(1) The following losses sustained during the taxable year and not compensated for by insurance or otherwise are deductible by individuals:

(a) Losses incurred in a trade or business, in accordance with 26 U.S.C. §165(c)(1).

(b) Losses incurred in any transaction entered into for profit, though not connected with a trade or business, in accordance with 26 U.S.C. §165(c)(2), but in the case of a non-resident, only as to those transactions within the state.

(c) Casualty and theft losses sustained during the taxable year of property not connected with the conduct of a trade or business or a transaction entered into for profit as determined in accordance with 26 U.S.C. §165(c)(3) and (h). In the case of a nonresident, the deduction shall be allowed only for the losses arising from property located within the State of Alabama and the limitations in 26 U.S.C. §165 shall be applied only with regard to the taxpayer's Alabama adjusted gross income.

(d) Losses from debts ascertained to be worthless and charged off during the taxable year of ascertainment, if sustained in the conduct of the regular trade or business of the taxpayer. The reserve method for bad debts is not allowed for individuals.

(2) For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(3) Losses from personal bad debts not incurred in a trade or business, nor in a transaction entered into for profit, are not deductible.

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