

**Individuals—Special Tax Situations  
Quickfinder<sup>®</sup> Handbook  
(2025 Tax Year)**

**Post-publication Updates**

**Instructions:** This packet contains “marked up” changes to the pages in the *Individuals—Special Tax Situations Quickfinder<sup>®</sup> Handbook* that were affected by developments after the *Handbook* was published. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

### Potential Penalties for Failure to File FinCEN Form 114

Violation	Civil Penalties <sup>1</sup>	Criminal Penalties
Negligent Violation	Up to \$ 1,430.	N/A
Non-Willful Violation	Up to \$16,536 for each negligent violation (that is, for each account not reported).	N/A
Pattern of Negligent Activity	In addition to penalty for negligent violation with respect to any such violation, not more than \$111,308.	N/A
Willful Failure to File FinCEN Form 114 or retain records of account	Up to the greater of \$165,353, or 50% of the amount in the account at the time of the violation. <sup>2</sup>	Up to \$250,000 or five years imprisonment or both.
Willful Failure to File FinCEN Form 114 or retain records of account while violating certain other laws	Up to the greater of \$100,000, or 50% of the amount in the account at the time of the violation. <sup>2</sup>	Up to \$500,000 or 10 years imprisonment or both.
Knowingly and Willfully Filing False FinCEN Form 114	Up to the greater of \$100,000, or 50% of the amount in the account at the time of the violation. <sup>2</sup>	\$10,000 or five years imprisonment or both.

<sup>1</sup> Civil penalties are subject to inflation adjustments. Amounts shown are for penalties assessed after January 17, 2025.

<sup>2</sup> The 11th Circuit has ruled that these penalties are subject to review under the Excessive Fines Clause. Thus, a \$100,000 annual fine (total of \$300,000 for three years in question) on an account balance of \$16,000 or less was excessive and should not have been imposed [*Schwarzbaum*, 135 AFTR 2d 2025-505 (11th 2025)].

**Observation:** For purposes of calculating civil penalties, willful violations of the FBAR statute include both knowing and reckless violations. Willfulness can be established by “proof of objective recklessness as well as subjective intent” [*Hughes*, 134 AFTR 2d 2024-5107 (9th Cir. 2024)].

**25 or more accounts.** If a filer has an interest in 25 or more accounts, the filer does not need to fill out the information for each separate account. Instead, they must check the “Yes” box and note the total number of accounts in Part I, line 14a and maintain a record of the accounts. If FinCEN or the IRS requests the additional information at a later date, the taxpayer must be able to provide it. If a filer has signature authority over but no financial interest in 25 or more accounts, the filer must check the “Yes” box in Part I, line 14b and complete Part IV, items 34 through 43.

**Observation:** Line 7a, question 1 of Schedule B (Form 1040) should be answered as “Yes” if the taxpayer has any foreign account, regardless of balance. The second question of Line 7a should be answered “Yes” if a Form FinCEN 114 is required.

**Streamlined compliance.** Certain taxpayers can explain their reasons for failing to timely file an FBAR through streamlined filing compliance procedures, where they can certify that their failure to report foreign financial assets and pay any related tax due was not the result of willful conduct. These procedures are designed only for individual taxpayers, including estates of individual taxpayers. Taxpayers using the streamlined procedures must certify that the failure to report all income, pay all tax, and submit all required information returns, including FBARs, was due to nonwillful conduct (for example, negligence, inadvertence, or conduct that is the result of a good faith misunderstanding of the law). All returns submitted under the streamlined procedures must have a valid Individual Taxpayer Identification Number (ITIN). For U.S. citizens, resident aliens, and certain other individuals, the proper ITIN is a valid social security number (SSN). Taxpayers who are ineligible for an SSN and do not have an ITIN may make a submission under the streamlined procedures if accompanied by a complete ITIN application.



Individuals living in the U.S. and who meet the requirements should file Form 14654 (Certification by U.S. Person Residing in the U.S.), while individuals living outside the U.S. should file Form 14653 (Certification by U.S. Person Residing Outside of the U.S.). The necessary supporting forms (see form instructions) and payment should be included with the applicable form.

**Additional Extension of Time to File.** FinCEN provides for an additional extension of time to file FBARs for certain U.S. individuals with signature authority over, but no financial interest in, one or more foreign financial accounts. The extension only applies to individuals initially granted extensions under FinCEN Notices 2011-1 and 2011-2. In FIN-2025-NTC3, FinCEN further extends the filing date for these particular individuals until April 15, 2027. For all other individuals with an FBAR filing obligation, the filing due date remains April 15, 2026. For more information, visit [www.fincen.gov/system/files/2025-12/FBAR-FBAR-Filing-Requirement-for-Certain-Financial-Professionals.pdf](http://www.fincen.gov/system/files/2025-12/FBAR-FBAR-Filing-Requirement-for-Certain-Financial-Professionals.pdf).

### Foreign Financial Assets Over \$50,000

If the taxpayer has specified foreign financial assets worth more than \$50,000 (\$100,000 if MFJ) at the end of the year or \$75,000 (\$150,000 if MFJ) at any point during the year, Form 8938 (Statement of Specified Foreign Financial Assets) must be completed and attached to Form 1040.

Specified foreign financial assets include:

- 1) Financial accounts maintained by a foreign financial institution.
- 2) The following foreign financial assets if they are held for investment and not held in an account maintained by a financial institution:
  - Stock or securities issued by someone that is not a U.S. person.
  - Any interest in a foreign entity.
  - Any financial instrument or contract that has an issuer or counterparty that is not a U.S. person.

Specified foreign financial assets do not include:

- 1) A financial account that is maintained by a U.S. payer, such as a domestic financial institution. In general, a U.S. payer also includes a domestic branch of a foreign bank or foreign insurance company and a foreign branch or foreign subsidiary of a U.S. financial institution. Examples of financial accounts maintained by U.S. financial institutions include:
  - U.S. mutual funds accounts,
  - IRAs (traditional or Roth),
  - Section 401(k) retirement accounts,
  - Qualified U.S. retirement plans, and
  - Brokerage accounts maintained by U.S. financial institutions.
- 2) A financial account that is maintained by a dealer or trader in securities or commodities if all of the holdings in the account are subject to the mark-to-market accounting rules for dealers in securities or an election under section 475(e) or (f) is made for all of the holdings in the account.

In most cases, a foreign financial institution is any financial institution that is not a U.S. entity. A foreign financial institution includes investment vehicles such as foreign mutual funds, foreign hedge funds, and foreign private equity funds.

The reporting thresholds are increased to \$200,000 (\$400,000 if MFJ) and \$300,000 (\$600,000 if MFJ), respectively, if the individual qualifies for the foreign earned income exclusion (see Tab 6).

**Note:** In LB&I-09-1118-014, the IRS announced that taxpayers must use the civil resolution framework and outlined the procedures to voluntarily get current with unreported foreign accounts. Form 14457 (Voluntary Disclosure Practice Preclearance Request and Application) may be used to apply for preclearance to use these procedures. The IRS will continue to fight offshore tax avoidance through taxpayer education, whistleblower leads, civil examination, and criminal prosecution. Also, taxpayers who were unaware of their filing obligations are able to use the Streamlined Filing Compliance Procedures program.

**Note:** This requirement is separate from filing FinCEN Form 114. In some cases, both forms must be filed. Accounts reported with Forms 3520, 3520-A, 5471, 8621, 8865, and 8891 are exempt from detailed reporting but must still be included in determining if the value of all accounts exceeds \$50,000.

**Note:** Resident aliens who elect under a treaty to be treated as nonresident aliens must still file Form 8938 as if a resident. Nonresident aliens who elect to be treated as residents and residents of U.S. possessions are also required to file Form 8938. Special rules apply to dual resident taxpayers [Reg. 1.6038D-2(e)]:

- A nonresident alien at the end of the tax year is not required to report specified foreign financial assets on Form 8938 for the portion of the individual's tax year covered by Form 1040-NR.
- A resident alien at the end of the year is not required to report specified foreign financial assets on Form 8938 for the portion of the individual's tax year reflected on the schedule to Form 1040 required by Reg. 1.6012-1(b)(2).

## Beneficial Ownership Information (BOI) Reporting

Beginning January 1, 2024, pursuant to the Corporate Transparency Act of 2021 certain types of U.S. and foreign entities were originally required to report information about their beneficial owners to FinCEN. This applied to corporations, limited liability companies (including single-member), and any other entity created by filing a document with a secretary or state or similar office.

**Law Change Alert:** On March 26, 2025, FinCEN announced that all entities created in the U.S. and their beneficial owners are exempt from these requirements.

**Note:** On December 16, 2025, the U.S. Court of Appeals for the 11th Circuit upheld the constitutionality of the Corporate Transparency Act (CTA), finding it to be a valid exercise of congressional power. However, the practical effect of the decision may be limited, given the March 2025 interim final rule exempting "domestic reporting companies" and their beneficial owners from the law's reporting requirements. The decision does not reinstate the broader BOI reporting requirements. Under the March 2025 rule, the BOI reporting requirement only applies to foreign-owned entities. Specifically, foreign companies that are registered to do business in the United States must still file BOI reports with FinCEN. The March 2025 rule also exempted from reporting requirements U.S. persons who are beneficial owners of foreign entities [*Nat'l Small Bus. United v. U.S. Dep't of the Treasury*, No. 24-10736, 2025 WL 3637295 (11th Cir. 12/16/25)].

**Caution:** Foreign entities must still comply if they are registered to do business in any U.S. state or tribal jurisdiction. Certain types of entities are exempt. A *beneficial owner* is any individual who directly or indirectly exercises substantial control over the company or who directly or indirectly owns or controls 25% or more of the company's ownership interests. Existing foreign companies had until April 25, 2025, to file their reports. All new foreign companies have 30 days after formation to file. See [www.fincen.gov/boi/small-business-resources](http://www.fincen.gov/boi/small-business-resources) for more information, including a link to the FAQs and a list of exempt entities. <https://www.fincen.gov/boi> contains instructions on how to file and a link to the filing software.

## International Transportation of Monetary Instruments

FinCEN Form 105 (Report of International Transportation of Currency or Monetary Instruments) must be filed by each person who physically transports, mails or ships (or causes to be physically transported, mailed or shipped) currency or other monetary instruments in a total amount of more than \$10,000 at one time from the U.S. to any place outside the U.S., or into the U.S. from any place outside the U.S. The filing requirement also applies to each person who receives in the U.S. currency or monetary instruments totaling more than \$10,000 at one time from any place outside of the U.S.

The term *monetary instruments* means the following:

- 1) Coin and currency of the U.S. or of any other country.
- 2) Travelers' checks in any form.
- 3) Investment securities or stock in bearer form or otherwise in such form that title to them passes upon delivery.
- 4) Negotiable instruments (including checks, promissory notes, and money orders) in bearer form, endorsed without restriction, made out to a fictitious payee or otherwise in such form that title to them passes upon delivery.

- 5) Checks, promissory notes, and money orders which are signed but on which the name of the payee has been omitted.

However, the term does not include:

- 1) Checks or money orders made payable to the order of a named person which have not been endorsed or which contain restrictive endorsements.
- 2) Warehouse receipts.
- 3) Bills of lading.

A transfer of funds through normal banking procedures (wire transfer) that does not involve the physical transportation of currency or monetary instruments is not required to be reported on FinCEN Form 105.

The FinCEN Form 105 filing requirements are as follows:

- 1) *Recipients.* Each person who receives currency or other monetary instruments in the U.S. must file FinCEN Form 105 within 15 days after receipt, with the Customs officer in charge at any port of entry or departure, or by mail at the following address: Attn: OIT/CBP/CMIR, Passenger Systems Directorate, 22001 Loudoun County Parkway, Mail Stop 1258, Ashburn, VA 20598.
- 2) *Shippers or mailers.* If the currency or other monetary instrument does not accompany the person entering or departing the U.S., FinCEN Form 105 can be filed by mail at the above address on or before the date of entry, departure, mailing, or shipping.
- 3) *Travelers.* Travelers must file FinCEN Form 105 with the Customs officer in charge at any Customs port of entry or departure, when entering or departing the U.S.

**Note:** Financial institutions must electronically file FinCEN Form 112, rather than filing FinCEN Form 105.

Civil and criminal penalties are provided for failing to file a report, filing a report containing material omissions or misstatements or filing a false or fraudulent report. Also, the entire amount of the currency or monetary instrument may be subject to seizure and forfeiture.

## INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITINs)

Aliens who have received permission to work in the U.S. are eligible for social security numbers (SSNs). Other aliens may have to request an ITIN.

**Examples of individuals needing an ITIN include:**

- A nonresident alien individual eligible to obtain the benefit of reduced withholding under an income tax treaty.
- A nonresident alien individual not eligible for an SSN who is required to file a U.S. tax return or who is filing a U.S. tax return only to claim a refund.
- A nonresident alien individual not eligible for an SSN who elects to file a joint U.S. tax return with a spouse who is a U.S. citizen or resident alien.
- A U.S. resident alien (based on the substantial presence test) who files a U.S. tax return but who is not eligible for an SSN. See *Substantial presence test* on Page 1-2.
- An alien spouse eligible to be claimed as a dependent on a U.S. tax return who is not eligible to obtain an SSN.
- An alien individual eligible to be claimed as a dependent on a U.S. tax return but who is not eligible to obtain an SSN.
- A nonresident alien student, professor, or researcher who is required to file a U.S. tax return but who is not eligible for an SSN, or who is claiming an exception to the tax return filing requirement.
- A dependent/spouse of a nonresident alien holding a U.S. visa who is not eligible for an SSN.

**Note:** The 2025 Act [formerly referred to as the One Big Beautiful Bill (OB BB)] requires dependents to have a SSN (not just an ITIN) to qualify for the child tax credit and the additional child tax credit.

**How to apply.** An ITIN is applied for using Form W-7 (Application for IRS Individual Taxpayer Identification Number). If the ITIN is required for a U.S. tax return, attach Form W-7 and the required documentation to the front of the tax return (not the extension) when

**Making the election.** To claim the disaster loss in the year preceding the loss, an election statement must be attached to the original or amended tax return for that year [Reg. 1.165-11(e)]. The statement must indicate that the taxpayer is making a Section 165(i) election and include (1) the name or a description of the disaster and the date or dates of the disaster which gave rise to the loss and (2) the address, including the city, town, county, parish, state, and zip code, where the damaged or destroyed property was located at the time of the disaster (Rev. Proc. 2016-53). For an election made on an original return, this information must be provided on line 1 or 19 (as applicable) of Form 4684. If the election is made on an amended return, this information can be provided by any reasonable means, including writing the information at the top of Form 4684 and in the Explanation of Changes in Form 1040-X.



An election to claim the casualty loss in the preceding year must be made on or before the date that is six months after the original due date of the taxpayer's return for the disaster year (determined without regard to extensions).

**Example:** In 2025, Felix incurred a casualty loss related to a federally declared disaster. He has until October 15, 2026 to amend his 2024 return and make the election to claim the loss on the preceding year return.

**Note:** In Ltr. Rul. 201542002, the IRS granted the taxpayers a 45-day extension from the date of the ruling to make a Section 165(i) election to claim a disaster loss in a prior year when their tax preparer for the year of the loss was not aware of the election and thus failed to advise them of its availability.

**Revoking the election.** An election may be revoked on or before the date that is 90 days after the due date for making the election [Reg. 1.165-11(g)].

## Disaster Relief Payments

See *Disaster Relief Payments* on Page 4-19 for payments that can be excluded from income.

## Involuntary Conversion of Principal Residence

If the taxpayer's home is destroyed by a casualty that is part of a federally declared disaster, special rules make it easier to avoid gain on insurance payments (see *Gain deferral under the involuntary conversion rules* on Page 4-18). The involuntary conversion timing rules are expanded to allow a four-year period to purchase the replacement property instead of the usual two-year period.

## Postponed Tax Deadlines

The IRS may postpone certain tax deadlines for up to one year for taxpayers who are affected by certain federally declared disasters (whether or not those taxpayers are claiming casualty losses) (IRC Sec. 7508A, Rev. Proc. 2018-58). Types of deadlines that may be postponed are:

- Time for filing income, excise, and employment tax returns;
- Time for paying income, excise, and employment taxes; and
- Time for making contributions, recharacterizing contributions, receiving distributions of excess contributions, or making a rollover to a qualified retirement plan, traditional IRA, or a Roth IRA.

**Mandatory 60-day extension.** If the IRS does not specifically postpone tax deadlines, there is a mandatory 60-day extension of time for qualified taxpayers affected by a federally declared disaster [IRC Sec. 7508A(d)]. This extension is in addition to, or in conjunction with, the up-to-one-year discretionary extension period [IRC Sec. 7508A(a)].

In determining the automatic extension period, the ending date of the extension period would be 60 days after the later of:

- 1) the earliest incident date or
- 2) the date the disaster declaration was issued.

If multiple declarations relating to a disaster area are issued within a 60-day period, a separate period would be determined with respect to each declaration.

**Refund timeline extended.** Although the filing tax deadlines for taxpayers affected by certain disasters may be postponed, the IRS has generally not provided taxpayers relief for claiming refunds for those tax years. Generally, under IRC Sec. 6511, taxpayers must file credit and refund claims three years from the date their return was filed or two years from the date the tax was paid. Under prior law, disaster-related extensions did not also extend this look-back period. On December 26, 2025, the Disaster Related Extension of Deadlines Act (H.R. 1491) was signed into law, amending IRC Sec. 7508A to provide that any disaster-related postponement of filing deadlines also extends the look-back period for filing a credit or refund claim under IRC Sec. 6511. This will ensure that taxpayers affected by disasters receiving an extension of time on their filing will also be able to claim any appropriate refunds as expected.

**Covered disaster areas.** Affected taxpayers include individuals who live in, and businesses whose principal place of business is located in, a covered disaster area. Taxpayers not in the covered disaster area, but whose books, records, or tax professionals' offices are in the covered disaster area are also entitled to relief, as are relief workers affiliated with a recognized government or philanthropic organization assisting in the relief activities in the covered disaster, an individual injured or killed as a result of the disaster, or the spouse of any such individual if a joint return is filed [IRC Sec. 7508A(d)(2); Reg. 301.7508A-1(d)].

**Observation:** A covered disaster area includes selected counties impacted by a federally declared disaster. See the table *2025 Federally Declared Disasters* on Page 4-23 for 2025 federally declared disasters that also included a covered disaster area as designated by the IRS (footnote 3 of the table).

## INSURANCE REIMBURSEMENTS

### Insurance Claims

If damaged or stolen property is covered by insurance, an insurance claim must be filed in order to deduct the portion of the loss that would be covered by the insurance. An insurance claim does not need to be filed to deduct the part of the loss not covered by insurance (for example, a deductible) [IRC Sec. 165(h)(4)(E)].

The casualty loss deduction amount must be reduced by actual and expected insurance reimbursements. If an insurance reimbursement is expected but has not been received when the return is filed, the taxpayer must consider the expected reimbursement in determining the amount of loss.

**Actual reimbursement less than expected.** Claim a loss in the year it is determined the taxpayer cannot reasonably expect any further reimbursement—do not amend the original return. The additional loss is treated as if it occurred in the year of settlement and is included with any other casualty losses for that year.

**Actual reimbursement more than expected.** Include the additional amount in income in the year it is received to the extent a tax benefit was obtained from the prior-year deduction. The income is reported on the "Other income" line of Form 1040, Schedule 1.



- The service qualifies the member for special military pay for duty subject to hostile fire or imminent danger [Reg. 1.112-1(e)(1)].
- Military pay earned while hospitalized as a result of wounds, disease or injury incurred in the combat zone (for up to two years after the end of combat activities in the combat zone).

Military pay received for this service will qualify for the combat zone exclusion if all of the requirements (other than service in a combat zone) are met and the pay is verifiable by reference to military pay records.

**Combat zone.** Any area designated by Executive Order of the President of the U.S. as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes (and ceases to be) a combat zone on the date the President designates by Executive Order. See the *Combat Zones (2025)* on Page 7-8.

**State bonus payments.** Any bonus payment made by a state or a political subdivision to any member or former member, or to their dependent, only by reason of the member's service in a combat zone is treated as a nontaxable military benefit [IRC Sec. 134(b)(6)].

## Military Differential Pay

Differential pay is defined as any payment that:

- 1) Is made by an employer for any period during which the individual is performing service in the uniformed services while on active duty for a period of more than 30 days and
- 2) Represents all or part of the wages that the individual would have received if performing services for the employer [IRC Sec. 3401(h)(2)].

These amounts are taxable and cannot be excluded as combat pay.

## Military Base Realignment and Closure Benefit

**Traditional HAP.** Payments made under the Homeowners Assistance Program (HAP) are generally excludable from income. However, the amount excluded cannot be greater than:

- 95% of the FMV of the property for which payments were made, as determined by the Secretary of Defense, before public announcement of intent to close all or part of the military base or installation, *minus*
- The FMV of the property as determined by the Secretary of Defense at the time of sale.

Any part of the payment that is more than this limit is included in income [IRC Secs. 132(a)(8) and (n)].

**Caution:** Some states may impose a tax on HAP benefits.

See [www.usace.army.mil/Missions/Military-Missions/Real-Estate/HAP/](http://www.usace.army.mil/Missions/Military-Missions/Real-Estate/HAP/) for more information.

**Law Change Alert:** In December 2025, certain military members received a one-time, tax free payment of \$1,776, referred to as the "Warrior Dividend". The one-time payment was disbursed as a Basic Allowance for Housing (BAH) supplement. The IRS confirmed that since the Warrior Dividend is a BAH payment, these one-time payments are not taxable for federal tax purposes (IR-2026-09).

## Foreign Source Income Exclusion

U.S. citizens with income from sources outside the U.S. (foreign income), must report all of that income (except for amounts that U.S. law allows to be excluded) on their tax return. This is true whether the taxpayer resides inside or outside the U.S. and whether or not the taxpayer receives a Form W-2 (Wage and Tax Statement) or a Form 1099. This applies to earned income (such as wages and tips) as well as unearned income (such as interest, dividends, capital gains, pensions, rents, and royalties).

Certain taxpayers can exclude income earned in foreign countries. For 2025, this exclusion amount can be as much as \$130,000. However, the foreign earned income exclusion does not apply to the wages and salaries of military and civilian employees of the U.S. government [IRC Sec. 911(b)]. U.S. government employees include those who work at Armed Forces exchanges, officers' messes, Armed Forces motion picture services, and similar personnel (Rev. Rul. 54-612). However, other foreign income earned by military personnel or their spouses may be eligible for the foreign earned income exclusion.

See *Expatriates* on Page 6-1 for more on the exclusion.

Military Income Items	
Taxable <sup>1</sup>	Not Taxable <sup>2</sup>
<p><b>Basic pay</b></p> <ul style="list-style-type: none"> <li>• Active duty.</li> <li>• Attendance at a designated service school.</li> <li>• Back wages.</li> <li>• Cadet/midshipman pay.</li> <li>• Drills.</li> <li>• Reserve training.</li> <li>• Training duty.</li> </ul> <p><b>Bonus pay</b></p> <ul style="list-style-type: none"> <li>• Career status.</li> <li>• Continuation pay.</li> <li>• Enlistment.</li> <li>• Officer.</li> <li>• Overseas extension.</li> <li>• Reenlistment.</li> </ul> <p><b>Incentive pay</b></p> <ul style="list-style-type: none"> <li>• Submarine.</li> <li>• Flight.</li> <li>• Hazardous duty.</li> <li>• High altitude/Low opening (HALO).</li> </ul> <p><b>In-kind military benefits</b></p> <ul style="list-style-type: none"> <li>• Personal use of a government-provided vehicle.</li> </ul> <p><b>Other pay</b></p> <ul style="list-style-type: none"> <li>• Accrued leave.</li> <li>• CONUS COLA.</li> <li>• High deployment per diem.</li> <li>• Personal money allowances paid to high-ranking officers.</li> <li>• Student loan repayment from programs such as the Department of Defense Educational Loan Repayment Program, to the extent that the qualified higher education expenses exceed \$5,250 annually.</li> <li>• Certain payments made by an employer after March 27, 2020, and before January 1, 2026, of principal or interest on certain qualified education loans.</li> </ul> <p><b>Special pay</b></p> <ul style="list-style-type: none"> <li>• Aviation career incentives.</li> <li>• Career sea.</li> <li>• Diving duty.</li> <li>• Foreign duty (outside the 48 contiguous states and DC).</li> <li>• Foreign language proficiency.</li> <li>• Hardship duty.</li> <li>• Hostile fire or imminent danger.</li> <li>• Medical and dental officers.</li> <li>• Nuclear-qualified officers.</li> <li>• Optometry.</li> <li>• Other health professional special pays (for example, nurse, physician assistant, social work, etc.).</li> <li>• Pharmacy.</li> <li>• Special compensation for assistance with activities of daily living (SCAADL).</li> <li>• Special duty assignment pay.</li> <li>• Veterinarian.</li> <li>• Voluntary separation incentive.</li> </ul>	<p><b>Combat zone pay</b></p> <ul style="list-style-type: none"> <li>• Compensation for active service while in a combat zone. Amount limited for officers.</li> </ul> <p><b>Death allowances</b></p> <ul style="list-style-type: none"> <li>• Burial services.</li> <li>• Death gratuity payments to eligible survivors.</li> <li>• Travel of dependents to burial site.</li> </ul> <p><b>Family allowances</b></p> <ul style="list-style-type: none"> <li>• Certain educational expenses for dependents.</li> <li>• Emergencies.</li> <li>• Evacuation to a place of safety.</li> <li>• Separation.</li> </ul> <p><b>In-kind military benefits</b></p> <ul style="list-style-type: none"> <li>• Dependent-care assistance program.</li> <li>• Defense counsel services</li> <li>• Legal assistance.</li> <li>• Medical/dental care.</li> <li>• Commissary/exchange discounts.</li> <li>• Space-available travel on government aircraft.</li> <li>• Uniforms furnished to enlisted personnel.</li> </ul> <p><b>Living allowances</b></p> <ul style="list-style-type: none"> <li>• Basic Allowance for Housing (BAH).</li> <li>• Basic Allowance for Subsistence (BAS).</li> <li>• Housing and cost-of-living allowances abroad whether paid by the U.S. government or by a foreign government.</li> <li>• Overseas Housing Allowance (OHA).</li> </ul> <p><b>Moving allowances</b></p> <ul style="list-style-type: none"> <li>• Dislocation.</li> <li>• Military base realignments and closure benefit (subject to limits).</li> <li>• Move-in housing.</li> <li>• Moving household and personal items.</li> <li>• Moving trailers or mobile homes.</li> <li>• Storage.</li> <li>• Temporary lodging and temporary lodging expenses.</li> </ul> <p><b>Other pay</b></p> <ul style="list-style-type: none"> <li>• Certain amounts received under the Armed Forces Health Professions Scholarship and Financial Assistance Program payments.</li> <li>• Certain disability retirement pay, including payments received for injuries incurred as a direct result of a terrorist or military action.</li> <li>• Disability severance payments.</li> <li>• Group-term life insurance.</li> <li>• Professional education.</li> <li>• ROTC educational and subsistence allowances.</li> <li>• State bonus pay for services in a combat zone.</li> <li>• Survivor and retirement protection plan premiums.</li> <li>• Uniform allowances.</li> </ul> <p><b>Travel allowances</b></p> <ul style="list-style-type: none"> <li>• Annual round trip for dependent students.</li> <li>• Leave between consecutive overseas tours.</li> <li>• Reassignment in a dependent restricted status.</li> <li>• Transportation for taxpayer or dependents during ship overhaul or inactivation.</li> <li>• Per diem.</li> <li>• Travel benefits under operation hero miles.</li> </ul>
<p><sup>1</sup> These items are included in gross income unless the pay is for service in a combat zone (limits apply to commissioned officers).</p> <p><sup>2</sup> The exclusion applies whether the item is furnished in kind or is a reimbursement or allowance.</p>	

**FinCEN reporting requirements.** The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) has issued final regulations aimed at anti-money laundering for real estate transfers. **Originally set to take effect on December 1, 2025, the new reporting requirements have been postponed until March 1, 2026 providing more time to comply.** They require the reporting of non-financed transfers of ownership interests in residential real property to entities or trusts. For more information on the reporting requirements see FinCEN's list of frequently asked questions found at <https://www.fincen.gov/sites/default/files/shared/RREFAQs.pdf>

## EXAMPLE WITH FILLED-IN FORM

### Facts

In January, Eileen Johnson bought a condominium unit to live in. Instead of selling the house she had been living in, she decided to change it to rental property. Eileen selected a tenant and started renting the house on February 1. The house was rented for 11 months (334 days) and used for personal use one month (31 days). Eileen charges \$1,000 a month for rent and collects it herself. Eileen received a \$1,000 security deposit from her tenant. Because she plans to return it to her tenant at the end of the lease, she does not include the deposit in her income. Her expenses related to the house for the entire year are as follows:

Mortgage interest.....	\$ 1,800
Fire insurance (one-year policy).....	100
Miscellaneous repairs (made after renting).....	297
Real estate taxes imposed and paid.....	1,200

Eileen must divide the real estate taxes, mortgage interest, and fire insurance between her personal use and the rental use of the property. She can deduct  $\frac{334}{365}$  of these expenses as rental expenses. She can include the balance of the allowable taxes and mortgage interest on Schedule A (Form 1040) if she itemizes. She cannot deduct the balance of the fire insurance because it is a personal expense.

**Note:** The vacation home rules do not apply since Eileen converted the home from personal use to rental use. Therefore, it is not a mixed-use property.

Eileen bought this house for \$35,000. Her initial cost basis was \$10,000 for the land and \$25,000 for the house. Before changing it to rental property, Eileen added several improvements to the house. She figures her adjusted basis as follows:

Improvements	Cost
House.....	\$ 25,000
Remodeled kitchen.....	4,200
Recreation room.....	5,800
New roof.....	1,600
Patio and deck.....	2,400
<b>Adjusted basis</b> .....	<b>\$ 39,000</b>

- **February 1**—Eileen converts the house to rental property. The property had a FMV of \$152,000. Of this amount, \$35,000 was for the land and \$117,000 was for the house.

Because Eileen's adjusted basis is less than the FMV on the date of the change, Eileen uses \$39,000 as her basis for depreciation.

Because the house is residential rental property, she must use the straight-line method of depreciation using either the GDS recovery period or the ADS recovery period. She chooses the GDS recovery period of 27.5 years.

Because she placed the property in service in February, the applicable depreciation percentage in the initial year is 3.182% per the IRS depreciation tables.

- **April 1**—Eileen bought used furniture for the rental property at a cost of \$3,000. The furniture is personal property used in a rental real estate activity, which has a five-year recovery period. She elects to expense the property under IRC Sec. 179.

- **May 1**—Eileen paid \$4,000 to have a furnace installed in the house. The furnace is residential rental property. Because she placed the property in service in May, the applicable depreciation percentage in the initial year is 2.273% per the IRS depreciation tables.

Eileen files Schedule E (Form 1040), Part I, to report her rental income and expenses. She reports her income, expenses, and depreciation for the house in the column for Property A. She files Form 4562 (Depreciation and Amortization) to report her depreciation. Eileen's Schedule E (Form 1040) is shown on Page 9-13. Her Form 4562 is not shown. See IRS Pub. 946 for information on how to prepare Form 4562.

Eileen's net rental income for the house is calculated as follows:	
Total rental income received ( $\$1,000 \times 11$ ).....	\$11,000
Minus: Expenses	
Mortgage interest [ $\$1,800 \times (\frac{334}{365})$ ].....	\$1,647
Fire insurance [ $\$100 \times (\frac{334}{365})$ ].....	92
Miscellaneous repairs.....	297
Real estate taxes [ $\$1,200 \times (\frac{334}{365})$ ].....	1,098
Depreciation/Section 179	
House ( $\$39,000 \times 3.182\%$ ).....	\$1,241
Furniture ( $\$3,000$ Sec. 179).....	3,000
Furnace ( $\$4,000 \times 2.273\%$ ).....	91
Total depreciation/Section 179 deduction.....	<u>4,332</u>
Total Expenses.....	7,466
<b>Net rental income for house</b> .....	<b>\$3,534</b>

## Notes

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