOL separately from your taxable income figured without the NOL deduction. Complete this worksheet for the earliest NOL that reduces your taxable income below zero. Your NOL carryover to 2006 is the total of the amount on line 9 of the worksheet and all later NOL amounts.

Example. Your taxable income for 2005 is $4,000 without your $9,000 NOL deduction. Your NOL deduction includes a $2,000 carryover from 2003 and a $7,000 carryover from 2004. Subtract your 2003 NOL of $2,000 from $4,000. This gives you taxable income of $2,000. Your 2003 NOL is now completely used up. Subtract your $7,000 2004 NOL from $2,000. This gives you taxable income of ($5,000). You now complete the worksheet for your 2004 NOL. Your NOL carryover to 2006 is the unused part of your 2004 NOL from line 9 of the worksheet.

Line 2. Treat your NOL deduction for the NOL year entered at the top of the worksheet and later years as a positive amount. Add it to your negative taxable income. Enter the result on line 2.

Line 5. You must refigure the following income and deductions based on adjusted gross income.

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

If none of these items apply to you, enter zero on line 5. Otherwise, increase your adjusted gross income by the total of lines 3 and 4 and your NOL deduction for the NOL year entered at the top of the worksheet and later years. Using this increased adjusted gross income, refigure the items that apply, in the order listed above. Your adjustment for each item is the difference between the refigured amount and the amount included on your return. Combine the adjustments for previous items with your adjusted gross income before refiguring the next item. Keep a record of your computations.

Enter your total adjustments for the above items on line 5.

Line 6. Enter zero if you claimed the standard deduction. Otherwise, use lines 10 through 41 of the worksheet to figure the amount to enter on this line. Complete only those sections that apply to you.

Estates and trusts. Enter zero on line 6 if you did not claim any miscellaneous deductions on Form 1041, line 15b, or a casualty or theft loss. Otherwise, refigure these deductions by substituting modified adjusted gross income (see below) for adjusted gross income. Subtract the recomputed deductions from those claimed on the return. Enter the result on line 6.

Modified adjusted gross income. To refigure miscellaneous itemized deductions of an estate or trust (Form 1041, line 15b), modified adjusted gross income is the total of the following amounts.

- The adjusted gross income on the return.
- The amounts from lines 3 and 4 of the worksheet.
- The exemption amount from Form 1041, line 20.
- The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

To refigure the casualty and theft loss deduction of an estate or trust, modified adjusted gross income is the total of the following amounts.

- The adjusted gross income amount you used to figure the deduction claimed on the return.
- The amounts from lines 3 and 4 of the worksheet.
- The NOL deduction for the NOL year entered at the top of the worksheet and for later years.

Line 10. Treat your NOL deduction for the NOL year entered at the top of the worksheet and for later years as a positive amount. Add it to your adjusted gross income. Enter the result on line 10.

Line 19. If you had a contributions carryover from 2004 to 2005 and your NOL deduction includes an amount from an NOL year before 2004, you may have to reduce your contributions carryover. This reduction is any adjustment you made to your 2004 charitable contributions deduction when figuring your NOL carryover to 2005. Use the reduced contributions carryover to figure the amount to enter on line 19.

Table 1. **Worksheet for NOL Carryover From 2005 to 2006 (For an NOL Year Before 2005)***

For Use by Individuals, Estates, and Trusts (Keep for your records.)
See the instructions under *NOL Carryover From 2005 to 2006.*

NOL YEAR: ____________

USE YOUR 2005 FORM 1040 (OR FORM 1041) TO COMPLETE THIS WORKSHEET:

1.	Enter as a positive number your NOL deduction for the NOL year entered above from line 21 (Form 1040) or line 15a (Form 1041)		
2.	Enter your taxable income without the NOL deduction for 2005 (See instructions.)		
3.	Enter as a positive number any net capital loss deduction		
4.	Enter as a positive number any gain excluded on the sale or exchange of qualified small business stock		
5.	Enter any adjustments to your adjusted gross income (see instructions)		
6.	Enter any adjustments to your itemized deductions from line 37 or line 41 (see instructions)		
7.	Enter your deduction for exemptions from line 42 (Form 1040) or line 20 (Form 1041)		
8.	**Modified taxable income.** Combine lines 2 through 7. Enter the result (but not less than zero)		
9.	**NOL carryover to 2006.** Subtract line 8 from line 1. Enter the result (but not less than zero) here and on the "other income" line of Form 1040 (or the line on Form 1041 for deductions NOT subject to the 2% floor) in 2006		

ADJUSTMENTS TO ITEMIZED DEDUCTIONS (INDIVIDUALS ONLY):

10.	Enter your adjusted gross income without the NOL deduction for the NOL year entered above or later years. (See instructions.)		
11.	Combine lines 3, 4, and 5 above.		
12.	**Modified adjusted gross income.** Combine lines 10 and 11 above		

ADJUSTMENT TO MEDICAL EXPENSES:

13.	Enter your medical expenses from Schedule A (Form 1040), line 4		
14.	Enter your medical expenses from Schedule A (Form 1040), line 1		
15.	Multiply line 12 above by 7.5% (.075)		
16.	Subtract line 15 from line 14. Enter the result (but not less than zero).		
17.	Subtract line 16 from line 13		

ADJUSTMENT TO CHARITABLE CONTRIBUTIONS:

18.	Enter your charitable contributions deduction from Schedule A (Form 1040), line 18		
19.	Refigure your charitable contributions deduction using line 12 above as your adjusted gross income. (See instructions)		
20.	Subtract line 19 from line 18		

ADJUSTMENT TO CASUALTY AND THEFT LOSSES:

21.	Enter your casualty and theft losses from Form 4684, line 18		
22.	Enter your casualty and theft losses from Form 4684, line 16		
23.	Multiply line 12 above by 10% (.10)		
24.	Subtract line 23 from line 22. Enter the result (but not less than zero)		
25.	Subtract line 24 from line 21		

ADJUSTMENT TO MISCELLANEOUS DEDUCTIONS:

26.	Enter your miscellaneous deductions from Schedule A (Form 1040), line 26		
27.	Enter your miscellaneous deductions from Schedule A (Form 1040), line 23		
28.	Multiply line 12 above by 2% (.02)		
29.	Subtract line 28 from line 27. Enter the result (but not less than zero)		
30.	Subtract line 29 from line 26		

TENTATIVE TOTAL ADJUSTMENT:

31.	Combine lines 17, 20, 25, and 30, and enter the result here. If line 12 above is $145,950 or less ($72,975 or less if married filing separately), also enter the result on line 6 above and **stop here.** Otherwise, go to line 32		

***Note:** *If you choose to waive the carryback period, and instead you choose to only carry your 2005 NOL forward, use Schedule A, Form 1045 to compute your 2005 NOL that will be carried over to 2006. Report your 2005 NOL from line 27, Schedule A, Form 1045 on the "other income" line of your 2006 Form 1040 or the line on Form 1041 for deductions NOT subject to the 2% floor in 2006.*

Table 1. **(Continued)**

ADJUSTMENT TO OVERALL ITEMIZED LIMIT:		
32. Enter the amount on Schedule A (Form 1040), line 28		
33. Add lines 16, 19, 24, and 29, and the amounts on Schedule A (Form 1040), lines 9, 14, and 27		
34. Add lines 16 and 24, the amount on Schedule A (Form 1040), line 13, and any gambling losses included on Schedule A (Form 1040), line 27		
35. Subtract line 34 from line 33. If the result is zero, enter the amount from line 31 on line 6 above and **stop here.** Otherwise, go to line 36		
36. Multiply line 35 by 80% (.80)		
37. Subtract $145,950 ($72,975 if married filing separately) from the amount on line 12		
38. Multiply line 37 by 3% (.03)		
39. Enter the smaller of line 36 or line 38		
40. Subtract line 39 from line 33. Enter the result (but not less than your standard deduction amount)		
41. Subtract line 40 from line 32. Enter the result here and on line 6		

How To Get Tax Help

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

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

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

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit *www.irs.gov/advocate*.

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

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

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

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

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

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD-ROM from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for $25 (plus a $5 handling fee).

CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide CD-ROM for 2005, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.

- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.
- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz*.

Index

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

■

Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
509 Tax Calendars for 2006
553 Highlights of 2005 Tax Changes
910 IRS Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
225 Farmer's Tax Guide
463 Travel, Entertainment, Gift, and Car Expenses
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514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
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551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
571 Tax-Sheltered Annuity Plans (403(b) Plans)
575 Pension and Annuity Income
584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
587 Business Use of Your Home (Including Use by Daycare Providers)
590 Individual Retirement Arrangements (IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 What You Should Know About the IRS Collection Process
596 Earned Income Credit (EIC)
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
915 Social Security and Equivalent Railroad Retirement Benefits
919 How Do I Adjust My Tax Withholding?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 The IRS Will Figure Your Tax
969 Health Savings Accounts and Other Tax-Favored Health Plans
970 Tax Benefits for Education
971 Innocent Spouse Relief
972 Child Tax Credit
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000 (Received in a Trade or Business)
1546 The Taxpayer Advocate Service—How to Get Help With Unresolved Problems

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Que es lo que Debemos Saber sobre el Proceso de Cobro del IRS
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, phone, and mail.

Form Number and Title

1040 U.S. Individual Income Tax Return
- **Sch A&B** Itemized Deductions & Interest and Ordinary Dividends
- **Sch C** Profit or Loss From Business
- **Sch C-EZ** Net Profit From Business
- **Sch D** Capital Gains and Losses
- **Sch D-1** Continuation Sheet for Schedule D
- **Sch E** Supplemental Income and Loss
- **Sch EIC** Earned Income Credit
- **Sch F** Profit or Loss From Farming
- **Sch H** Household Employment Taxes
- **Sch J** Income Averaging for Farmers and Fishermen
- **Sch R** Credit for the Elderly or the Disabled
- **Sch SE** Self-Employment Tax

1040A U.S. Individual Income Tax Return
- **Sch 1** Interest and Ordinary Dividends for Form 1040A Filers
- **Sch 2** Child and Dependent Care Expenses for Form 1040A Filers
- **Sch 3** Credit for the Elderly or the Disabled for Form 1040A Filers

1040EZ Income Tax Return for Single and Joint Filers With No Dependents
1040-ES Estimated Tax for Individuals
1040X Amended U.S. Individual Income Tax Return

Form Number and Title

2106 Employee Business Expenses
2106-EZ Unreimbursed Employee Business Expenses
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts
2441 Child and Dependent Care Expenses
2848 Power of Attorney and Declaration of Representative
3903 Moving Expenses
4562 Depreciation and Amortization
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4952 Investment Interest Expense Deduction
5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
6251 Alternative Minimum Tax—Individuals
8283 Noncash Charitable Contributions
8582 Passive Activity Loss Limitations
8606 Nondeductible IRAs
8812 Additional Child Tax Credit
8822 Change of Address
8829 Expenses for Business Use of Your Home
8863 Education Credits
9465 Installment Agreement Request

Form **1040X** (Rev. November 2005)

Department of the Treasury—Internal Revenue Service

Amended U.S. Individual Income Tax Return

▶ See separate instructions.

OMB No. 1545-0074

This return is for calendar year ▶ , or fiscal year ended ▶ ,

Please print or type

Your first name and initial	Last name	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (no. and street) or P.O. box if mail is not delivered to your home	Apt. no.	Phone number ( )
City, town or post office, state, and ZIP code. If you have a foreign address, see page 2 of the instructions.		**For Paperwork Reduction Act Notice, see page 6.**

A If the address shown above is different from that shown on your last return filed with the IRS and you would like us to change it, check here . . . ▶ ☐

B Filing status. Be sure to complete this line. **Note.** You cannot change from joint to separate returns after the due date.

On original return ▶ ☐ Single ☐ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

On this return ▶ ☐ Single ☐ Married filing jointly ☐ Married filing separately ☐ Head of household* ☐ Qualifying widow(er)

* If the qualifying person is a child but not your dependent, see page 2 of the instructions.

Use Part II on the back to explain any changes		**A. Original amount** or as previously adjusted (see page 3)	**B. Net change—** amount of increase or (decrease)— explain in Part II	**C. Correct amount**
Income and Deductions (see instructions)				
1 Adjusted gross income (see page 3)	**1**			
2 Itemized deductions or standard deduction (see page 3)	**2**			
3 Subtract line 2 from line 1	**3**			
4 Exemptions. If changing, fill in Parts I and II on the back (see page 3)	**4**			
5 Taxable income. Subtract line 4 from line 3	**5**			
Tax Liability **6** Tax (see page 4). Method used in col. C	**6**			
7 Credits (see page 4)	**7**			
8 Subtract line 7 from line 6. Enter the result but not less than zero	**8**			
9 Other taxes (see page 4)	**9**			
10 Total tax. Add lines 8 and 9	**10**			
Payments **11** Federal income tax withheld and excess social security and tier 1 RRTA tax withheld. If changing, see page 4	**11**			
12 Estimated tax payments, including amount applied from prior year's return	**12**			
13 Earned income credit (EIC)	**13**			
14 Additional child tax credit from Form 8812	**14**			
15 Credits from Form 2439, Form 4136, or Form 8885	**15**			
16 Amount paid with request for extension of time to file (see page 4)			**16**	
17 Amount of tax paid with original return plus additional tax paid after it was filed			**17**	
18 Total payments. Add lines 11 through 17 in column C			**18**	

Refund or Amount You Owe

19 Overpayment, if any, as shown on original return or as previously adjusted by the IRS	**19**	
20 Subtract line 19 from line 18 (see page 5)	**20**	
21 **Amount you owe.** If line 10, column C, is more than line 20, enter the difference and see page 5	**21**	
22 If line 10, column C, is less than line 20, enter the difference	**22**	
23 Amount of line 22 you want **refunded to you**	**23**	
24 Amount of line 22 you want **applied to your** **estimated tax** **24**		

Sign Here

Joint return? See page 2. Keep a copy for your records.

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

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

Paid Preparer's Use Only

Preparer's signature ▶ Date Check if self-employed ☐ Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ EIN Phone no. ( )

Cat. No. 11360L Form **1040X** (Rev. 11-2005)

Part I Exemptions. See Form 1040 or 1040A instructions.

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

- Increasing or decreasing the number of exemptions claimed on line 6d of the return you are amending, or
- Increasing or decreasing the exemption amount for housing individuals displaced by Hurricane Katrina.

			A. Original number of exemptions reported or as previously adjusted	B. Net change	C. Correct number of exemptions
25	Yourself and spouse . . . . **Caution.** If someone can claim you as a dependent, you cannot claim an exemption for yourself.	25			
26	Your dependent children who lived with you	26			
27	Your dependent children who did not live with you due to divorce or separation	27			
28	Other dependents	28			
29	Total number of exemptions. Add lines 25 through 28	29			
30	Multiply the number of exemptions claimed on line 29 by the amount listed below for the tax year you are amending. Enter the result here and on line 4.	30			
31	If you are claiming an exemption amount for housing individuals displaced by Hurricane Katrina, enter the amount from Form 8914, line 2 (see instructions for line 4)	31			
32	Add lines 30 and 31. Enter the result here and on line 4	32			

Tax year	Exemption amount	But see the instructions for line 4 on page 3 if the amount on line 1 is over:
2005	$3,200	$109,475
2004	3,100	107,025
2003	3,050	104,625
2002	3,000	103,000

33 Dependents (children and other) not claimed on original (or adjusted) return:

(a) First name	Last name	(b) Dependent's social security number	(c) Dependent's relationship to you	(d) ✓ if qualifying child for child tax credit (see page 5)
				☐
				☐
				☐
				☐
				☐
				☐

No. of children on 33 who:

- lived with you . . ▶ ☐
- **did not** live with you due to divorce or separation (see page 5) . . ▶ ☐

Dependents on 33 not entered above ▶ ☐

Part II Explanation of Changes

Enter the line number from the front of the form for each item you are changing and give the reason for each change. Attach only the supporting forms and schedules for the items changed. If you do not attach the required information, your Form 1040X may be returned. Be sure to include your name and social security number on any attachments.

If the change relates to a net operating loss carryback or a general business credit carryback, attach the schedule or form that shows the year in which the loss or credit occurred. See page 2 of the instructions. Also, check here. . . . . . . ▶ ☐

Part III Presidential Election Campaign Fund. Checking below will not increase your tax or reduce your refund.

If you did not previously want $3 to go to the fund but now want to, check here . . . . ▶ ☐

If a joint return and your spouse did not previously want $3 to go to the fund but now wants to, check here . . . . ▶ ☐

Form **1040X** (Rev. 11-2005)

Instructions for Form 1040X

Department of the Treasury
Internal Revenue Service

(Rev. November 2005)

Amended U.S. Individual Income Tax Return

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

General Instructions

Purpose of Form

Use Form 1040X to correct Forms 1040, 1040A, 1040EZ, 1040NR, or 1040NR-EZ. If you used TeleFile to file your original return (for years 2004 and earlier) and these instructions do not give you all the information you need to complete Form 1040X, you can call 1-800-829-1040 for help.

You can also use Form 1040X to:

- Make certain elections after the prescribed deadline (see Regulations sections 301.9100-1 through -3 for details), or
- Change amounts previously adjusted by the IRS. Do not include any interest or penalties on Form 1040X; they will be adjusted accordingly.

File a separate Form 1040X for each year you are amending. If you are changing your federal return, you may also have to change your state return. Please note that it often takes 2 to 3 months to process Form 1040X.

Filing Form 1045. You can use Form 1045, Application for Tentative Refund, instead of Form 1040X to apply for a refund based on a net operating loss, a general business credit carryback, a net section 1256 contracts loss, or a claim of right adjustment under section 1341(b)(1). But Form 1045 must be filed within 1 year after the end of the year in which the loss, credit, or claim of right adjustment arose. For more details, see the Instructions for Form 1045.

Information on Income, Deductions, etc.

If you have questions such as what income is taxable or what expenses are deductible, the instructions for the return you are amending may help. Also use those instructions to find the method you should use to figure the corrected tax. The related schedules and forms may also help. To get prior year forms, schedules, and instructions, call 1-800-TAX-FORM (1-800-829-3676) or download them from the IRS website at *www.irs.gov*.

When To File

TIP *The time during which Form 1040X may be filed is extended for certain people who are physically or mentally unable to manage their financial affairs. For details, see Pub. 556, Examination of Returns, Appeal Rights, and Claims for Refund.*

File Form 1040X only after you have filed your original return. Generally, for a credit or refund, Form 1040X must be filed within 3 years after the date you filed the original return or within 2 years after the date you paid the tax, whichever is later. A return filed early is considered filed on the due date.

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

A Form 1040X based on a net operating loss carryback or a general business credit carryback generally must be filed within 3 years after the due date of the return (including extensions) for the tax year of the net operating loss or unused credit.

Where To File

Mail your return to the **Internal Revenue Service Center** for the place where you live.* If you are filing Form 1040X in response to a notice you received from the IRS, mail it to the address shown on the notice.

IF you live in:	THEN use this address:
Alabama, Delaware, Florida, Georgia, North Carolina, Rhode Island, South Carolina, Virginia	Atlanta, GA 39901
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming	Fresno, CA 93888
District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont	Andover, MA 05501
Connecticut, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, North Dakota, Ohio, Wisconsin	Kansas City, MO 64999
New Jersey, Pennsylvania	Philadelphia, PA 19255
Arkansas, Kansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas, West Virginia	Austin, TX 73301
Guam: Permanent residents—Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921	
Virgin Islands: Permanent residents—V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802	
If you live in American Samoa or Puerto Rico (or exclude income under section 933); are a nonpermanent resident of Guam or the Virgin Islands; have an APO or FPO or foreign address; are a dual-status alien; or file Form 2555, 2555-EZ, or 4563, use this address: Internal Revenue Service Center, Philadelphia, PA 19255-0215, USA	

* If Form 1040X includes a Form 1040NR or 1040NR-EZ, mail it to the Internal Revenue Service Center, Philadelphia, PA 19255-0215, USA.

Special Situations

Tax shelters. If amending your return to include any item relating to a tax shelter required to be registered, attach Form 8271, Investor Reporting of Tax Shelter Registration Number, or Form 8886, Reportable Transaction Disclosure Statement, as appropriate.

Injured spouse claim. Do not use Form 1040X to file an injured spouse claim. Instead, file Form 8379, Injured Spouse Allocation. However, if you file Form 1040X to request an additional refund, attach a revised Form 8379 if you want the refund allocated between you and your spouse.

Net operating loss (NOL). Attach a computation of your NOL using Schedule A (Form 1045) and any carryover using Schedule B (Form 1045). A refund based on an NOL should not include a refund of self-employment tax reported on Form 1040X, line 9. See Pub. 536, Net Operating Losses (NOLs) for Individuals, Estates, and Trusts, for details.

Carryback claims. You must attach copies of the following if Form 1040X is used as a carryback claim.

- Both pages of Form 1040 and Schedules A and D, if applicable, for the year in which the loss or credit originated. Enter "Attachment to Form 1040X—Copy Only—Do Not Process" at the top of these forms.
- Any Schedules K-1 you received from any partnership, S corporation, estate, or trust for the year of the loss or credit that contributed to the loss or credit carryback.
- Any form or schedule from which the carryback results, such as Form 3800, Form 6781, or Schedule C or F.
- Forms or schedules for items refigured in the carryback year such as Form 6251, Form 3800, or Schedule A.

CAUTION *Your Form 1040X must have the appropriate forms and schedules attached or it will be returned.*

Note. If you filed a joint or separate return for some, but not all, of the years involved in figuring the loss or credit carryback, you may have to allocate income, deductions, and credits. For details, see the publication for the type of carryback you are claiming. For example, see Pub. 536 for a net operating loss, or for a foreign tax credit, see Pub. 514, Foreign Tax Credit for Individuals.

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

To amend Form 1040NR or 1040NR-EZ or to file the correct return, you must (a) fill in your name, address, and IRS individual taxpayer identification number (ITIN) or social security number (SSN) on Form 1040X; and (b) attach the corrected return (Form 1040, Form 1040NR, etc.) to Form 1040X.

Across the top of the return, enter "Amended." Also, complete Part II of Form 1040X, including an explanation of the changes or corrections made.

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

Death of a taxpayer. If filing Form 1040X for a deceased taxpayer, enter "Deceased," the deceased taxpayer's name, and the date of death across the top of Form 1040X.

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

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

Line Instructions

Above your name, enter the calendar or fiscal year of the return you are amending.

Name, Address, and SSN

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

Foreign address. Enter the information in the following order: City, province or state, and country. Follow the country's practice for entering the postal code. Do not abbreviate the country name.

Line B

Changing from separate to a joint return. If you and your spouse are changing from separate returns to a joint return, follow these steps.

1. Enter in column A the amounts from your return as originally filed or as previously adjusted (either by you or the IRS).
2. Combine the amounts from your spouse's return as originally filed or as previously adjusted with any other changes you or your spouse are making to determine the amounts to enter in column B. If your spouse did not file an original return, include your spouse's income, deductions, credits, other taxes, etc., to determine the amounts to enter in column B.
3. Read the instructions for column C on page 3 to figure the amounts to enter in that column.

Both of you must sign Form 1040X.

Joint and several tax liability. If you file a joint return, both you and your spouse are generally responsible for the tax and any interest or penalties due on the return. This means that if one spouse does not pay the tax due, the other may have to. However, you may qualify for innocent spouse relief. For details, see Form 8857 or Pub. 971 (both relating to innocent spouse relief).

Head of household. If you are changing to the head of household filing status and the qualifying person is a child but not your dependent, enter the child's name and "QND" in Part II of Form 1040X.

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

Lines 1 Through 33

TIP *If you are only providing additional information and not changing amounts you originally reported, skip lines 1–33 and complete Part II and, if applicable, Part III.*

To help you complete Form 1040X, start with:

- Line 1 if you are changing income or deductions.
- Line 6 if you are changing only credits or other taxes.
- Line 10 if you are changing only payments.

Columns A Through C

Column A. Enter the amounts from your original return. However, if you previously amended that return or it was changed by the IRS, enter the adjusted amounts.

Column B. Enter the net increase or decrease for each line you are changing. Show decreases in parentheses.

Explain each change in Part II. If you need more space, attach a statement. Also, attach any schedule or form relating to the change. For example, attach Schedule A (Form 1040) if you are amending Form 1040 to itemize deductions. Do not attach items unless required to do so.

Column C. To figure the amounts to enter in this column:
- Add the increase in column B to column A, or
- Subtract the decrease in column B from column A.

For any item you do not change, enter the amount from column A in column C.

Example. Anna Arbor originally reported $21,000 as her adjusted gross income on her 2004 Form 1040A. She received another Form W-2 for $500 after she filed her return. She completes line 1 of Form 1040X as follows.

	Col. A	Col. B	Col. C
Line 1	$21,000	$500	$21,500

She would also report any additional federal income tax withheld on line 11 in column B.

Income and Deductions

Line 1

Enter your adjusted gross income (AGI). To find the corresponding line on the return you are amending, use the chart on page 6 for the appropriate year.

A change you make to your AGI can cause other amounts to increase or decrease. For example, increasing your AGI may:
- Decrease your miscellaneous itemized deductions, the credit for child and dependent care expenses, the child tax credit, or education credits, or
- Increase your allowable charitable contributions deduction or the taxable amount of social security benefits.

Changing your AGI may also affect your total itemized deductions or your deduction for exemptions (see the instructions for line 4). Whenever you change your AGI, refigure these items, those listed above, and any other deduction or credit you are claiming that has a limit based on AGI.

Correcting your wages or other employee compensation? Attach a copy of all additional or corrected Forms W-2 you received after you filed your original return.

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

Line 2

Did you originally file using TeleFile (for years 2004 and earlier) or Form 1040EZ?

❏ **Yes.** See *TeleFile (for years 2004 and earlier) and Form 1040EZ Filers—Lines 2 and 4* on this page for the amount to enter on line 2, column A.

❏ **No.** Use the following chart to find the amount to enter on line 2, column A.

IF you are filing Form...	THEN enter on line 2, column A, the amount from Form...
1040	1040, line 40 for 2005; line 39 for 2004; line 37 for 2003; line 38 for 2002
1040A	1040A, line 24 for 2002-2005

Line 4

Did you originally file using TeleFile (for years 2004 and earlier) or Form 1040EZ?

❏ **Yes.** See *TeleFile (for years 2004 and earlier) and Form 1040EZ Filers—Lines 2 and 4* on this page for the amount to enter on line 4, column A.

❏ **No.** Use the following chart to find the amount to enter on line 4, column A.

IF you are filing Form...	THEN enter on line 4, column A, the amount from Form...
1040*	1040, line 42 for 2005; line 41 for 2004; line 39 for 2003; line 40 for 2002.
1040A	1040A, line 26 for 2002-2005

* If the amount in column A or C of line 1 is over $103,000, see *Who must use Deduction for Exemptions Worksheet* below.

Changing the number of exemptions claimed? Complete Form 1040X, line 30 (and line 33 if applicable). Then enter the amounts from columns B and C in the appropriate column of line 4.

2005 only—Exemption for housing individuals displaced by Hurricane Katrina. Complete Form 8914, Exemption Amount for Taxpayers Housing Individuals Displaced by Hurricane Katrina, and Form 1040X, lines 31 and 32. Then enter the amounts from columns B and C in the appropriate column of line 4.

Who must use Deduction for Exemptions Worksheet. Use the chart below to find out if you must use that worksheet in the Form 1040 (or, for 2004 or 2005, Form 1040A) instructions for the year you are amending to figure the amount to enter on line 4 and, if applicable, line 30. If you are amending your 2005 return and claiming an additional exemption amount for housing individuals displaced by Hurricane Katrina, complete Form 8914 instead of the Deduction for Exemptions Worksheet.

You must use the Deduction for Exemptions Worksheet if—

You are amending your:	And your filing status is:	And the amount in col. A or C of line 1 is over:
2005 return	Married filing separately	$109,475
	Married filing jointly or Qualifying widow(er)	218,950
	Single	145,950
	Head of household	182,450
2004 return	Married filing separately	$107,025
	Married filing jointly or Qualifying widow(er)	214,050
	Single	142,700
	Head of household	178,350
2003 return	Married filing separately	$104,625
	Married filing jointly or Qualifying widow(er)	209,250
	Single	139,500
	Head of household	174,400
2002 return	Married filing separately	$103,000
	Married filing jointly or Qualifying widow(er)	206,000
	Single	137,300
	Head of household	171,650

TeleFile (for years 2004 and earlier) and Form 1040EZ Filers—Lines 2 and 4

TeleFile filers. The amounts to enter on lines 2 and 4 of Form 1040X depend on whether you (or your spouse) could be claimed as a dependent on someone’s return. First, get Form 1040EZ for the year you are amending. Next, complete line 5 of Form 1040EZ and, if applicable, the worksheet on the back of the form. Then, see *Form 1040EZ filers* next to determine the amounts to enter on lines 2 and 4 of Form 1040X.

Form 1040EZ filers. Did someone claim you as a dependent on their return? (On your 2005 Form 1040EZ, one or both boxes on line 5 will be checked. On your 2004 or earlier Form 1040EZ, the "Yes" box on line 5 will be checked.)

❑ **Yes.** On Form 1040X, line 2, enter the amount from line E of the worksheet on the back of Form 1040EZ. On Form 1040X, line 4, enter -0- (or the amount from line F of the 1040EZ worksheet if married filing jointly).

❑ **No.** Use the following chart to find the amounts to enter on lines 2 and 4.

IF you are amending your...	AND your filing status is...	THEN enter on Form 1040X, line 2...	line 4...
2005 return	Single Married filing jointly	$ 5,000 10,000	$3,200 6,400
2004 return	Single Married filing jointly	$4,850 9,700	$3,100 6,200
2003 return	Single Married filing jointly	$4,750 9,500	$3,050 6,100
2002 return	Single Married filing jointly	$4,700 7,850	$3,000 6,000

Line 5

The amount in any column of line 5 may be negative.

Example. Margaret Coffey showed $0 taxable income on her original return, even though she actually had a loss of $1,000. She later discovered she had additional income of $2,000. Her Form 1040X, line 5, would show ($1,000) in column A, $2,000 in column B, and $1,000 in column C. If she failed to take into account the loss she actually had on her original return, she would report $2,000 in column C and possibly overstate her tax liability.

Tax Liability

Line 6

Enter your income tax before subtracting any credits. Figure the tax on the taxable income reported on line 5, column C. Attach the appropriate schedule or form(s). Include on line 6 any additional taxes from Form 4972, Tax on Lump-Sum Distributions, and any recapture of education credits. Also include on line 6 any alternative minimum tax.

Indicate the method you used to figure the tax shown in column C. For example:

IF you used...	THEN enter on Form 1040X, line 6...
The Tax Tables	Table
The Tax Rate Schedules (for 2002–2004)	TRS
Schedule D (Form 1040)	Sch. D
Schedule J (Form 1040)	Sch. J
The Capital Gain Tax Worksheet	CGTW
The Qualified Dividends and Capital Gain Tax Worksheet (for 2003–2005)	QDCGTW
The Tax Computation Worksheet (for 2004–2005)	TCW

Line 7

Enter your total credits, such as:

- Credit for child and dependent care expenses.
- Credit for the elderly or the disabled.
- Education credits.
- Retirement savings contributions credit.
- Child tax credit.
- Adoption credit.
- Credit for prior year minimum tax.

Do not include credits from Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, Form 4136, Credit for Federal Tax Paid on Fuels, and Form 8885, Health Coverage Tax Credit (formerly Health Insurance Credit For Eligible Recipients). Instead, use line 15 for these credits.

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Line 9

Include other taxes such as:

- Self-employment tax.
- Additional tax on IRAs, other qualified retirement plans, etc.
- Advance earned income credit payments.
- Recapture taxes (for example, recapture of investment credit or low-income housing credit).
- Tax from Form 4970, Tax on Accumulation of Distribution of Trusts.
- Household employment taxes. If you are changing these taxes, attach Schedule H (Form 1040) and enter in Part II of Form 1040X the date the error was discovered. If you are changing the wages paid to an employee for whom you filed Form W-2, you must also file Form W-2c, Corrected Wage and Tax Statement, and Form W-3c, Transmittal of Corrected Wage and Tax Statements.

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Payments

Lines 11 Through 16

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Line 11. If you are changing these amounts, attach to the front of Form 1040X a copy of all additional or corrected Forms W-2 or 1099-R you received after you filed your original return. Enter in column B any additional amounts shown on these forms as *Federal income tax withheld*.

Line 12. Enter the estimated tax payments you claimed on your original return. If you filed Form 1040-C, U.S. Departing Alien Income Tax Return, include the amount you paid as the balance due with that return.

Line 13. If you are amending your return to claim the earned income credit (EIC) and you have a qualifying child, attach Schedule EIC (Form 1040A or 1040).

CAUTION *If your EIC was reduced or disallowed for a tax year after 1996, see the Instructions for Form 8862, Information To Claim Earned Income Credit After Disallowance, to find out if you must also file that form to claim the credit.*

Line 14. If you are amending your return to claim the additional child tax credit, attach Form 8812.

Line 15. If you are amending your return to claim a credit on this line, attach Copy B of Form 2439, Form 4136, or Form 8885.

Line 16. Enter any amount paid with Forms 4868 or 2350 (or Form 2688 for years 2004 or earlier). Also include any amount paid with a credit card used to get an extension of time to file. But do not include the convenience fee you were charged. Also include any amount paid by electronic funds withdrawal.

Line 17

Enter the amount of tax you paid from the "Amount you owe" line on your original return. Also, include any additional tax that may have resulted if your original return was changed or examined. Do not include payments of interest or penalties.

Refund or Amount You Owe

Line 19

Enter the overpayment from your original return. You must enter that amount because any additional refund you claim on Form 1040X will be sent separately from any refund you have not yet received from your original return.

If your original return was changed by the IRS and the result was an additional overpayment of tax, also include that amount on line 19. Do not include interest you received on any refund.

To find the corresponding lines on the return you are amending, use the chart on page 6 for the appropriate year.

Lines 20 and 21

If line 20 is negative, treat it as a positive amount and add it to the amount on line 10, column C. Enter the result on line 21. This is the amount you owe.

Send Form 1040X with a check or money order for the full amount payable to the **"United States Treasury."** Do not send cash. On your payment, put your name, address, daytime phone number, and SSN. Also, enter the tax year and type of return you are amending (for example, "2003 Form 1040"). We will figure any interest due and send you a bill.

To help process your payment, enter the amount on the right side of the check like this: $ XXX.XX. Do not use dashes or lines (for example, do not enter "$ XXX—" or "$ XXX $\frac{xx}{100}$").

What if you cannot pay? If you cannot pay the full amount shown on line 21, you may ask to make monthly installment payments. You may have up to 60 months to pay. See Form 9465, Installment Agreement Request, for more information.

Lines 23 and 24

The refund amount on line 23 will be sent separately from any refund you claimed on your original return (see the instructions for line 19). We will figure the interest and include it in your refund.

Enter on line 24 the amount, if any, from line 22 you want applied to your estimated tax for next year. Also, enter that tax year. No interest will be paid on this amount. You cannot change the election to apply part or all of the overpayment on line 22 to next year's estimated tax.

Paid Preparer

Generally, anyone you pay to prepare your return must sign it in the space provided. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign.

Exemptions (Part I)

CAUTION *If you are claiming an exemption amount for housing individuals displaced by Hurricane Katrina and:*

- *You are not otherwise changing the number of exemptions previously claimed,* ***do not*** *complete lines 25–30. Instead, complete Form 8914, lines 1 and 2. Enter the amount from Form 8914, line 2, on Form 1040X, line 31, columns B and C.*
- *You are also changing the number of exemptions previously claimed, complete lines 25–30 and 33 (if necessary). Then complete Form 8914. Enter the amount from Form 8914, line 11, on Form 1040X, line 31, columns B and C.*

Line 30

You may have to use the Deduction for Exemptions Worksheet in the Form 1040 (or, for 2004 or 2005, Form 1040A) instructions to figure the amount to enter on line 30. To find out if you do, see the instructions for line 4. If you do not have to use that worksheet, multiply the applicable dollar amount on line 30 by the number of exemptions on line 29.

Line 33

If you are adding more than six dependents, attach a statement with the required information.

Column (b). You must enter each dependent's social security number (SSN). If your dependent child was born and died in the tax year you are amending and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead and enter "Died" in column (b).

Be sure the name and SSN entered agree with the dependent's social security card. Otherwise, at the time we process your return, we may disallow the exemption claimed for the dependent and reduce or disallow any other tax benefits (such as the child tax credit) based on that dependent.

Note. For details on how to get an SSN or correct a name or number, see the 2005 Form 1040 or Form 1040A instructions.

Column (d). Check the box in column (d) if your dependent is also a qualifying child for the child tax credit. See the Form 1040 or 1040A instructions for the year you are amending to find out who is a qualifying child.

Children who did not live with you due to divorce or separation. If this amended return is for a year before 2005, and you are claiming a child who did not live with you under the rules for children of divorced or separated parents, you may need to attach certain forms or statements to Form 1040X. For more information, see Pub. 501 or the instructions for Form 1040 or Form 1040A for the tax year being amended.

Presidential Election Campaign Fund (Part III)

You may use Form 1040X to have $3 go to the fund if you (or your spouse on a joint return) did not do so on your original return. This must be done within 20½ months after the original due date for filing the return. For calendar year 2005, this period ends on January 2, 2008. A previous designation of $3 to the fund cannot be changed.

Charts

Use the chart for the year you are amending to find the corresponding lines on your return.

CAUTION *Be sure to include write-in amounts from the return you are amending.*

2005			
IF you are completing Form 1040X...	**THEN the corresponding line(s) on the 2005 Form...**		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	37	21	4
Line 7	47–55	29–34	N/A
Line 9	58–62	37	N/A
Lines 11–16	64–70	39–42	7 and 8
Line 19	72	44	11a

2004			
IF you are completing Form 1040X...	**THEN the corresponding line(s) on the 2004 Form...**		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	36	21	4
Line 7	46–54	29–34	N/A
Line 9	57–61	37	N/A
Lines 11–16	63–69	39–42	7 and 8
Line 19	71	44	11a

2003			
IF you are completing Form 1040X...	**THEN the corresponding line(s) on the 2003 Form...**		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	34	21	4
Line 7	44–52	29–34	N/A
Line 9	55–59	37	N/A
Lines 11–16	61–67	39–42	7 and 8
Line 19	69	44	11a

2002			
IF you are completing Form 1040X...	**THEN the corresponding line(s) on the 2002 Form...**		
	1040 is:	**1040A is:**	**1040EZ is:**
Line 1	35	21	4
Line 7	45–53	29–34	N/A
Line 9	56–60	37	N/A
Lines 11–16	62–68	39–42	7 and 8
Line 19	70	44	11a

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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

We welcome comments on forms. If you have comments or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the form to this address. Instead, see *Where To File* on page 1.

Estimates of taxpayer burden. The new estimates of taxpayer burden shown below were developed by the IRS to better measure and understand the burden taxpayers experience when preparing their taxes. These estimates of average preparation times and out-of-pocket expenses are based on a new survey of taxpayers and a more accurate method of estimating taxpayer burden. They focus on taxpayer characteristics and activities, rather than forms, and replace the burden estimates shown in prior year tax form instructions. The information collected to figure the new estimates includes type of taxpayer, preparation method, filing method, and taxpayer activities. The new estimates shown here are grouped by principal combinations of forms submitted and are not available separately for each form.

These changes create a one-time shift in estimates of burden levels. Comparisons should not be made between these and earlier published estimates.

If you have comments concerning the time and expense estimates below, you can contact us at the address shown under *We welcome comments on forms.*

These estimates were the latest available when the forms went to print. The most current information can be found on the IRS website at *www.irs.gov.*

Taxpayer Burden for Taxpayers Who Filed Form 1040X by Preparation Method, 2004

Self-Prepared Without Tax Software		Self-Prepared With Tax Software		Prepared by Paid Professional	
Hours	**Costs**	**Hours**	**Costs**	**Hours**	**Costs**
4.7	**$4**	**2.8**	**$5**	**3.6**	**$50**

SCHEDULES A&B
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Schedule A—Itemized Deductions

(Schedule B is on back)

► Attach to Form 1040. ► See Instructions for Schedules A&B (Form 1040).

OMB No. 1545-0074

2005

Attachment Sequence No. 07

Name(s) shown on Form 1040 | Your social security number

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.			
	1	Medical and dental expenses (see page A-2)		1	
	2	Enter amount from Form 1040, line 38	2		
	3	Multiply line 2 by 7.5% (.075)		3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4
Taxes You Paid (See page A-2.)	5	State and local **(check only one box)**: a ☐ Income taxes, **or** b ☐ General sales taxes (see page A-3)		5	
	6	Real estate taxes (see page A-5)		6	
	7	Personal property taxes		7	
	8	Other taxes. List type and amount ►		8	
	9	Add lines 5 through 8			9
Interest You Paid (See page A-5.)	10	Home mortgage interest and points reported to you on Form 1098		10	
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-6 and show that person's name, identifying no., and address ►		11	
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See page A-6 for special rules		12	
	13	Investment interest. Attach Form 4952 if required. (See page A-6.)		13	
	14	Add lines 10 through 13			14
Gifts to Charity If you made a gift and got a benefit for it, see page A-7.	15a	Total gifts by cash or check. If you made any gift of $250 or more, see page A-7		15a	
	b	Gifts by cash or check after August 27, 2005, that you elect to treat as qualified contributions (see page A-7)	15b		
	16	Other than by cash or check. If any gift of $250 or more, see page A-7. You **must** attach Form 8283 if over $500		16	
	17	Carryover from prior year		17	
	18	Add lines 15a, 16, and 17			18
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See page A-8.)			19
Job Expenses and Certain Miscellaneous Deductions (See page A-8.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-8.) ►		20	
	21	Tax preparation fees		21	
	22	Other expenses—investment, safe deposit box, etc. List type and amount ►		22	
	23	Add lines 20 through 22		23	
	24	Enter amount from Form 1040, line 38	24		
	25	Multiply line 24 by 2% (.02)		25	
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			26
Other Miscellaneous Deductions	27	Other—from list on page A-9. List type and amount ►			27
Total Itemized Deductions	28	Is Form 1040, line 38, over $145,950 (over $72,975 if married filing separately)? ☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 40. ☐ **Yes.** Your deduction may be limited. See page A-9 for the amount to enter. ►			28
	29	If you elect to itemize deductions even though they are less than your standard deduction, check here ► ☐			

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11330X Schedule A (Form 1040) 2005

Name(s) shown on Form 1040. Do not enter name and social security number if shown on other side. | **Your social security number**

Schedule B—Interest and Ordinary Dividends

Attachment Sequence No. **08**

Part I Interest

(See page B-1 and the instructions for Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also, show that buyer's social security number and address ▶	**1**	
2	Add the amounts on line 1	**2**	
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	**3**	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	**4**	

Note. If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See page B-1 and the instructions for Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

			Amount
5	List name of payer ▶	**5**	
6	Add the amounts on line 5. Enter the total here and on Form 1040, line 9a ▶	**6**	

Note. If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

(See page B-2.)

	You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; or **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.	Yes	No
7a	At any time during 2005, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1		
b	If "Yes," enter the name of the foreign country ▶		
8	During 2005, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See page B-2		

For Paperwork Reduction Act Notice, see Form 1040 instructions. **Schedule B (Form 1040) 2005**

Department of the Treasury
Internal Revenue Service

2005 Instructions for Schedules A & B (Form 1040)

Instructions for Schedule A, Itemized Deductions

Use Schedule A (Form 1040) to figure your itemized deductions. In most cases, your federal income tax will be less if you take the larger of your itemized deductions or your standard deduction.

If you itemize, you can deduct a part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You can also deduct certain casualty and theft losses.

If you and your spouse paid expenses jointly and are filing separate returns for 2005, see Pub. 504 to figure the portion of joint expenses that you can claim as itemized deductions.

CAUTION *Do not include on Schedule A items deducted elsewhere, such as on Form 1040 or Schedule C, C-EZ, E, or F.*

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

What's New

- Certain cash contributions paid after August 27, 2005, are not subject to the overall limitation on itemized deductions or the 50% adjusted gross income limitation. See the instructions for line 15b on page A-7.
- Casualty and theft losses that occurred in the Hurricane Katrina disaster area after August 24, 2005, are not subject to the $100 and the 10% adjusted gross income limitations if the loss was caused by Hurricane Katrina. See the instructions for line 19 on page A-8.
- The 2005 rate for use of your vehicle to get medical care is 15 cents a mile (22 cents a mile after August 31, 2005).
- The 2005 rate for charitable use of your vehicle to provide relief related to Hurricane Katrina is 29 cents a mile after August 24, 2005 (34 cents a mile after August 31, 2005).
- If you deduct more than $500 for a contribution of a motor vehicle, boat, or airplane, you must attach a statement from the charitable organization to your return. See the instructions for line 16 that begin on page A-7.
- If you elected to deduct contributions made in January 2005 for the relief of victims of the Indian Ocean tsunami on your 2004 return, you cannot deduct the contributions for 2005. See *Contributions You Cannot Deduct* on page A-7.
- Special rules apply to certain contributions of food inventory and book inventory made after August 27, 2005. For details, see Pub. 526.
- Certain whaling captains may be able to claim a charitable deduction for whale hunting expenses. See *Gifts to Charity* on page A-6 for more details.
- The tables and worksheet needed to figure your state and local sales tax deduction using the optional method have been added to the instructions for line 5 that begin on page A-3. Pub. 600 and Pub. 600-A do not apply for 2005.
- Line 29 has been added to elect to itemize even though your itemized deductions are less than your standard deduction. This election was previously made on Form 1040.

Medical and Dental Expenses

You can deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 38.

Pub. 502 discusses the types of expenses that you can and cannot deduct. It also explains when you can deduct capital expenses and special care expenses for disabled persons.

CAUTION *If you received a distribution from a health savings account or a medical savings account in 2005, see Pub. 969 to figure your deduction.*

Examples of Medical and Dental Payments You Can Deduct

To the extent you were not reimbursed, you can deduct what you paid for:

- Insurance premiums for medical and dental care, including premiums for qualified long-term care contracts as defined in Pub. 502. But see *Limit on long-term care premiums you can deduct* on page A-2. Reduce the insurance premiums by any self-employed health insurance deduction you claimed on Form 1040, line 29.

Note. If, during 2005, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA recipient, or Pension Benefit Guaranty Corporation pension recipient, you must reduce your insurance premiums by any amounts used to figure the health coverage tax credit. See the instructions for line 1 on page A-2.

CAUTION *You cannot deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your Form(s) W-2.*

- Prescription medicines or insulin.
- Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists.
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and house-

Cat. No. 24328L

work, you can deduct only the cost of the nursing help.

- Hospital care (including meals and lodging), clinic costs, and lab fees.
- Qualified long-term care services (see Pub. 502).
- The supplemental part of Medicare insurance (Medicare B).
- A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal.
- A weight-loss program as treatment for a specific disease (including obesity) diagnosed by a doctor.
- Medical treatment at a center for drug or alcohol addiction.
- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.
- Surgery to improve defective vision, such as laser eye surgery or radial keratotomy.
- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel. Do not deduct more than $50 a night for each eligible person.
- Ambulance service and other travel costs to get medical care. If you used your own car, you can claim what you spent for gas and oil to go to and from the place you received the care; or you can claim 15 cents a mile (22 cents a mile for travel after August 31, 2005). Add parking and tolls to the amount you claim under either method.

Note. Certain medical expenses paid out of a deceased taxpayer's estate can be claimed on the deceased taxpayer's final return. See Pub. 502 for details.

Limit on long-term care premiums you can deduct. The amount you can deduct for qualified long-term care contracts (as defined in Pub. 502) depends on the age, at the end of 2005, of the person for whom the premiums were paid. See the chart below for details.

IF the person was, at the end of 2005, age . . .	THEN the most you can deduct is . . .
40 or under	$ 270
41–50	$ 510
51–60	$ 1,020
61–70	$ 2,720
71 or older	$ 3,400

Examples of Medical and Dental Payments You Cannot Deduct

- The basic cost of Medicare insurance (Medicare A).

TIP *If you were age 65 or older but not entitled to social security benefits, you can deduct premiums you voluntarily paid for Medicare A coverage.*

- The cost of diet food.
- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.
- Life insurance or income protection policies.
- The Medicare tax on your wages and tips or the Medicare tax paid as part of the self-employment tax or household employment taxes.
- Nursing care for a healthy baby. But you may be able to take a credit for the amount you paid. See the instructions for Form 1040, line 48.
- Illegal operations or drugs.
- Imported drugs not approved by the U.S. Food and Drug Administration (FDA). This includes foreign-made versions of U.S.-approved drugs manufactured without FDA approval.
- Nonprescription medicines (including nicotine gum and certain nicotine patches).
- Travel your doctor told you to take for rest or a change.
- Funeral, burial, or cremation costs.

Line 1

Medical and Dental Expenses

Enter the total of your medical and dental expenses (see page A-1), after you reduce these expenses by any payments received from insurance or other sources. See *Reimbursements* on this page.

TIP *Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed health insurance deduction on Form 1040, line 29, reduce the premiums by the amount on line 29.*

Note. If, during 2005, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA recipient, or Pension Benefit Guaranty Corporation pension recipient, you must complete Form 8885 before completing Schedule A, line 1. When figuring the amount of insurance premiums you can deduct on Schedule A, do not include any health coverage tax credit advance payments shown in box 1 of Form 1099-H. Also, subtract the amount shown on Form 8885, line 4 (reduced by any advance payments shown on line 6 of that form), from the total insurance premiums you paid.

Whose medical and dental expenses can you include? You can include medical and dental bills you paid for:

- Yourself and your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules for children of divorced or separated parents.
- Any person you could have claimed as a dependent on your return except that person received $3,200 or more of gross income or filed a joint return.
- Any person you could have claimed as a dependent except that you, or your spouse if filing jointly, can be claimed as a dependent on someone else's 2005 return.

Example. You provided over half of your mother's support but cannot claim her as a dependent because she received wages of $3,200 in 2005. You can include on line 1 any medical and dental expenses you paid in 2005 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 only the amount you paid. If you received a reimbursement in 2005 for medical or dental expenses you paid in 2005, reduce your 2005 expenses by this amount. If you received a reimbursement in 2005 for prior year medical or dental expenses, do not reduce your 2005 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See Pub. 502 for details on how to figure the amount to include.

Cafeteria plans. Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your Form(s) W-2. Also, do not include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your Form(s) W-2.

Taxes You Paid

Taxes You Cannot Deduct

- Federal income and excise taxes.
- Social security, Medicare, federal unemployment (FUTA), and railroad retirement (RRTA) taxes.
- Customs duties.
- Federal estate and gift taxes. But see the instructions for line 27 on page A-9.

• Certain state and local taxes, including: tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

Line 5

CAUTION *You can elect to deduct state and local general sales taxes instead of state and local income taxes.* ***You cannot deduct both.***

State and Local Income Taxes

If you deduct state and local income taxes, check **box a** on line 5. Include on this line the state and local income taxes listed below.

- State and local income taxes withheld from your salary during 2005. Your Form(s) W-2 will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.
- State and local income taxes paid in 2005 for a prior year, such as taxes paid with your 2004 state or local income tax return. Do not include penalties or interest.
- State and local estimated tax payments made during 2005, including any part of a prior year refund that you chose to have credited to your 2005 state or local income taxes.
- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

Do not reduce your deduction by any:

- State or local income tax refund or credit you expect to receive for 2005, or
- Refund of, or credit for, prior year state and local income taxes you actually received in 2005. Instead, see the instructions for Form 1040, line 10.

State and Local General Sales Taxes

If you elect to deduct state and local general sales taxes, you **must** check **box b** on line 5. To figure your deduction, you can use either your actual expenses or the optional sales tax tables.

Actual Expenses

Generally, you can deduct the actual state and local general sales taxes (including compensating use taxes) you paid in 2005 if the tax rate was the same as the general sales tax rate. However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate. Sales taxes on motor vehicles are also deductible as a general sales tax if the tax rate was more than the general sales tax rate, but the tax is deductible only up to the amount of tax that would have been imposed at the general sales tax rate. Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, sport utility vehicles, trucks, vans, and off-road vehicles. Also include any state and local general sales taxes paid for a leased motor vehicle.

Do not include sales taxes paid on items used in your trade or business.

CAUTION *You must keep your actual receipts showing general sales taxes paid to use this method.*

Refund of general sales taxes. If you received a refund of state or local general sales taxes in 2005 for amounts paid in 2005, reduce your 2005 state and local general sales taxes by this amount. If you received a refund of state or local general sales taxes in 2005 for prior year purchases, do not reduce your 2005 state and local general sales taxes by this amount. But if you deducted your state and local general sales taxes in the earlier year and the deduction reduced your tax, you may have to include the refund in income on Form 1040, line 21. See *Recoveries* in Pub. 525 for details.

Optional Sales Tax Tables

Instead of using your actual expenses, you can use the tables on pages A-10 through A-12 to figure your state and local general sales tax deduction. You may also be able to add the state and local general sales taxes paid on certain specified items.

To figure your state and local general sales tax deduction using the tables, complete the worksheet on page A-4.

Note. Instead of completing the worksheet, you can use the 2005 Sales Tax Calculator on the IRS website at *www.irs.gov/pub/irs-soi/SalesTaxCalc05.xls.*

CAUTION *If your filing status is married filing separately, both you and your spouse elect to deduct sales taxes,* ***and*** *your spouse elects to use the optional sales tax tables, you also must use the tables to figure your state and local general sales tax deduction.*

Instructions for Line 5b Worksheet

Line 1. If you lived in the same state for all of 2005, enter the applicable amount, based on your 2005 income and exemptions, from the optional state sales tax table for your state on page A-10 or A-11. Read down the "At least–But less than" columns for your state and find the line that includes your 2005 income. If married filing separately, do not include your spouse's income. Your 2005 income is the amount shown on your Form 1040, line 38, plus any nontaxable items, such as the following.

- Tax-exempt interest.
- Veterans' benefits.
- Nontaxable combat pay.
- Workers' compensation.
- Nontaxable part of social security and railroad retirement benefits.
- Nontaxable part of IRA, pension, or annuity distributions. Do not include rollovers.
- Public assistance payments.

The exemptions column refers to the number of exemptions claimed on Form 1040, line 6d. Do not include any additional exemptions you listed on Form 8914 for individuals displaced by Hurricane Katrina.

What if you lived in more than one state? If you lived in more than one state during 2005, look up the table amount for each state using the above rules. If there is no table for your state, the table amount is considered to be zero. Multiply the table amount for each state you lived in by a fraction. The numerator of the fraction is the number of days you lived in the state during 2005 and the denominator is the total number of days in the year (365). Enter the total of the prorated table amounts for each state on line 1. However, if you also lived in a locality during 2005 that imposed a local general sales tax, do not enter the total on line 1. Instead, complete a separate worksheet for each state you lived in and enter the prorated amount for that state on line 1.

Example. You lived in State A from January 1 through August 31, 2005 (243 days), and in State B from September 1 through December 31, 2005 (122 days). The table amount for State A is $500. The table amount for State B is $400. You would figure your state general sales tax as follows.

State A:	$500 x 243/365 =	$333
State B:	$400 x 122/365 =	134
Total	=	$467

If none of the localities in which you lived during 2005 imposed a local general sales tax, enter $467 on line 1 of your worksheet. Otherwise, complete a separate worksheet for State A and State B. Enter $333 on line 1 of the State A worksheet and $134 on line 1 of the State B worksheet.

Line 2. If you checked the "No" box, enter -0- on line 2, and go to line 3. If you checked the "Yes" box and lived in the same locality for all of 2005, enter the applicable amount, based on your 2005 income and exemptions, from the optional local sales tax table for your locality on page A-12. Read down the "At least–But less than" columns for your locality and find the line that includes your 2005 income. See the line 1 instructions on this page to figure your 2005 income. The exemptions column refers to the number of exemptions claimed on Form 1040, line 6d. Do not include any additional exemptions you listed on Form 8914 for individuals displaced by Hurricane Katrina.

What if you lived in more than one locality? If you lived in more than one locality during 2005, look up the table amount for each locality using the above rules. If there is no table for your locality, the table amount is considered to be zero. Multiply the table amount for each locality you lived in by a fraction. The numerator of the fraction is the number of days you lived in the locality during 2005 and the denominator is the total number of days in the year (365). If you lived in more than one locality in the same state and the local general sales tax rate was the same for each locality, enter the total of the prorated table amounts for each locality in that state on line 2. Otherwise, complete a separate worksheet for lines 2 through 6 for each locality and enter each prorated table amount on line 2 of the applicable worksheet.

Example. You lived in Locality 1 from January 1 through August 31, 2005 (243 days), and in Locality 2 from September 1 through December 31, 2005 (122 days). The table amount for Locality 1 is $100. The table amount for Locality 2 is $150. You would figure the amount to enter on line 2 as follows. Note that this amount may not equal your local sales tax deduction, which is figured on line 6 of the worksheet.

Locality 1:	$100 x 243/365 =	$ 67
Locality 2:	$150 x 122/365 =	50
Total	=	$117

Line 3. If you lived in Virginia, check the "No" box. Your state and local general sales taxes are combined in the table on page A-11.

If you lived in California, check the "No" box if your combined state and local general sales tax rate is 7.25%. Otherwise, check the "Yes" box and include on line 3 only the part of the combined rate that is more than 7.25%.

If you lived in Nevada, check the "No" box if your combined state and local general sales tax rate is 6.5%. Otherwise, check the "Yes" box and include on line 3 only the part of the combined rate that is more than 6.5%

If you lived in Texarkana, Arkansas, check the "Yes" box and enter "4.0" on line 3. Your local general sales tax rate of 4.0% includes the additional 1.0% Arkansas state sales tax rate for Texarkana and the 1.5% sales tax rate for Miller County.

What if your local general sales tax rate changed during 2005? If you checked the "Yes" box and your local general sales tax rate changed during 2005, figure the rate to enter on line 3 as follows. Multiply each tax rate for the period it was in effect by a fraction. The numerator of the fraction is the number of days the rate was in effect during 2005 and the denominator is the total number of days in the year (365). Enter the total of the prorated tax rates on line 3.

State and Local General Sales Tax Deduction Worksheet—Line 5b
(See the *Instructions for Line 5b Worksheet* that begin on page A-3.)

Keep for Your Records

1. Enter your state general sales taxes from the applicable table on page A-10 or A-11 (see instructions) . . . **1.** ______

2. Did you live in Alaska, Arizona, Arkansas (Texarkana only), California (Los Angeles County only), Colorado, Georgia, Illinois, Louisiana, New York (New York City only), or North Carolina in 2005?

☐ **No.** Enter -0-

☐ **Yes.** Enter your local general sales taxes from the applicable table on page A-12 (see instructions) . . . . **2.** ______

3. Did your locality impose a local general sales tax in 2005? Virginia residents, check the "No" box. Residents of California, Nevada, and Texarkana, Arkansas, see instructions.

☐ **No.** Skip lines 3 through 5, enter -0- on line 6, and go to line 7.

☐ **Yes.** Enter your local general sales tax rate, but omit percentages (for example, if your local general sales tax rate was 2.5%, enter 2.5). If your local general sales tax rate changed or you lived in more than one locality in the same state during 2005, see instructions . . . . **3.** ______

4. Did you enter -0- on line 2 above?

☐ **No.** Skip lines 4 and 5 and go to line 6.

☐ **Yes.** Enter your state general sales tax rate (from the table heading for your state), but omit percentages. For example, if your state general sales tax rate is 6%, enter 6.0. . . . . **4.** ______

5. Divide line 3 by line 4. Enter the result as a decimal (rounded to at least three places) **5.** ______

6. Did you enter -0- on line 2 above?

☐ **No.** Multiply line 2 by line 3

☐ **Yes.** Multiply line 1 by line 5. If you lived in more than one locality in the same state during 2005, see instructions. . . . . **6.** ______

7. Enter your general sales taxes paid on specified items, if any (see instructions) . . . . **7.** ______

8. **Deduction for general sales taxes.** Add lines 1, 6, and 7. Enter the result here and the total from all your worksheets, if applicable, on Schedule A, line 5. Be sure to check **box b** on that line . . . . **8.** ______

Note. If you elect to deduct general sales taxes, you cannot deduct your state and local income taxes.

Example. Locality 1 imposed a 1% local general sales tax from January 1 through September 30, 2005 (273 days). The rate increased to 1.75% for the period from October 1 through December 31, 2005 (92 days). You would enter "1.189" on line 3, figured as follows.

January 1 – September 30:	1.00 x 273/365 =	0.748
October 1 – December 31:	1.75 x 92/365 =	0.441
Total	=	1.189

What if you lived in more than one locality in the same state during 2005? Complete a separate worksheet for lines 2 through 6 for each locality in your state if you lived in more than one locality in the same state during 2005 and either of the following applies.

- Each locality did not have the same local general sales tax rate.
- You lived in Texarkana, AR; Los Angeles County, CA; or New York, NY.

To figure the amount to enter on line 3 of the worksheet for each locality in which you lived (except a locality for which you used the table on page A-12 to figure your local general sales tax deduction), multiply the local general sales tax rate by a fraction. The numerator of the fraction is the number of days you lived in the locality during 2005 and the denominator is the total number of days in the year (365).

Example. You lived in Locality 1 from January 1 through August 31, 2005 (243 days), and in Locality 2 from September 1 through December 31, 2005 (122 days). The local general sales tax rate for Locality 1 is 1%. The rate for Locality 2 is 1.75%. You would enter "0.666" on line 3 for the Locality 1 worksheet and "0.585" for the Locality 2 worksheet, figured as follows.

Locality 1:	1.00 x 243/365 =	0.666
Locality 2:	1.75 x 122/365 =	0.585

Line 6. If you lived in more than one locality in the same state during 2005, you should have completed line 1 only on the first worksheet for that state and separate worksheets for lines 2 through 6 for any other locality within that state in which you lived during 2005. If you checked the "Yes" box on line 6 of any of those worksheets, multiply line 5 of that worksheet by the amount that you entered on line 1 for that state on the first worksheet.

Line 7. Enter on line 7 any state and local general sales taxes paid on the following specified items. If you are completing more than one worksheet, include the total for line 7 on only one of the worksheets.

1. A motor vehicle (including a car, motorcycle, motor home, recreational vehicle, sport utility vehicle, truck, van, and off-road vehicle). Also include any state and local general sales taxes paid for a leased motor vehicle. If the state sales tax rate on these items is higher than the general sales tax rate, only include the amount of tax you would have paid at the general sales tax rate.

2. An aircraft or boat, if the tax rate was the same as the general sales tax rate.

3. A home (including a mobile home or prefabricated home) or substantial addition to or major renovation of a home, but only if the tax rate was the same as the general sales tax rate and any of the following applies.

a. Your state or locality imposes a general sales tax directly on the sale of a home or on the cost of a substantial addition or major renovation.

b. You purchased the materials to build a home or substantial addition or to perform a major renovation and paid the sales tax directly.

c. Under your state law, your contractor is considered your agent in the construction of the home or substantial addition or the performance of a major renovation. The contract must state that the contractor is authorized to act in your name and must follow your directions on construction decisions. In this case, you will be considered to have purchased any items subject to a sales tax and to have paid the sales tax directly.

Do not include sales taxes paid on items used in your trade or business. If you received a refund of state or local general sales taxes in 2005, see *Refund of general sales taxes* on page A-3.

Line 6

Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you own that was not used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. Pub. 530 explains the deductions homeowners can take.

Do not include the following amounts on line 6.

- Itemized charges for services to specific property or persons (for example, a $20 monthly charge per house for trash collection, a $5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance).
- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you can deduct only the amount the mortgage company actually paid to the taxing authority in 2005.

If you sold your home in 2005, any real estate tax charged to the buyer should be shown on your settlement statement and in box 5 of any Form 1099-S you received. This amount is considered a refund of real estate taxes. See *Refunds and rebates* below. Any real estate taxes you paid at closing should be shown on your settlement statement.

Refunds and rebates. If you received a refund or rebate in 2005 of real estate taxes you paid in 2005, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 2005 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. See *Recoveries* in Pub. 525 for details on how to figure the amount to include in income.

Line 7

Personal Property Taxes

Enter personal property tax you paid, but only if it is based on value alone and it is charged on a yearly basis.

Example. You paid a yearly fee for the registration of your car. Part of the fee was based on the car's value and part was based on its weight. You can deduct only the part of the fee that was based on the car's value.

Line 8

Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line income tax you paid to a foreign country or U.S. possession.

TIP *You may want to take a credit for the foreign tax instead of a deduction. See the instructions for Form 1040, line 47, for details.*

Interest You Paid

Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. See Pub. 535 for details.

In general, if you paid interest in 2005 that applies to any period after 2005, you can deduct only amounts that apply for 2005.

Lines 10 and 11

Home Mortgage Interest

A home mortgage is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A home can be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

Limit on home mortgage interest. If you took out any mortgages after October 13, 1987, your deduction may be limited. Any additional amounts borrowed after October 13, 1987, on a line-of-credit mortgage you had on that date are treated as a mortgage taken out after October 13, 1987. If you refinanced a mortgage you had on October 13, 1987, treat the new mortgage as taken out on or before October 13, 1987. But if you refinanced for more than the balance of the old mortgage, treat the excess as a mortgage taken out after October 13, 1987.

See Pub. 936 to figure your deduction if either (1) or (2) below applies. If you had more than one home at the same time, the dollar amounts in (1) and (2) apply to the total mortgages on both homes.

1. You took out any mortgages after October 13, 1987, and used the proceeds for purposes other than to buy, build, or improve your home, and all of these mortgages totaled over $100,000 at any time during 2005. The limit is $50,000 if married filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.
2. You took out any mortgages after October 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over $1 million at any time during 2005. The limit is $500,000 if married filing separately.

CAUTION *If the total amount of all mortgages is more than the fair market value of the home, additional limits apply. See Pub. 936.*

Line 10

Enter on line 10 mortgage interest and points reported to you on Form 1098 under your social security number (SSN). If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21. If you and at least one other person (other than your spouse if filing jointly) were liable for and paid interest on the mortgage, and the interest was reported on Form 1098 under the other person's SSN, report your share of the interest on line 11 (as explained in the line 11 instructions below).

If you paid more interest to the recipient than is shown on Form 1098, see Pub. 936 to find out if you can deduct the additional interest. If you can, attach a statement explaining the difference and enter "See attached" to the right of line 10.

CAUTION *If you are claiming the mortgage interest credit (for holders of qualified mortgage credit certificates issued by state or local governmental units or agencies), subtract the amount shown on Form 8396, line 3, from the total deductible interest you paid on your home mortgage. Enter the result on line 10.*

Line 11

If you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recipient, be sure to show that recipient's name, identifying no., and address on the dotted lines next to line 11. If the recipient is an individual, the identifying no. is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient or let the recipient know your SSN, you may have to pay a $50 penalty.

If you and at least one other person (other than your spouse if filing jointly) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. To the right of line 11, enter "See attached."

Line 12

Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid only to borrow money are generally deductible over the life of the loan. See Pub. 936 to figure the amount you can deduct. Points paid for other purposes, such as for a lender's services, are not deductible.

Refinancing. Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. This is true even if the new mortgage is secured by your main home.

If you used part of the proceeds to improve your main home, you may be able to deduct the part of the points related to the improvement in the year paid. See Pub. 936 for details.

TIP *If you paid off a mortgage early, deduct any remaining points in the year you paid off the mortgage.*

Line 13

Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income.

Complete and attach Form 4952 to figure your deduction.

Exception. You do not have to file Form 4952 if all three of the following apply.

1. Your investment interest expense is not more than your investment income from interest and ordinary dividends minus any qualified dividends.
2. You have no other deductible investment expenses.
3. You have no disallowed investment interest expense from 2004.

CAUTION *Alaska Permanent Fund dividends, including those reported on Form 8814, are not investment income.*

For more details, see Pub. 550.

Gifts to Charity

You can deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You can also deduct what you gave to organizations that work to prevent cruelty to children or animals. Certain whaling captains may be able to deduct expenses paid in 2005 for Native Alaskan subsistence bowhead whale hunting activities. See Pub. 526 for details.

To verify an organization's charitable status, you can:

- Check with the organization to which you made the donation. The organization should be able to provide you with verification of its charitable status.
- See Pub. 78 for a list of most qualified organizations. You can access Pub. 78 on the IRS website at *www.irs.gov* under *Charities and Non-Profits.*
- Call our Tax Exempt/Government Entities Customer Account Services at 1-877-829-5500. Assistance is available Monday through Friday from 8:30 a.m. to 5:30 p.m. Eastern Time.

Examples of Qualified Charitable Organizations

- Churches, mosques, synagogues, temples, etc.
- Boy Scouts, Boys and Girls Clubs of America, CARE, Girl Scouts, Goodwill Industries, Red Cross, Salvation Army, United Way, etc.
- Fraternal orders, if the gifts will be used for the purposes listed above.
- Veterans' and certain cultural groups.

• Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

• Federal, state, and local governments if the gifts are solely for public purposes.

Contributions You Can Deduct

Contributions can be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you can take the actual cost of gas and oil or 14 cents a mile. But, if the volunteer work was to provide relief related to Hurricane Katrina after August 24, 2005, this amount is increased to 29 cents a mile (34 cents a mile after August 31, 2005). Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

Gifts from which you benefit. If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you can generally only deduct the amount that is more than the value of the benefit. But this rule does not apply to certain membership benefits provided in return for an annual payment of $75 or less. For details, see Pub. 526.

Example. You paid $70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was $40. You can deduct only $30.

Gifts of $250 or more. You can deduct a gift of $250 or more only if you have a statement from the charitable organization showing the information in (1) and (2) below.

In figuring whether a gift is $250 or more, do not combine separate donations. For example, if you gave your church $25 each week for a total of $1,300, treat each $25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. See Pub. 526 if you made a separate gift of $250 or more through payroll deduction.

1. The amount of any money contributed and a description (but not value) of any property donated.

2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.

TIP *You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. Do not attach the statement to your return. Instead, keep it for your records.*

Limit on the amount you can deduct. See Pub. 526 to figure the amount of your deduction if any of the following applies.

1. Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 38.

2. Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 38.

3. You gave gifts of property that increased in value or gave gifts of the use of property.

TIP *The limit described in item (1) above does not apply to certain cash contributions paid after August 27, 2005, if you elect to treat those contributions as qualified contributions. See the instructions for line 15b on this page for details.*

Contributions You Cannot Deduct

• Any contribution you made in January 2005 for the relief of victims in areas affected by the December 26, 2004, Indian Ocean tsunami that you elected to deduct on your 2004 return.

• Travel expenses (including meals and lodging) while away from home, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.

• Political contributions.

• Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

• Cost of raffle, bingo, or lottery tickets. But you may be able to deduct these expenses on line 27. See page A-9 for details.

• Cost of tuition. But you may be able to deduct this expense on line 20 (see page A-8), or Form 1040, line 34, or take a credit for this expense (see Form 8863).

• Value of your time or services.

• Value of blood given to a blood bank.

• The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

• Gifts to individuals and groups that are run for personal profit.

• Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian, Israeli, and Mexican charities. See Pub. 526 for details.

• Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See section 170(f)(9).

• Gifts to groups whose purpose is to lobby for changes in the laws.

• Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.

• Value of benefits received in connection with a contribution to a charitable organization. See Pub. 526 for exceptions.

Line 15a

Total Gifts by Cash or Check

Enter on line 15a the total gifts you made in cash or by check (including out-of-pocket expenses).

Line 15b

Qualified Contributions

In general, you can elect to treat gifts by cash or check as qualified contributions if the gifts were paid after August 27, 2005, to a qualified charitable organization (other than certain private foundations described in section 509(a)(3)). Qualified contributions are not subject to the overall limitation on itemized deductions or the 50% adjusted gross income limitation.

Qualified contributions do not include contributions to organizations for which cash gifts are subject to a limit based on 30% of your adjusted gross income (such as contributions to veterans' organizations, fraternal societies, nonprofit cemeteries, and certain private nonoperating foundations). Also, qualified contributions do not include any contributions to a segregated fund or account for which you (or any person appointed or designated by you) have, or reasonably expect to have, advisory privileges with respect to distributions or investments based on your contribution.

Certain limits may apply if your qualified contributions are more than the amount on Form 1040, line 38, minus all other allowable contributions. For details, see Pub. 526.

Line 16

Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale.

For more details on determining the value of donated property, see Pub. 561.

If the amount of your deduction is more than $500, you must complete and attach Form 8283. For this purpose, the "amount of your deduction" means your deduction before applying any income limits that could result in a carryover of contributions. If you deduct more than $500 for a contribution of a motor vehicle, boat, or airplane, you must also attach a statement from the charitable organization to your return. If your total deduction is over $5,000, you may also have to get appraisals of the values of the donated property. See Form 8283 and its instructions for details.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property's value at the time you gave it. If the value was determined by an appraisal, keep a signed copy of the appraisal.
- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.
- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- Any conditions attached to the gift.

CAUTION *If your total deduction for gifts of property is over $500, you gave less than your entire interest in the property, or you made a "qualified conservation contribution," your records should contain additional information. See Pub. 526 for details.*

Line 17

Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details.

Casualty and Theft Losses

Line 19

Complete and attach Form 4684 to figure the amount of your loss to enter on line 19.

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You can deduct nonbusiness casualty or theft losses only to the extent that:

1. The amount of each separate casualty or theft loss is more than $100, and
2. The total amount of all losses during the year (reduced by the $100 limit discussed in (1) above) is more than 10% of the amount on Form 1040, line 38.

TIP *The limits in items (1) and (2) above do not apply to casualty and theft losses that occurred in the Hurricane Katrina disaster area after August 24, 2005, if the loss was caused by Hurricane Katrina. See Form 4684 and its instructions for details.*

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 and its instructions for details.

Use Schedule A, line 22, to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

For information on federal disaster area losses, see Pub. 547. For information on tax benefits related to Hurricane Katrina, see Pub. 4492.

Job Expenses and Certain Miscellaneous Deductions

You can deduct only the part of these expenses that exceeds 2% of the amount on Form 1040, line 38.

Pub. 529 discusses the types of expenses that can and cannot be deducted.

Examples of Expenses You Cannot Deduct

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Commuting expenses. See Pub. 529 for the definition of commuting.
- Travel expenses for employment away from home if that period of employment exceeds 1 year. See Pub. 529 for an exception for certain federal employees.
- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.
- Club dues. See Pub. 529 for exceptions.
- Expenses of adopting a child. But you may be able to take a credit for adoption expenses. See Form 8839 for details.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Line 20

Unreimbursed Employee Expenses

Enter the total ordinary and necessary job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your Form W-2 are not considered reimbursements.)

An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

But you must fill in and attach Form 2106 if either (1) or (2) below applies.

1. You claim any travel, transportation, meal, or entertainment expenses for your job.
2. Your employer paid you for any of your job expenses reportable on line 20.

TIP *If you used your own vehicle and (2) above does not apply, you may be able to file Form 2106-EZ instead.*

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted line next to line 20. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 20.

CAUTION *Do not include on line 20 any educator expenses you deducted on Form 1040, line 23.*

Examples of other expenses to include on line 20 are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.
- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
- Physical examinations required by your employer.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 8 of

the Form 1040 instructions) or see Pub. 587.

- Certain educational expenses. For details, use TeleTax topic 513 (see page 8 of the Form 1040 instructions) or see Pub. 970. Reduce your educational expenses by any tuition and fees deduction you claimed on Form 1040, line 34.

TIP *You may be able to take a credit for your educational expenses instead of a deduction. See Form 8863 for details.*

Line 21

Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically. If you paid your tax by credit card, do not include the convenience fee you were charged.

Line 22

Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or protect property held for earning income. But do not include any personal expenses. List the type and amount of each expense on the dotted lines next to line 22. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 22.

Examples of expenses to include on line 22 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits that apply, see Pub. 529.
- Casualty and theft losses of property used in performing services as an employee from Form 4684, lines 35 and 41b, or Form 4797, line 18a.
- Deduction for repayment of amounts under a claim of right if $3,000 or less.

Other Miscellaneous Deductions

Line 27

Only the expenses listed next can be deducted on this line. List the type and amount of each expense on the dotted lines next to line 27. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 27.

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Casualty and theft losses of income-producing property from Form 4684, lines 35 and 41b, or Form 4797, line 18a.
- Loss from other activities from Schedule K-1(Form 1065-B), box 2.
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if over $3,000. See Pub. 525 for details.
- Certain unrecovered investment in a pension.
- Impairment-related work expenses of a disabled person.

For more details, see Pub. 529.

Total Itemized Deductions

Line 28

Use the worksheet below to figure the amount to enter on line 28 if the amount on Form 1040, line 38, is over $145,950 ($72,975 if married filing separately).

Line 29

If you elect to itemize for state tax or other purposes even though your itemized deductions are less than your standard deduction, check the box on line 29.

Itemized Deductions Worksheet—Line 28

Keep for Your Records

1. Enter the total of the amounts from Schedule A, lines 4, 9, 14, 18, 19, 26, and 27 . . . . **1.** ______

2. Enter the total of the amounts from Schedule A, lines 4, 13, 15b, and 19, plus any gambling and casualty or theft losses included on line 27. . . . . **2.** ______

CAUTION Be sure your total gambling and casualty or theft losses are clearly identified on the dotted lines next to line 27.

3. Is the amount on line 2 less than the amount on line 1?

☐ **No.** STOP Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 28.

☐ **Yes.** Subtract line 2 from line 1 . . . . **3.** ______

4. Multiply line 3 by 80% (.80) . . . . **4.** ______

5. Enter the amount from Form 1040, line 38 . . . . **5.** ______

6. Enter: $145,950 ($72,975 if married filing separately) . . . . **6.** ______

7. Is the amount on line 6 less than the amount on line 5?

☐ **No.** STOP Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 28.

☐ **Yes.** Subtract line 6 from line 5 . . . . **7.** ______

8. Multiply line 7 by 3% (.03) . . . . **8.** ______

9. Enter the **smaller** of line 4 or line 8 . . . . **9.** ______

10. **Total itemized deductions.** Subtract line 9 from line 1. Enter the result here and on Schedule A, line 28 . . . . **10.** ______

2005 Optional State and Certain Local Sales Tax Tables

Income		Exemptions						Exemptions						Exemptions						Exemptions						Exemptions					
At least	But less than	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5
		Alabama					**4.0000%**	**Arizona**					**5.6000%**	**Arkansas**					**6.0000%**	**California[1]**					**7.2500%**	**Colorado**					**2.9000%**
$0	$20,000	195	236	265	288	307	333	183	212	231	245	257	274	297	358	399	432	459	498	195	227	249	265	279	298	93	107	117	124	130	138
20,000	30,000	299	361	404	437	466	506	324	374	407	432	453	482	478	573	638	690	732	793	346	401	438	467	491	524	155	179	194	206	216	229
30,000	40,000	351	423	473	512	545	591	400	462	502	533	559	595	570	683	760	821	871	943	427	495	541	576	605	646	188	216	235	249	261	277
40,000	50,000	396	476	532	575	612	663	468	539	587	623	653	694	650	777	865	933	991	1072	499	578	631	672	706	753	217	249	270	287	300	318
50,000	60,000	436	524	584	632	671	728	530	610	664	705	738	785	721	862	959	1034	1098	1187	565	655	715	761	799	852	243	279	303	321	335	356
60,000	70,000	472	567	632	683	725	786	587	676	735	781	818	869	787	940	1044	1126	1195	1292	627	726	792	843	885	943	267	306	332	352	368	391
70,000	80,000	507	607	676	731	776	841	643	740	804	853	894	950	848	1013	1125	1213	1287	1391	686	794	866	921	967	1031	290	332	360	382	399	423
80,000	90,000	538	645	718	775	823	891	694	799	868	922	965	1026	906	1080	1200	1294	1372	1483	741	858	935	995	1044	1113	312	357	387	409	428	454
90,000	100,000	568	680	757	817	867	939	744	856	930	987	1034	1099	960	1145	1271	1370	1453	1569	794	919	1002	1066	1119	1192	332	380	412	436	456	483
100,000	120,000	608	726	808	872	925	1001	810	932	1013	1074	1125	1196	1032	1229	1364	1470	1559	1684	865	1000	1090	1160	1217	1297	359	411	445	471	492	522
120,000	140,000	662	790	878	947	1005	1086	903	1038	1127	1196	1252	1330	1130	1346	1493	1608	1705	1841	964	1114	1214	1291	1355	1444	397	453	491	519	543	575
140,000	160,000	709	845	939	1012	1074	1161	984	1132	1229	1303	1365	1450	1216	1447	1605	1729	1832	1978	1052	1215	1324	1407	1477	1573	430	491	531	562	587	622
160,000	180,000	756	901	1000	1077	1142	1234	1067	1226	1331	1412	1478	1571	1302	1548	1717	1849	1958	2114	1140	1317	1434	1525	1600	1704	463	529	572	605	632	670
180,000	200,000	799	950	1054	1136	1204	1300	1142	1313	1425	1511	1582	1680	1380	1640	1818	1957	2073	2237	1221	1410	1535	1632	1712	1823	493	563	609	644	673	712
200,000 or more		1010	1198	1326	1426	1510	1628	1530	1755	1905	2019	2113	2244	1769	2097	2321	2496	2643	2849	1637	1887	2053	2181	2287	2435	646	736	795	841	878	929

Income		**Connecticut[2]**					**6.0000%**	**District of Columbia[2]**					**5.7500%**	**Florida**					**6.0000%**	**Georgia**					**4.0000%**	**Hawaii[2]**					**4.0000%**
$0	$20,000	179	202	217	228	238	250	153	175	190	201	210	223	192	226	249	266	281	301	137	156	169	179	187	197	207	250	279	302	321	349
20,000	30,000	317	358	384	404	421	443	273	312	337	357	373	396	335	393	431	462	486	521	230	261	282	298	311	328	333	401	447	483	513	556
30,000	40,000	392	442	475	499	520	548	338	386	417	442	462	489	411	482	529	566	596	639	278	316	341	360	376	397	398	477	532	575	611	661
40,000	50,000	458	516	555	584	607	640	395	451	488	517	540	572	479	561	615	658	693	743	321	364	393	414	432	457	453	544	605	654	694	752
50,000	60,000	519	585	628	661	687	724	448	511	553	585	612	648	541	632	694	742	782	837	359	408	439	464	483	511	503	603	671	725	769	833
60,000	70,000	575	648	696	732	762	803	497	567	614	649	678	719	598	699	767	820	863	924	394	448	482	509	530	560	549	657	731	789	838	906
70,000	80,000	629	709	761	801	833	878	544	621	672	710	742	787	653	763	837	894	941	1008	428	486	523	552	575	607	592	708	788	850	902	976
80,000	90,000	680	766	823	865	900	949	588	671	726	768	802	850	704	822	902	964	1015	1086	460	521	562	592	617	651	632	756	840	907	962	1040
90,000	100,000	729	821	881	927	965	1016	631	720	778	823	860	911	753	880	964	1030	1085	1161	490	555	598	630	657	693	670	801	890	960	1019	1101
100,000	120,000	793	894	960	1009	1050	1106	687	784	848	897	937	992	819	956	1047	1119	1178	1260	530	600	646	681	710	749	720	860	956	1031	1093	1182
120,000	140,000	884	996	1069	1124	1169	1232	766	874	945	999	1044	1105	910	1061	1163	1242	1307	1398	585	662	713	751	783	826	789	941	1045	1127	1195	1292
140,000	160,000	964	1086	1165	1226	1275	1343	836	953	1031	1090	1138	1206	990	1155	1265	1351	1421	1520	634	717	772	813	847	893	849	1012	1124	1212	1285	1388
160,000	180,000	1044	1176	1263	1328	1381	1455	907	1034	1117	1181	1234	1307	1072	1249	1368	1460	1536	1643	682	772	831	875	911	961	909	1083	1202	1296	1374	1484
180,000	200,000	1118	1259	1351	1421	1478	1557	971	1107	1197	1265	1321	1399	1146	1335	1462	1560	1641	1755	727	822	884	931	970	1023	963	1147	1273	1372	1454	1570
200,000 or more		1495	1684	1807	1900	1976	2081	1302	1484	1603	1694	1769	1873	1524	1773	1940	2069	2176	2326	952	1075	1155	1216	1265	1334	1235	1467	1626	1750	1854	2001

Income		**Idaho**					**5.5000%**	**Illinois**					**6.2500%**	**Indiana[2]**					**6.0000%**	**Iowa**					**5.0000%**	**Kansas**					**5.3000%**
$0	$20,000	266	323	363	394	420	458	199	233	256	273	288	308	208	243	266	283	298	318	177	204	223	237	248	264	256	313	352	383	409	446
20,000	30,000	408	494	553	599	638	693	346	403	442	472	497	531	343	398	435	463	487	519	308	355	387	411	431	458	408	495	556	604	644	702
30,000	40,000	479	579	647	701	746	810	424	494	542	578	608	650	413	479	523	556	584	623	378	436	474	504	528	562	485	588	659	716	763	831
40,000	50,000	540	651	727	787	838	909	493	574	629	671	706	755	474	549	599	637	669	713	440	507	551	585	614	653	551	667	748	811	865	941
50,000	60,000	595	716	799	865	919	997	556	648	709	756	795	850	529	612	668	710	745	794	496	572	622	660	692	736	611	738	827	897	956	1040
60,000	70,000	644	774	864	934	993	1077	615	715	783	835	878	938	580	671	731	777	815	869	548	631	687	729	764	813	665	803	899	975	1039	1129
70,000	80,000	691	830	925	1000	1063	1152	671	780	853	910	957	1022	628	726	791	841	882	939	598	689	749	795	833	886	716	864	967	1048	1117	1214
80,000	90,000	734	881	981	1061	1127	1221	723	841	920	980	1031	1101	673	777	846	900	944	1005	645	742	807	857	898	955	763	921	1030	1116	1189	1292
90,000	100,000	775	929	1035	1118	1187	1286	773	899	983	1048	1101	1176	716	826	900	956	1002	1067	689	794	863	916	959	1020	808	975	1090	1181	1257	1366
100,000	120,000	829	992	1105	1193	1267	1372	840	976	1067	1137	1195	1276	773	891	970	1030	1080	1150	749	862	937	994	1042	1107	868	1045	1168	1265	1347	1463
120,000	140,000	903	1079	1200	1295	1375	1488	933	1083	1184	1261	1326	1415	851	981	1067	1133	1188	1264	831	956	1039	1103	1155	1228	949	1142	1276	1381	1470	1596
140,000	160,000	967	1155	1284	1385	1470	1590	1015	1178	1287	1371	1441	1538	920	1059	1152	1223	1282	1364	904	1040	1130	1199	1256	1335	1020	1227	1370	1482	1577	1712
160,000	180,000	1031	1230	1366	1474	1563	1690	1098	1274	1391	1482	1557	1662	989	1138	1237	1313	1376	1464	978	1124	1222	1296	1358	1443	1091	1311	1463	1583	1684	1827
180,000	200,000	1089	1298	1441	1554	1648	1781	1173	1360	1486	1583	1662	1774	1052	1210	1315	1395	1462	1554	1044	1201	1305	1384	1450	1541	1155	1387	1547	1674	1780	1931
200,000 or more		1378	1635	1812	1950	2066	2230	1558	1805	1969	2096	2201	2347	1369	1571	1705	1808	1892	2010	1386	1592	1729	1833	1920	2040	1475	1766	1967	2125	2258	2447

Income		**Kentucky[2]**					**6.0000%**	**Louisiana**					**4.0000%**	**Maine[2]**					**5.0000%**	**Maryland[2]**					**5.0000%**	**Massachusetts[2]**					**5.0000%**
$0	$20,000	202	234	255	271	285	303	141	161	175	185	194	205	129	151	165	177	186	199	158	184	202	215	227	242	145	164	177	187	196	207
20,000	30,000	335	387	421	447	469	499	245	281	304	322	336	356	228	266	291	311	327	350	275	319	349	372	391	418	250	284	306	323	337	356
30,000	40,000	405	466	507	539	564	600	302	345	373	395	413	437	282	328	359	383	403	431	338	392	428	456	479	512	307	348	375	395	412	436
40,000	50,000	465	536	582	618	647	688	351	401	434	459	480	508	329	383	419	447	470	503	394	456	498	530	557	594	357	404	435	459	478	505
50,000	60,000	520	599	650	690	723	768	396	452	490	518	541	573	373	433	474	506	532	568	445	514	561	597	627	670	402	456	490	517	539	569
60,000	70,000	571	656	713	756	792	841	438	500	541	572	598	633	413	480	525	560	589	629	492	568	620	660	693	739	444	503	541	571	595	628
70,000	80,000	619	711	772	819	857	910	478	545	590	624	652	691	452	525	574	612	643	687	537	620	676	719	755	806	485	548	590	622	648	684
80,000	90,000	664	762	827	877	918	975	515	588	636	673	703	744	489	567	620	661	695	742	580	669	729	775	814	868	522	591	636	670	698	737
90,000	100,000	707	811	880	933	976	1037	551	629	680	719	751	796	524	608	664	708	744	794	620	715	779	829	870	927	558	631	679	716	746	787
100,000	120,000	763	876	950	1007	1053	1118	598	683	739	781	816	864	570	662	723	770	809	864	674	777	846	900	944	1006	606	685	737	777	809	854
120,000	140,000	842	965	1046	1108	1159	1230	664	758	820	867	905	959	635	737	805	857	901	961	749	863	939	999	1048	1116	673	760	818	861	897	946
140,000	160,000	911	1043	1131	1198	1253	1329	723	825	892	943	984	1042	693	803	877	934	981	1048	816	939	1022	1086	1139	1214	732	827	889	936	975	1028
160,000	180,000	980	1122	1216	1287	1346	1428	782	892	964	1019	1064	1127	751	870	950	1012	1063	1134	883	1016	1105	1174	1231	1311	791	893	960	1011	1053	1110
180,000	200,000	1043	1193	1293	1369	1431	1518	835	953	1030	1088	1137	1203	805	932	1017	1083	1137	1214	945	1086	1181	1254	1315	1400	845	954	1025	1080	1124	1185
200,000 or more		1361	1555	1682	1779	1859	1970	1109	1264	1365	1443	1506	1594	1078	1247	1359	1447	1519	1619	1259	1444	1568	1664	1743	1855	1121	1264	1357	1428	1486	1567

Income		**Michigan[2]**					**6.0000%**	**Minnesota**					**6.5000%**	**Mississippi[2]**					**7.0000%**	**Missouri**					**4.2250%**	**Nebraska**					**5.5000%**
$0	$20,000	196	228	250	266	280	299	184	210	228	242	253	269	347	418	466	505	536	581	153	179	196	209	220	236	194	223	242	256	268	285
20,000	30,000	340	395	431	460	483	515	323	369	400	424	443	470	558	669	745	805	855	926	252	293	321	343	360	385	337	387	420	445	466	494
30,000	40,000	417	484	528	563	591	631	398	455	493	522	546	579	666	797	887	958	1017	1101	303	353	386	411	433	462	414	475	515	546	571	606
40,000	50,000	485	562	614	653	686	732	465	531	575	608	636	674	759	908	1010	1090	1156	1251	348	405	442	471	495	529	482	553	599	635	664	705
50,000	60,000	546	633	691	736	773	824	526	600	650	688	719	762	842	1007	1119	1207	1281	1385	389	451	493	525	552	589	544	623	676	716	749	794
60,000	70,000	604	700	763	812	853	909	582	665	719	761	795	843	918	1097	1219	1315	1395	1508	426	494	540	575	604	644	601	689	747	791	827	877
70,000	80,000	659	763	832	885	929	991	636	726	786	831	869	921	990	1182	1313	1416	1502	1623	461	535	584	622	653	696	656	751	814	862	902	957
80,000	90,000	710	822	896	954	1001	1067	687	784	848	897	937	993	1057	1261	1401	1510	1601	1730	494	573	625	665	699	745	707	810	878	929	972	1031
90,000	100,000	759	879	958	1019	1070	1140	736	839	908	960	1003	1063	1121	1336	1483	1599	1695	1831	526	609	664	707	742	791	756	866	938	994	1039	1102
100,000	120,000	825	954	1040	1106	1161	1237	801	913	987	1044	1091	1156	1204	1435	1592	1716	1819	1965	567	657	716	762	800	853	821	940	1019	1079	1128	1196
120,000	140,000	915	1058	1154	1227	1287	1371	891	1016	1098	1161	1213	1285	1319	1570	1742	1877	1989	2148	625	723	788	838	879	937	912	1044	1131	1197	1252	1327
140,000	160,000	996	1151	1254	1333	1399	1490	971	1107	1196	1264	1321	1399	1420	1689	1873	2017	2137	2307	676	781	851	905	949	1011	992	1135	1230	1302	1361	1443
160,000	180,000	1077	1244	1355	1441	1511	1610	1052	1198	1295	1369	1429	1514	1520	1807	2003	2157	2285	2466	726	839	914	971	1019	1085	1073	1227	1329	1407	1471	1560
180,000	200,000	1151	1329	1447	1539	1614	1718	1126	1282	1385	1464	1529	1619	1611	1914	2121	2283	2418	2610	772	891	971	1032	1082	1152	1146	1311	1420	1503	1571	1666
200,000 or more		1528	1762	1917	2037	2135	2273	1504	1710	1846	1950	2036	2155	2065	2447	2708	2913	3083	3324	1005	1157	1258	1336	1400	1490	1521	1739	1882	1991	2081	2206

(Continued on page A-11)

2005 Optional State and Certain Local Sales Tax Tables *(Continued)*

Nevada[3] 6.5000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	213	246	269	286	300	320
20,000	30,000	368	426	464	493	517	550
30,000	40,000	451	521	568	603	633	673
40,000	50,000	525	605	659	700	734	781
50,000	60,000	592	682	742	789	827	880
60,000	70,000	654	753	820	871	912	971
70,000	80,000	713	821	893	949	994	1057
80,000	90,000	768	885	962	1022	1071	1139
90,000	100,000	821	946	1028	1092	1144	1216
100,000	120,000	892	1027	1116	1185	1241	1320
120,000	140,000	990	1139	1238	1314	1376	1463
140,000	160,000	1077	1239	1346	1428	1496	1590
160,000	180,000	1164	1339	1454	1543	1616	1717
180,000	200,000	1244	1430	1553	1647	1725	1833
200,000 or more		1651	1895	2056	2180	2282	2423

New Jersey[2,4] 6.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	178	202	217	229	239	253
20,000	30,000	314	356	384	405	422	446
30,000	40,000	388	440	474	500	521	551
40,000	50,000	453	514	554	584	609	643
50,000	60,000	513	582	627	661	689	728
60,000	70,000	569	645	694	732	763	806
70,000	80,000	622	705	759	800	834	881
80,000	90,000	672	761	820	865	901	952
90,000	100,000	720	815	878	926	965	1019
100,000	120,000	784	888	956	1008	1050	1109
120,000	140,000	872	988	1064	1122	1169	1234
140,000	160,000	951	1077	1160	1222	1274	1345
160,000	180,000	1030	1167	1256	1324	1380	1457
180,000	200,000	1103	1249	1344	1417	1476	1559
200,000 or more		1473	1668	1795	1892	1971	2081

New Mexico 5.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	184	213	231	246	257	274
20,000	30,000	321	369	401	426	446	475
30,000	40,000	393	453	492	522	547	582
40,000	50,000	458	527	572	607	636	676
50,000	60,000	516	594	645	685	717	762
60,000	70,000	571	656	713	756	792	841
70,000	80,000	622	716	777	824	863	917
80,000	90,000	671	771	838	888	930	988
90,000	100,000	717	824	895	950	994	1056
100,000	120,000	779	895	972	1031	1079	1146
120,000	140,000	865	994	1079	1144	1197	1272
140,000	160,000	941	1080	1173	1243	1302	1382
160,000	180,000	1017	1168	1267	1344	1406	1494
180,000	200,000	1087	1247	1354	1435	1502	1595
200,000 or more		1441	1653	1793	1900	1988	2111

New York 4.1034%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	140	163	177	189	198	211
20,000	30,000	246	284	309	329	345	367
30,000	40,000	302	349	380	404	423	451
40,000	50,000	352	406	442	470	493	525
50,000	60,000	397	459	499	530	556	592
60,000	70,000	439	507	552	586	615	654
70,000	80,000	480	553	602	640	671	714
80,000	90,000	518	597	650	690	723	770
90,000	100,000	554	638	695	738	774	823
100,000	120,000	602	694	755	802	840	894
120,000	140,000	669	771	838	890	933	993
140,000	160,000	728	839	912	969	1015	1080
160,000	180,000	788	907	987	1048	1098	1168
180,000	200,000	842	970	1054	1119	1173	1248
200,000 or more		1119	1288	1400	1486	1557	1655

North Carolina 4.5000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	152	179	197	211	222	239
20,000	30,000	262	307	337	361	380	408
30,000	40,000	321	375	412	441	464	497
40,000	50,000	372	435	478	511	538	576
50,000	60,000	419	490	537	574	605	648
60,000	70,000	463	540	593	633	667	714
70,000	80,000	504	589	645	689	726	777
80,000	90,000	543	634	695	742	781	835
90,000	100,000	580	677	742	792	834	892
100,000	120,000	629	734	804	859	904	966
120,000	140,000	698	813	891	951	1001	1070
140,000	160,000	758	884	968	1033	1086	1161
160,000	180,000	819	954	1045	1115	1172	1253
180,000	200,000	875	1018	1115	1189	1251	1337
200,000 or more		1158	1346	1472	1569	1649	1762

North Dakota 5.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	163	191	210	225	237	254
20,000	30,000	281	328	360	385	406	435
30,000	40,000	345	402	441	471	496	531
40,000	50,000	401	467	511	546	575	616
50,000	60,000	452	526	576	615	647	693
60,000	70,000	499	581	635	678	714	764
70,000	80,000	545	633	692	739	777	831
80,000	90,000	587	682	746	795	837	895
90,000	100,000	628	729	797	850	894	955
100,000	120,000	682	791	864	922	969	1036
120,000	140,000	757	877	958	1022	1074	1148
140,000	160,000	824	954	1042	1110	1167	1246
160,000	180,000	891	1031	1125	1199	1260	1346
180,000	200,000	952	1101	1202	1280	1345	1436
200,000 or more		1266	1460	1590	1692	1777	1896

Ohio 5.7500%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	204	236	258	274	288	306
20,000	30,000	351	405	441	469	492	524
30,000	40,000	429	495	539	573	600	639
40,000	50,000	497	574	624	663	695	740
50,000	60,000	559	645	702	746	782	832
60,000	70,000	617	711	774	822	862	917
70,000	80,000	672	774	842	895	938	997
80,000	90,000	723	833	906	962	1009	1073
90,000	100,000	772	890	967	1027	1076	1145
100,000	120,000	838	964	1049	1113	1166	1240
120,000	140,000	928	1068	1161	1232	1291	1373
140,000	160,000	1008	1159	1260	1337	1401	1490
160,000	180,000	1088	1251	1360	1443	1512	1607
180,000	200,000	1161	1335	1450	1539	1612	1713
200,000 or more		1531	1759	1910	2026	2122	2254

Oklahoma 4.5000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	205	246	274	297	315	342
20,000	30,000	333	398	443	478	508	549
30,000	40,000	399	477	530	571	606	655
40,000	50,000	457	544	604	651	691	747
50,000	60,000	509	605	672	724	767	829
60,000	70,000	556	661	733	790	837	904
70,000	80,000	601	714	791	852	903	975
80,000	90,000	643	763	846	910	964	1041
90,000	100,000	683	810	897	965	1022	1103
100,000	120,000	736	872	965	1038	1099	1186
120,000	140,000	809	957	1058	1138	1205	1299
140,000	160,000	873	1031	1140	1226	1297	1398
160,000	180,000	937	1106	1222	1313	1389	1497
180,000	200,000	995	1174	1296	1392	1473	1586
200,000 or more		1288	1513	1668	1789	1891	2034

Pennsylvania 6.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	176	201	219	232	242	257
20,000	30,000	307	352	381	404	423	449
30,000	40,000	378	432	468	496	519	551
40,000	50,000	440	503	545	578	604	641
50,000	60,000	497	568	616	652	682	723
60,000	70,000	549	628	681	721	754	800
70,000	80,000	600	686	743	786	822	872
80,000	90,000	647	740	801	848	887	941
90,000	100,000	692	791	857	907	948	1006
100,000	120,000	752	860	931	985	1030	1093
120,000	140,000	836	955	1033	1094	1144	1213
140,000	160,000	909	1039	1124	1190	1244	1319
160,000	180,000	984	1124	1216	1287	1345	1427
180,000	200,000	1052	1201	1299	1375	1437	1524
200,000 or more		1397	1594	1725	1825	1907	2022

Rhode Island[2] 7.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	201	230	249	264	276	293
20,000	30,000	352	402	435	460	481	510
30,000	40,000	433	494	534	565	591	626
40,000	50,000	504	575	622	658	687	728
50,000	60,000	570	650	702	743	776	822
60,000	70,000	631	719	777	821	858	909
70,000	80,000	689	785	848	896	936	991
80,000	90,000	744	847	915	967	1010	1069
90,000	100,000	796	906	979	1034	1080	1143
100,000	120,000	865	985	1064	1124	1174	1242
120,000	140,000	962	1095	1182	1249	1304	1380
140,000	160,000	1048	1192	1287	1359	1419	1501
160,000	180,000	1135	1290	1392	1470	1535	1624
180,000	200,000	1213	1379	1488	1572	1640	1735
200,000 or more		1617	1835	1979	2089	2180	2305

South Carolina 5.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	235	288	324	353	378	412
20,000	30,000	374	456	512	557	595	648
30,000	40,000	445	541	608	660	705	768
40,000	50,000	506	614	689	749	799	870
50,000	60,000	561	680	763	828	883	961
60,000	70,000	611	740	829	900	959	1044
70,000	80,000	658	796	892	968	1032	1122
80,000	90,000	702	849	951	1031	1099	1195
90,000	100,000	744	899	1006	1091	1162	1263
100,000	120,000	798	964	1079	1169	1245	1353
120,000	140,000	874	1054	1179	1277	1360	1477
140,000	160,000	940	1133	1266	1371	1459	1585
160,000	180,000	1006	1211	1353	1465	1559	1692
180,000	200,000	1066	1282	1432	1550	1649	1789
200,000 or more		1366	1637	1824	1972	2096	2272

South Dakota 4.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	199	240	269	291	310	337
20,000	30,000	320	385	430	466	495	537
30,000	40,000	382	460	513	554	589	639
40,000	50,000	436	523	583	631	670	726
50,000	60,000	484	581	647	699	743	804
60,000	70,000	528	633	705	761	809	876
70,000	80,000	570	682	760	820	871	943
80,000	90,000	608	728	810	875	929	1006
90,000	100,000	645	771	858	927	984	1065
100,000	120,000	693	829	922	995	1056	1142
120,000	140,000	759	907	1009	1088	1155	1249
140,000	160,000	817	976	1085	1170	1241	1342
160,000	180,000	875	1044	1160	1251	1327	1435
180,000	200,000	928	1106	1229	1325	1405	1519
200,000 or more		1190	1415	1570	1691	1792	1935

Tennessee 7.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	322	386	430	465	494	534
20,000	30,000	525	627	697	752	798	863
30,000	40,000	629	751	835	900	954	1032
40,000	50,000	719	858	953	1027	1089	1177
50,000	60,000	801	955	1059	1142	1210	1307
60,000	70,000	876	1043	1157	1246	1321	1426
70,000	80,000	946	1126	1249	1345	1425	1539
80,000	90,000	1012	1203	1334	1437	1522	1643
90,000	100,000	1074	1277	1416	1524	1614	1742
100,000	120,000	1156	1374	1523	1639	1736	1873
120,000	140,000	1270	1508	1670	1797	1903	2052
140,000	160,000	1369	1625	1799	1935	2049	2209
160,000	180,000	1469	1741	1927	2073	2194	2366
180,000	200,000	1558	1847	2044	2198	2326	2507
200,000 or more		2009	2376	2626	2822	2985	3214

Texas 6.2500%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	216	250	273	291	305	325
20,000	30,000	377	436	475	505	530	565
30,000	40,000	464	536	584	621	651	693
40,000	50,000	540	624	679	722	757	806
50,000	60,000	610	704	767	815	854	909
60,000	70,000	674	778	847	900	944	1005
70,000	80,000	736	849	924	982	1030	1096
80,000	90,000	794	916	997	1059	1110	1181
90,000	100,000	849	979	1066	1132	1187	1263
100,000	120,000	923	1064	1158	1230	1289	1372
120,000	140,000	1025	1181	1285	1365	1431	1523
140,000	160,000	1115	1285	1398	1485	1556	1656
160,000	180,000	1206	1390	1512	1606	1683	1790
180,000	200,000	1289	1485	1615	1715	1798	1912
200,000 or more		1713	1972	2143	2275	2384	2535

Utah 4.7500%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	232	282	315	342	365	397
20,000	30,000	371	448	501	543	578	627
30,000	40,000	442	533	595	645	686	744
40,000	50,000	503	606	676	732	778	844
50,000	60,000	558	671	749	810	861	934
60,000	70,000	608	730	815	881	937	1015
70,000	80,000	655	787	877	948	1008	1092
80,000	90,000	699	839	935	1010	1073	1163
90,000	100,000	741	888	989	1069	1136	1230
100,000	120,000	795	953	1061	1146	1218	1319
120,000	140,000	871	1042	1160	1253	1330	1440
140,000	160,000	936	1120	1246	1345	1428	1546
160,000	180,000	1002	1197	1332	1437	1526	1651
180,000	200,000	1061	1268	1409	1521	1614	1746
200,000 or more		1358	1617	1795	1935	2052	2218

Vermont 6.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	116	130	139	146	152	160
20,000	30,000	216	243	260	273	284	298
30,000	40,000	273	306	327	344	357	376
40,000	50,000	323	363	388	408	424	446
50,000	60,000	370	415	445	467	485	511
60,000	70,000	414	465	498	523	543	571
70,000	80,000	457	513	549	576	599	630
80,000	90,000	497	558	597	627	652	686
90,000	100,000	536	601	644	676	703	739
100,000	120,000	589	660	707	742	771	811
120,000	140,000	662	742	795	835	867	912
140,000	160,000	728	816	874	917	953	1003
160,000	180,000	794	891	954	1001	1040	1094
180,000	200,000	856	959	1027	1079	1121	1179
200,000 or more		1175	1318	1410	1481	1539	1618

Virginia[5] 5.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	168	196	214	228	240	256
20,000	30,000	278	323	352	375	394	420
30,000	40,000	336	389	424	451	474	505
40,000	50,000	386	446	487	518	543	579
50,000	60,000	431	498	543	578	606	646
60,000	70,000	473	546	595	633	664	707
70,000	80,000	512	592	644	685	718	765
80,000	90,000	549	634	690	733	769	819
90,000	100,000	585	674	734	780	817	870
100,000	120,000	631	728	792	841	882	938
120,000	140,000	696	802	872	926	970	1032
140,000	160,000	753	867	942	1000	1048	1114
160,000	180,000	810	932	1012	1074	1126	1197
180,000	200,000	862	991	1076	1142	1196	1271
200,000 or more		1124	1290	1399	1483	1552	1649

Washington 6.5000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	229	266	291	310	325	347
20,000	30,000	395	458	500	532	559	596
30,000	40,000	484	560	611	650	683	728
40,000	50,000	562	650	709	754	792	844
50,000	60,000	633	732	798	849	891	949
60,000	70,000	698	808	880	936	982	1046
70,000	80,000	761	880	959	1019	1069	1139
80,000	90,000	820	947	1032	1097	1151	1226
90,000	100,000	876	1012	1102	1172	1229	1309
100,000	120,000	950	1097	1195	1270	1333	1419
120,000	140,000	1053	1216	1324	1407	1476	1572
140,000	160,000	1144	1321	1438	1528	1603	1706
160,000	180,000	1236	1426	1552	1650	1730	1842
180,000	200,000	1319	1522	1657	1760	1846	1965
200,000 or more		1744	2009	2186	2322	2434	2590

West Virginia[2] 6.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	299	358	399	432	458	496
20,000	30,000	480	574	639	689	731	791
30,000	40,000	573	684	760	820	870	940
40,000	50,000	653	779	865	933	989	1068
50,000	60,000	724	864	959	1034	1096	1183
60,000	70,000	790	941	1045	1126	1193	1288
70,000	80,000	852	1015	1126	1212	1285	1387
80,000	90,000	910	1083	1201	1293	1370	1479
90,000	100,000	964	1147	1272	1369	1450	1565
100,000	120,000	1036	1232	1365	1470	1557	1679
120,000	140,000	1135	1348	1494	1607	1702	1836
140,000	160,000	1222	1450	1606	1728	1829	1973
160,000	180,000	1308	1552	1718	1848	1956	2109
180,000	200,000	1386	1644	1819	1956	2070	2231
200,000 or more		1777	2102	2323	2496	2640	2843

Wisconsin 5.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	177	203	220	233	244	259
20,000	30,000	308	353	383	406	424	450
30,000	40,000	379	434	470	498	521	552
40,000	50,000	441	505	547	579	606	642
50,000	60,000	498	570	617	653	683	724
60,000	70,000	550	630	682	722	755	800
70,000	80,000	600	687	744	787	823	873
80,000	90,000	647	741	802	849	887	941
90,000	100,000	692	792	857	907	949	1005
100,000	120,000	752	860	931	986	1030	1092
120,000	140,000	835	955	1034	1094	1143	1212
140,000	160,000	909	1039	1124	1190	1243	1318
160,000	180,000	983	1123	1216	1286	1344	1424
180,000	200,000	1051	1200	1299	1374	1436	1521
200,000 or more		1395	1592	1722	1822	1903	2016

Wyoming 4.0000%

Income: At least	Income: But less than	Exemptions: 1	2	3	4	5	Over 5
$0	$20,000	195	236	264	287	305	332
20,000	30,000	312	377	421	456	485	527
30,000	40,000	372	448	501	542	577	626
40,000	50,000	424	510	569	616	655	711
50,000	60,000	470	565	631	682	725	786
60,000	70,000	513	616	687	742	789	855
70,000	80,000	553	663	739	799	849	920
80,000	90,000	590	707	788	852	905	981
90,000	100,000	625	749	835	902	958	1038
100,000	120,000	671	804	896	967	1028	1113
120,000	140,000	735	880	979	1058	1123	1216
140,000	160,000	791	946	1052	1136	1206	1306
160,000	180,000	847	1012	1125	1215	1289	1395
180,000	200,000	897	1071	1191	1285	1364	1476
200,000 or more		1149	1368	1519	1637	1736	1877

1 The California table includes the 1% uniform local sales tax rate in addition to the 6.25% state sales tax rate.
2 This state does not have a local general sales tax.
3 The Nevada table includes the 2.25% uniform local sales tax rate in addition to the 4.25% state sales tax rate.
4 Residents of Salem County, NJ should deduct only half of the amount in the state table.
5 The state and local general sales taxes are combined in the Virginia table.

Which Optional Local Sales Tax Table Should I Use?

IF you live in the state of...	AND you live in...	THEN use Local Table...
Alaska	Any locality	C
Arizona	Any locality	B
Arkansas	Texarkana	B
California	Los Angeles County	B
Colorado	Aurora, Greeley, Longmont, or City of Pueblo	B
	Arvada, City of Boulder, Fort Collins, Lakewood, Thornton, or Westminster	C
	Boulder County, Pueblo County, or any other locality	A
Georgia	Any locality	B
Illinois	Arlington Heights, Aurora, Bloomington, Champaign, Chicago, Cicero, Decatur, Elgin, Evanston, Joliet, Palatine, Peoria, Schaumburg, Skokie, Springfield, or Waukegan	B
	Any other locality	A
Louisiana	Any locality	C
New York	New York City	B
North Carolina	Any locality	C

2005 Optional Local Sales Tax Tables A, B, and C

(Based on a local sales tax rate of 1 percent)

Income		Local Table A						Local Table B						Local Table C					
		Exemptions						Exemptions						Exemptions					
At least	But less than	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5
$0	$20,000	32	37	40	43	45	48	41	48	53	57	60	65	50	60	67	72	77	83
20,000	30,000	54	62	67	71	75	79	66	78	87	93	98	105	80	96	107	115	122	132
30,000	40,000	65	75	81	86	90	96	80	94	104	111	118	126	96	114	127	137	145	157
40,000	50,000	75	86	93	99	103	110	92	108	119	127	134	144	109	130	144	155	165	178
50,000	60,000	84	96	104	111	116	123	102	120	132	142	149	161	121	144	160	172	182	197
60,000	70,000	92	106	115	121	127	135	112	131	145	155	163	175	132	157	174	187	198	214
70,000	80,000	100	115	124	132	138	146	121	142	156	167	176	189	142	169	187	202	214	230
80,000	90,000	107	123	133	141	148	157	129	152	167	179	189	202	151	180	200	215	228	245
90,000	100,000	114	131	142	150	157	167	137	161	177	190	200	215	160	191	211	227	241	260
100,000	120,000	124	141	153	162	170	180	148	174	191	204	216	231	172	205	227	244	258	279
120,000	140,000	137	156	169	179	187	198	163	191	210	225	237	254	189	224	248	267	282	304
140,000	160,000	148	169	183	194	202	214	176	206	226	242	255	273	203	241	266	286	303	327
160,000	180,000	159	182	197	208	218	231	189	221	243	260	274	293	217	257	285	306	324	349
180,000	200,000	170	194	210	222	232	245	201	235	258	276	290	311	230	273	301	324	343	369
200,000 or more		222	253	274	289	302	320	260	304	333	356	374	401	295	348	384	413	436	470

Instructions for Schedule B, Interest and Ordinary Dividends

Use Schedule B (Form 1040) if any of the following applies.

- You had over $1,500 of taxable interest.
- Any of the *Special Rules* listed in the instructions for line 1 apply to you.
- You are claiming the exclusion of interest from series EE or I U.S. savings bonds issued after 1989.
- You had over $1,500 of ordinary dividends.
- You received ordinary dividends as a nominee.
- You had a foreign account or you received a distribution from, or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

TIP *You can list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate statements that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the statements and attach them at the end of your return.*

Part I. Interest

Line 1

Interest

Report on line 1 all of your taxable interest. Interest should be shown on your Forms 1099-INT, Forms 1099-OID, or substitute statements. Include interest from series EE and I U.S. savings bonds. List each payer's name and show the amount.

Special Rules

Seller-Financed Mortgages

If you sold your home or other property and the buyer used the property as a personal residence, list first any interest the buyer paid you on a mortgage or other form of seller financing. Be sure to show the buyer's name, address, and SSN. You must also let the buyer know your SSN. If you do not show the buyer's name, address, and SSN, or let the buyer know your SSN, you may have to pay a $50 penalty.

Nominees

If you received a Form 1099-INT that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, enter "Nominee Distribution" and show the total interest you received as a nominee. Subtract this amount from the subtotal and enter the result on line 2.

TIP *If you received interest as a nominee, you must give the actual owner a Form 1099-INT unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-INT with the IRS. For more details, see the General Instructions for Forms 1099, 1098, 5498, and W-2G and the Instructions for Forms 1099-INT and 1099-OID.*

Accrued Interest

When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a Form 1099 for interest as a purchaser of a bond with accrued interest, follow the rules earlier under *Nominees* to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

Tax-Exempt Interest

If you received a Form 1099-INT for tax-exempt interest, follow the rules earlier under *Nominees* to see how to report the interest on Schedule B. But identify the amount to be subtracted as "Tax-Exempt Interest."

Original Issue Discount (OID)

If you are reporting OID in an amount less than the amount shown on Form 1099-OID, follow the rules earlier under *Nominees* to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

Amortizable Bond Premium

If you are reducing your interest income on a bond by the amount of amortizable bond premium, follow the rules earlier under *Nominees* to see how to report the interest on Schedule B. But identify the amount to be subtracted as "ABP Adjustment."

Line 3

Excludable Interest on Series EE and I U.S. Savings Bonds Issued After 1989

If, during 2005, you cashed series EE or I U.S. savings bonds issued after 1989 and you paid qualified higher education expenses for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See Form 8815 for details.

Part II. Ordinary Dividends

TIP *You may have to file Form 5471 if, in 2005, you were an officer or director of a foreign corporation. You may also have to file Form 5471 if, in 2005, you owned 10% or more of the total (a) value of a foreign corporation's stock, or (b) combined voting power of all classes of a foreign corporation's stock with voting rights. For details, see Form 5471 and its instructions.*

Line 5

Ordinary Dividends

Report on line 5 all of your ordinary dividends. This amount should be shown in box 1a of your Forms 1099-DIV or substitute statements. List each payer's name and show the amount.

Nominees

If you received a Form 1099-DIV that includes ordinary dividends you received as a nominee (that is, in your name, but the ordinary dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all ordinary dividends listed on line 5. Below this subtotal, enter "Nominee Distribution" and show the total ordinary dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.

TIP *If you received dividends as a nominee, you must give the actual owner a Form 1099-DIV unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-DIV with the IRS. For more details, see the General Instructions for Forms 1099, 1098, 5498, and W-2G and the Instructions for Form 1099-DIV.*

Part III. Foreign Accounts and Trusts

Lines 7a and 7b

Foreign Accounts

Line 7a

Check the "Yes" box on line 7a if either (1) or (2) below applies.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during 2005 you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

TIP *For line 7a, item (2) does not apply to foreign securities held in a U.S. securities account.*

Exceptions. Check the "No" box if any of the following applies to you.

- The combined value of the accounts was $10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; and you did not have a personal financial interest in the account.
- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than $1 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See Form TD F 90-22.1 to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). You can get Form TD F 90-22.1 by visiting the IRS website at *www.irs.gov/pub/irs-pdf/f9022-1.pdf.*

If you checked the "Yes" box on line 7a, file Form TD F 90-22.1 by June 30, 2006, with the Department of the Treasury at the address shown on that form. Do not attach it to Form 1040.

CAUTION *If you are required to file Form 90-22.1 but do not do so, you may have to pay a penalty of up to $10,000 (more in some cases).*

Line 7b

If you checked the "Yes" box on line 7a, enter the name of the foreign country or countries in the space provided on line 7b. Attach a separate statement if you need more space.

Line 8

Foreign Trusts

If you received a distribution from a foreign trust, you must provide additional information. For this purpose, a loan of cash or marketable securities generally is considered to be a distribution. See Form 3520 for details.

If you were the grantor of, or transferor to, a foreign trust that existed during 2005, you may have to file Form 3520.

Form **8822** (Rev. December 2005) Department of the Treasury Internal Revenue Service

Change of Address

▶ Please type or print.

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

OMB No. 1545-1163

Part I Complete This Part To Change Your Home Mailing Address

Check **all** boxes this change affects:

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

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

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

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

▶ Decedent's name ▶ Social security number

3a Your name (first name, initial, and last name) | **3b Your social security number**

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

5 Prior name(s). See instructions.

6a Old address (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions. | Apt. no.

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

7 New address (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions. | Apt. no.

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

Check **all** boxes this change affects:

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

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

10 ☐ Business location

11a Business name | **11b Employer identification number**

12 Old mailing address (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions. | Room or suite no.

13 New mailing address (no., street, city or town, state, and ZIP code). If a P.O. box or foreign address, see instructions. | Room or suite no.

14 New business location (no., street, city or town, state, and ZIP code). If a foreign address, see instructions. | Room or suite no.

Part III Signature

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

Sign Here

▶ Your signature | Date

▶ If joint return, spouse's signature | Date

▶ If Part II completed, signature of owner, officer, or representative | Date

▶ Title

For Privacy Act and Paperwork Reduction Act Notice, see back of form. Cat. No. 12081V Form **8822** (Rev. 12-2005)

Purpose of Form

You can use Form 8822 to notify the Internal Revenue Service if you changed your home or business mailing address or your business location. If this change also affects the mailing address for your children who filed income tax returns, complete and file a separate Form 8822 for each child. If you are a representative signing for the taxpayer, attach to Form 8822 a copy of your power of attorney.

Changing both home and business addresses? If you are, use a separate Form 8822 to show each change.

Prior Name(s)

If you or your spouse changed your name because of marriage, divorce, etc., complete line 5. Also, be sure to notify the Social Security Administration of your new name so that it has the same name in its records that you have on your tax return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits.

Addresses

Be sure to include any apartment, room, or suite number in the space provided.

P.O. Box

Enter your box number instead of your street address only if your post office does not deliver mail to your street address.

Foreign Address

Enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. Please do not abbreviate the country name.

Signature

If you are completing Part II, the owner, an officer, or a representative must sign. An officer is the president, vice president, treasurer, chief accounting officer, etc. A representative is a person who has a valid power of attorney to handle tax matters or is otherwise authorized to sign tax returns for the business.

Where To File

Send this form to the Internal Revenue Service Center shown next that applies to you.

CAUTION *If you checked the box on line 2, see* Filers Who Checked the Box on Line 2 or Completed Part II *for where to file this form.*

Filers Who Checked the Box on Line 1 and Completed Part I

IF your old home mailing address was in . . .	THEN use this address . . .
District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont	Andover, MA 05501
Alabama, Delaware, Florida, Georgia, North Carolina, Rhode Island, South Carolina, Virginia	Atlanta, GA 39901
Arkansas, Kansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas, West Virginia	Austin, TX 73301
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming	Fresno, CA 93888
Connecticut, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, North Dakota, Ohio, Wisconsin	Kansas City, MO 64999
New Jersey, Pennsylvania	Philadelphia, PA 19255
American Samoa Guam: Nonpermanent residents Puerto Rico (or if excluding income under Internal Revenue Code section 933) Virgin Islands: Nonpermanent residents Dual-status aliens Those filing Form 4563	Philadelphia, PA 19255
Foreign country: U.S. citizens and those filing Form 2555 or Form 2555-EZ All APO and FPO addresses	Austin, TX 73301
Guam: Permanent residents	Department of Revenue and Taxation Government of Guam P.O. Box 23607 GMF, GU 96921
Virgin Islands: Permanent residents	V.I. Bureau of Internal Revenue 9601 Estate Thomas Charlotte Amalie St. Thomas, VI 00802

Filers Who Checked the Box on Line 2 or Completed Part II

IF your old business address was in . . .	THEN use this address . . .
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201
Outside the United States	Philadelphia, PA 19255

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

Our legal right to ask for information is Internal Revenue Code sections 6001 and 6011, which require you to file a statement with us for any tax for which you are liable. Section 6109 requires that you provide your social security number on what you file. This is so we know who you are, and can process your form and other papers.

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

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is 16 minutes.

If you have comments concerning the accuracy of this time estimate or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the form to this address. Instead, see *Where To File* on this page.