• Replacement cost safe harbor method (federally-declared disasters only). Current cost to replace personal belongings with a new item reduced by 10% for each year owned. Must be used for all personal belongings, with certain exceptions. See Personal Belongings Valuation Table in Revenue Procedure 2018-08.

Decreases to safe harbor loss amount. Reduce loss amount by value of any repairs provided by a third party at no cost (for example, work done by volunteers or via donations) and by the amount of any insurance, reimbursements, or other compensation received.

Reporting requirements. Attach a statement to Form 4684, Casualties and Thefts, stating that Revenue Procedure 2018-08 or Revenue Procedure 2018-09 was used to determine the amount of casualty loss.

Adjustments to basis. The basis of property affected by a casualty or theft loss may be decreased, increased, or both.
• Decrease basis by the amount of insurance or other reimbursement received and by any deductible loss.
• Increase basis by amount spent to repair or restore the property to its pre-casualty condition. See Disaster relief, page 4-24, for exceptions.

Casualty Gains
The taxpayer has a gain from casualty or theft if he or she receives an insurance payment or other reimbursement that is more than the adjusted basis of the property that is destroyed or stolen. (IRC §1033)

The gain is figured as follows:
• The amount received, minus
• The adjusted basis in the property at the time of casualty or theft.

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

TCJA Loss not attributable to a federally-declared disaster. The portion of personal casualty losses not attributable to a federally-declared disaster may be deducted to the extent they do not exceed personal casualty gains. Any remaining gain reduces the amount of deductible federal disaster losses.

Losses Not Attributable to a Federally-Declared Disaster
1) Add the amounts from line 12 of all Forms 4684 reporting losses not attributable to a federally-declared disaster… 1)
2) Add the amounts from line 12 of all Forms 4684 reporting losses attributable to a federally-declared disaster … 2)
3) Enter the smaller of line 1 or line 13 of Form 4684……… 3)
4) Add lines 2 and 3. Enter the result here and on line 14, Form 4684………………………………….. 4)

Postponement of gain. Gain is not reported in the following situations:
• The taxpayer receives a reimbursement in the form of property similar or related in service or use to the destroyed or stolen property, or
• The taxpayer chooses to postpone reporting the gain by buying property that is similar or related in service or use to the destroyed or stolen property within a specified time period. The gain can also be postponed if the taxpayer acquires at least 80% of a corporation owning property that is similar or related in service or use.

Replacement period. The replacement property must be purchased within two years after the close of the first tax year in which any part of the gain is realized.

Gain cannot be postponed. Gain cannot be postponed if the replacement property is acquired from a related person. This rule applies to:
• C corporations.
• Partnerships owned more than 50% by a C corporation(s).
• Any other taxpayer if the total realized gain for the year on all destroyed or stolen properties is more than $100,000.

Replacement property. Replacement property must be purchased for the specific purpose of replacing the destroyed or stolen property.
• Replacement property must be similar, or related in service or use, to the property it replaces.
• Property acquired as a gift or inheritance does not qualify.
• Taxpayers do not have to use the same funds received as reimbursement for the old property to acquire the replacement property.

Basis in replacement property. If gain is postponed, the basis in the replacement property is the cost to acquire the replacement property less the amount of the postponed gain.

Example: Richard owns an auto repair shop. During the night, tools worth $10,000 were stolen. Richard's adjusted basis in the tools was $1,000. Insurance reimburses Richard for the value of the stolen tools, minus a $500 deductible. Richard uses the $9,500 insurance reimbursement, plus an additional $500 out of pocket, to purchase new tools. His theft loss deduction is zero (the $1,000 basis, minus the $9,500 of insurance proceeds). His gain of $9,500 ($9,500 less the adjusted basis of $1,000 in the stolen tools) is postponed. Richard's basis in the new tools is the $10,000 total cost less the $8,500 of postponed gain, or $1,500.

Federally-declared disaster area. Any tangible replacement property used for business is treated as similar property if it replaces business or investment property damaged or destroyed in a federally-declared disaster area.

Example: Aaron owned a carpet cleaning business in Grand Forks when his van carrying all his cleaning equipment was destroyed by floods in an area designated as a federally-declared disaster area. Aaron used insurance proceeds from the disaster to purchase a printing press for use in a new publishing business. The replacement property is considered similar property because it replaced business property destroyed in a federally-declared disaster area.

Reporting postponed gain on return. If a gain from a casualty or theft is postponed, attach a statement to the return with the following information. Do not complete Form 4684 for that year.
• Date and details of the casualty or theft.
• Insurance or other reimbursement received from the casualty or theft.
• How gain was calculated.
• Information on the replacement property.
• Information on the postponed gain.
• Basis adjustment that reflects the postponed gain.
• Any gain reported as income.

If the replacement property is acquired after the tax return is filed, substitute information on the replacement property with a statement saying the taxpayer chooses to replace the property within the required replacement period. Attach the details on the replacement property to the return for the year in which replacement property is acquired.

Gain Realized on Home in Disaster Area
The following rules apply for taxpayers whose main home (including a rented home) is in a disaster area and the home or any of its contents were destroyed by the disaster.
• No gain is recognized on insurance proceeds received for unscheduled personal property that was part of the contents of the home (property not separately listed on the insurance policy).
• The home and scheduled property (personal property specifically listed on the insurance policy) are treated as one item of property under the rules for reporting gain. Gain from insurance reimbursement is recognized only to the extent that the proceeds exceed the cost of all replacement property, including a home and scheduled or unscheduled property, that is similar or related in use.
• In order to exclude gain from insurance reimbursement, the period in which the taxpayer must purchase replacement property is extended until four years after the end of the first tax year in which any part of the gain is realized.

Example: In 2018, Dave's main home and contents were destroyed by a tornado in a federally-declared disaster area. His homeowner's insurance policy covered the home, unscheduled property, and scheduled property including jewelry and a stamp collection. Dave received the following insurance proceeds.

| Unscheduled property | $25,000 | No gain recognized |
| Jewelry              | $5,000  | Considered one item of property. |
| Stamp collection     | $10,000 | Replacement property can include scheduled or unscheduled property and a home. Any gain is postponed if at least $215,000 of replacement property is purchased by 2022. |
| Home                 | $200,000| |

Basis in the replacement property equals its cost decreased by the amount of any postponed gain.

See Reporting postponed gain on return, page 4-25.

Other Itemized Deductions

Cross References
• Schedule A (Form 1040), Itemized Deductions
• IRS Pub. 529, Miscellaneous Deductions
• IRS Pub. 970, Tax Benefits for Education
• IRC §67 and IRC §162

Related Topics
• Hobby expenses, page 5-22
• Business Deductions, Tab 8
• Depreciation, Tab 9

Net Qualified Disaster Loss
If a taxpayer has a net qualified disaster loss on line 15, Form 4864, Casualties and Thefts, and he or she is itemizing deductions, list the amount on the dotted line next to line 16, Schedule A (Form 1040) as net qualified disaster loss and include with the other miscellaneous deductions on line 16, Schedule A (Form 1040). Attach Form 4864. Do not include net qualified disaster losses on line 15, Schedule A (Form 1040).

Increased standard deduction. If a taxpayer has a net qualified disaster loss on line 15, Form 4864, Casualties and Thefts, and he or she is not itemizing deductions, then claim an increased standard deduction by:
1) Listing the amount from line 15, Form 4864 on the dotted line next to line 16, Schedule A (Form 1040) as a Net Qualified Disaster Loss. Attach Form 4864.
2) Listing the standard deduction on the dotted line next to line 16, Schedule A (Form 1040) as Standard Deduction Claimed With Qualified Disaster Loss.
3) Combining the amounts on line 16, Schedule A (Form 1040) and enter on line 8, Form 1040.

Other Itemized Deductions
List the type and amount of each expense on the dotted lines next to line 16, Schedule A (Form 1040).
• Amortizable premium on taxable bonds.
• Casualty and theft losses from income-producing property (Forms 4684 or 4797).
• Gambling losses up to the amount of gambling winnings. See Gambling losses, below.
• Loss from other activities from Schedule K-1 (Form 1065-B), box 2.
• Losses from Ponzi-type investment schemes (Form 4684).
• Repayments of more than $3,000 under a claim of right. See Repayments, Tab 3.
• Certain unrecovered investment in a pension. [IRC §72(b)(3)]

Gambling losses. Gambling winnings for the year are reported as income on line 21, Schedule 1 (Form 1040). Gambling losses are deducted on line 16, Schedule A (Form 1040), up to the total amount reported as income.

MFJ return. Spouses filing a joint return can combine their gambling losses to the extent of their combined gambling gains. Taxpayers claiming losses must keep an accurate diary or similar record of losses and winnings. See Gambling winnings, Tab 3.

Impairment-related work expenses. Taxpayers who are physically or mentally disabled may be able to deduct impairment-related work expenses.
• The disability must limit employment or substantially limit one or more major life activities, such as performing manual tasks, walking, speaking, breathing, learning, and working.
• Expenses must be ordinary and necessary for the employee who is disabled to perform work satisfactorily. Examples: Attendant care services at the workplace or a reader for an employee who is visually impaired.

TCJA Miscellaneous Itemized Deductions Subject to the 2% AGI Limitation
For tax years 2018 through 2025, the TCJA has repealed the deduction for all of the miscellaneous itemized deductions that were subject to the 2% AGI limitation. See chart, below, for examples of those types of expenses that are no longer deductible.

Miscellaneous Itemized Deductions Subject to 2% AGI Limit—Not Deductible

<table>
<thead>
<tr>
<th>TCJA Miscellaneous Itemized Deductions Subject to the 2% AGI Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Appraisal fees for a casualty loss or a charitable contribution.</td>
</tr>
<tr>
<td>• Excess deductions allowed a beneficiary on termination of estate or trust, including administrative expenses.</td>
</tr>
<tr>
<td>• Fees to determine, contest, pay, or claim a refund of any tax.</td>
</tr>
<tr>
<td>• Hobby expenses.</td>
</tr>
<tr>
<td>• Home office expenses as an employee.</td>
</tr>
<tr>
<td>• Investment expenses.</td>
</tr>
<tr>
<td>• Job expenses.</td>
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<tr>
<td>• Job search expenses.</td>
</tr>
<tr>
<td>• Legal expenses.</td>
</tr>
<tr>
<td>• License and regulatory fees.</td>
</tr>
<tr>
<td>• Loss on deposits in an insolvent financial institution.</td>
</tr>
<tr>
<td>• Loss on the basis in a nonqualified refund annuity.</td>
</tr>
<tr>
<td>• Loss on traditional IRA or Roth IRA.</td>
</tr>
<tr>
<td>• Occupational taxes.</td>
</tr>
<tr>
<td>• Repayments of income, if $3,000 or less.</td>
</tr>
<tr>
<td>• Repayments of Social Security benefits.</td>
</tr>
<tr>
<td>• Tax preparation fees.</td>
</tr>
<tr>
<td>• Tools and supplies used for work.</td>
</tr>
<tr>
<td>• Uniforms and work clothes/shoes.</td>
</tr>
<tr>
<td>• Union dues.</td>
</tr>
<tr>
<td>• Work-related education expenses.</td>
</tr>
</tbody>
</table>

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