Reg. Section 1.165-1(e)

Losses.

(e) Limitation on losses of individuals. In the case of an individual, the deduction for losses
granted by section 165(a) shall, subject to the provisions of section 165(c) and paragraph (a)
of this section, be limited to:

(1) Losses incurred in a trade or business;

(2) Losses incurred in any transaction entered into for profit, though not connected with a
trade or business; and

(3) Losses of property not connected with a trade or business and not incurred in any
transaction entered into for profit, if such losses arise from fire, storm, shipwreck, or
other causality, or from theft, and if the loss involved has not been allowed for estate tax
purposes in the estate tax return. For additional provisions pertaining to the allowance of
casualty and theft losses, see §§ 1.165-7 and 1.165-8, respectively.

For special rules relating to an election by a taxpayer to deduct disaster losses in the
taxable year immediately preceding the taxable year in which the disaster occurred, see
section 165(h) and § 1.165-11.

...