



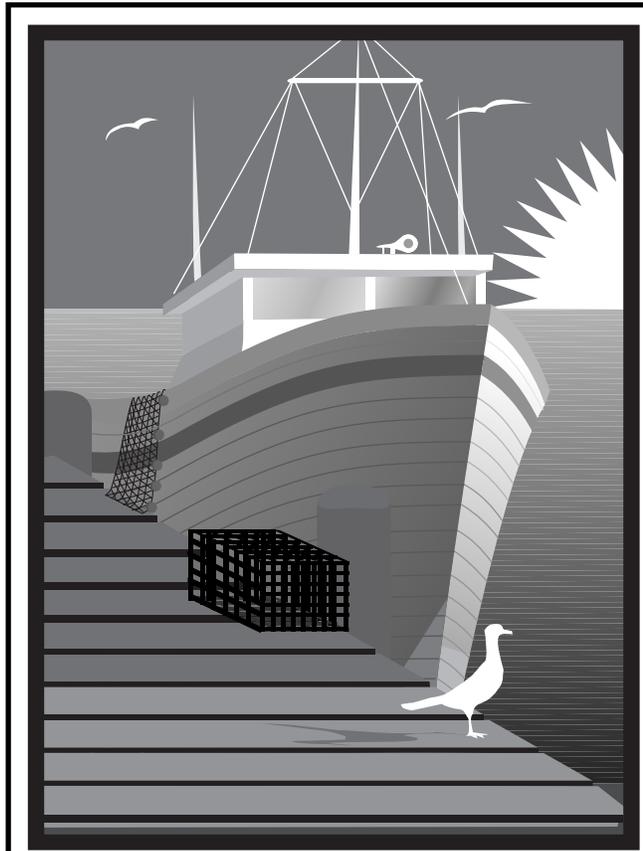
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Tax Highlights for Commercial Fishermen

For use in preparing
1998 Returns



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Introduction

This publication highlights some special tax rules that may apply to individuals who have their own fishing trade or business. These individuals include the following persons.

- 1) Fishing boat owners or operators who use their boats to fish for profit.
- 2) Certain fishermen who work for a share of the catch.
- 3) Other individuals who receive gross income from fishing.

These individuals will generally report their profit or loss from fishing on Schedule C or Schedule C-EZ of Form 1040. An example with a filled-in Schedule C shown near the end of this publication provides details on how to complete this form.

This publication does not contain all of the tax rules that may apply to your fishing trade or business. For general information about the federal tax laws that apply to individuals who file Schedule C or C-EZ, see Publication 334, *Tax Guide for Small Business*. If your trade or business is a partnership or corporation, see Publication 541, *Partnerships*, or Publication 542, *Corporations*.



If you are just starting out in a fishing business or you need information on keeping books and records, also see Publication 583, *Starting a Business and Keeping Records*.

Please note that this publication uses the term "fisherman" because it is the commonly accepted term in the fishing industry. In the following discussions it represents both men and women.

Important Dates for 1999

This section highlights important due dates for fishermen for the 1999 calendar year. For

other important dates, see Publication 509, *Tax Calendars for 1999*.

January 15

Fishermen. If at least two-thirds of your gross income for either 1997 or 1998 was from fishing, you may want to pay at least two-thirds of your 1998 tax by this date. This will allow you to wait until April 15 to file your 1998 Form 1040 and pay the rest of the tax without penalty. See *March 1*, later, if you do not pay two-thirds of your tax by this date.

February 1

Fishing boat operators. Fishing boat operators must give a 1998 Form 1099-MISC, *Miscellaneous Income*, to certain crew members who were self-employed.

March 1

Fishermen. If at least two-thirds of your gross income for either 1997 or 1998 was from fishing, you can file your 1998 Form 1040 by March 1 and pay your tax in full without penalty.

Fishing boat operators. Use Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*, to send Copy A of Forms 1099-MISC to IRS.

April 15

Fishermen. If you have not filed your Form 1040, you should file it by April 15 and pay your tax in full. If you need more time to file, you can request an extension of time to file with Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*.

Useful Items

You may want to see:

Publication

- 15** Employer's Tax Guide
- 15-A** Supplemental Employer's Tax Guide
- 334** Tax Guide for Small Business
- 378** Fuel Tax Credits and Refunds
- 463** Travel, Entertainment, Gift, and Car Expenses
- 505** Tax Withholding and Estimated Tax
- 533** Self-Employment Tax
- 535** Business Expenses
- 583** Starting a Business and Keeping Records
- 946** How To Depreciate Property

Form (and Instructions)

- Schedule C (Form 1040)** Profit or Loss From Business
- Schedule C-EZ (Form 1040)** Net Profit From Business
- 1040-ES** Estimated Tax for Individuals
- 1099-MISC** Miscellaneous Income
- 2210-F** Underpayment of Estimated Tax by Farmers and Fishermen

4136 Credit for Federal Tax Paid on Fuels

8849 Claim for Refund of Excise Taxes

See *How To Get More Information*, near the end of this publication, for information about getting these publications and forms.

What Is Gross Income From Fishing?

You will generally figure your gross income from fishing in Part I of Schedule C (Form 1040). For more information on Schedule C, see *Schedule C (Form 1040)* under *What Forms Must You File?*, later.

Gross income from fishing includes amounts you receive from catching, taking, harvesting, cultivating, or farming any of the following aquatic resources.

- 1) Fish.
- 2) Shellfish (such as clams and mussels).
- 3) Crustacea (such as lobsters, crabs, and shrimp).
- 4) Sponge.
- 5) Seaweed.
- 6) Other aquatic forms of animal or vegetable life.

Wages. Wages you receive as an employee in a fishing business are not gross income from fishing. This includes wages you receive from a corporation even if you are a shareholder in the corporation.

If you work on a boat with an operating crew that is normally made up of fewer than 10 individuals, you may be considered a self-employed individual instead of an employee. As a self-employed individual you may receive gross income from fishing. For more information, see *Certain fishermen considered self-employed* under *Form 1099-MISC*, later.

Patronage dividends. Patronage dividends you receive from your fishing business activities are generally included in your gross income from fishing. However, do not include in gross income amounts you receive from a cooperative association that are used to adjust the basis of items you have purchased at the cooperative.

Fuel tax credits and refunds. You may have to include fuel tax credits and refunds you receive from your fishing business activities in your gross income from fishing. For more information, see *Including the Credit or Refund in Income* under *How To Claim Fuel Tax Credits and Refunds*, later.

Which Fishing Expenses Can You Deduct?

You can generally deduct your ordinary and necessary fishing expenses as business expenses in Part II of the Schedule C (Form 1040). An **ordinary** fishing expense is one that is common and accepted in a fishing trade or business. A **necessary** fishing ex-

pense is one that is helpful and appropriate for a fishing trade or business. An expense does not have to be indispensable to be considered necessary.

The following discussions give a brief overview of three types of business expenses that are of special interest to fishermen: depreciation, travel, and transportation expenses. Business expenses that most small businesses share are listed in Part II of Schedule C. For more information on business expenses, see Publication 535. You may also find general information on specific business expenses in Publication 334.

Depreciation

If property you acquire to use in your business has a useful life of more than one year, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year. This method of deducting the cost of business property is called depreciation.

Publication 946 contains the rules you will use to depreciate certain property. The following list highlights items that are of special interest to fishermen.

- **Fishing boats.** You can generally depreciate a fishing boat you have placed in service after 1986 in your fishing trade or business as 7-year property using Modified Accelerated Cost Recovery System (MACRS) depreciation.
- **Nets, pots, and traps.** You can generally depreciate a net, pot, or trap you have placed in service after 1986 in your fishing trade or business as 7-year property using MACRS depreciation. However, if based on your own experience, you determine that any of these items will not be used for more than one year in your business, you may be able to deduct the cost as a business expense.
- **Repairs and replacements.** If a repair or replacement increases the value of your property, makes it more useful, or lengthens its life, you must depreciate its cost. If the repair or replacement does not increase the value of your property, make it more useful, or lengthen its life, deduct the cost as a business expense.

Travel and Transportation

This section briefly explains the rules for deducting travel and transportation expenses. For more information about travel and transportation expenses, see Publication 463. That publication also explains what records to keep.

Local transportation expenses. Local transportation expenses include the costs of getting from one workplace to another when you are traveling within your tax home.

Tax home. Generally, your tax home is your regular place of business, regardless of where you maintain your family home. It includes the **entire city or general area** in which your fishing business is located.

 **Commuting expenses.** You **cannot** deduct the costs of traveling between your home and your main or regular place of business. These costs are personal commuting expenses. You cannot deduct commuting expenses no matter how far your home is from your regular place of business.

You cannot deduct commuting expenses even if you work during the trip.

Travel expenses. For tax purposes, travel expenses are the costs of traveling away from home for your business. You are traveling away from home if you meet the following two requirements.

- 1) Your duties require you to be away from the general area of your tax home (defined earlier) substantially longer than an ordinary day's work.
- 2) You need to get sleep or rest to meet the demands of your work while away from home.

Meals. You can usually deduct the cost of providing meals to either employees or self-employed individuals who provide services to your fishing trade or business. You can also deduct the cost of your own meals while you are traveling away from home for business. However, you can generally deduct only 50% of these costs. For some common exceptions to this 50% limit, see *Deduction limit on meals*, next.

Deduction limit on meals. You can generally deduct only 50% of the costs of meals. However, you can deduct the full costs of the following meals.

- 1) Meals that qualify as a de minimis fringe benefit as discussed in chapter 4 of Publication 535. For tax years beginning after 1997, this generally includes meals you provide to employees at your place of business if more than half of these employees are provided the meals for your convenience.
- 2) Meals whose value you include in an employee's wages. For more information, see chapter 3 in Publication 535.
- 3) Meals whose value you include in the income of a nonemployee (self-employed individual) who performs services for your business. You must generally include the value of meals you furnish to that individual in his or her income. To deduct 100% of these meals, you must report their value on any Form 1099-MISC you must file to report your payments for services. For more information, see *Form 1099-MISC*, later.
- 4) Meals you are required by federal law to furnish to crew members of certain commercial vessels (or would be required to provide if the vessels were operated at sea).

For more information, see chapter 3 in Publication 535.

 The federal law that generally requires meals to be furnished to crew members of commercial vessels does not apply to fishing vessels.

What Forms Must You File?

If you have a fishing trade or business, you may need to file the following forms.

Schedule C (Form 1040)

Use Schedule C (Form 1040) to figure your net profit or loss from a fishing business you operate or a trade you practice as a self-employed individual. To figure your net profit or loss, you will subtract your deductible fishing expenses from your gross income from fishing. File Schedule C with your Form 1040. You may be able to use **Schedule C-EZ (Form 1040)** if you made a profit and had fishing expenses of \$2,500 or less. For more information, see the Schedule C-EZ instructions.

Self-employed individuals. You are a self-employed individual if you own an unincorporated business or practice a trade by yourself. You do not have to carry on regular full-time business activities to be a self-employed individual. Your trade or business may consist of part-time work, including work you do on the side in addition to your regular job.

A **trade or business** is generally an activity that is your livelihood or that you do in good faith to make a profit. The facts and circumstances of each case determine whether or not an activity is a trade or business. Regularity of activities and transactions and the production of income are important elements. You do not need to actually make a profit to be in a trade or business as long as you have a profit motive. You do need, however, to make ongoing efforts to further the interests of your business.

If you work on a fishing boat with an operating crew that is normally made up of fewer than 10 individuals, you may be considered a self-employed individual. For more information, see *Certain fishermen considered self-employed under Form 1099-MISC*, later.

Husband and wife partners. You and your spouse may operate a fishing business as a partnership. If you and your spouse join together in the conduct of a business and share in the profits and losses, you have created a partnership. You and your spouse must report the business income on a partnership return, Form 1065. For more information, see Publication 541, *Partnerships*.

However, if your spouse is not your partner, but your employee, you must pay employment taxes for him or her. For more information, see *Employment Tax Forms*, later.

 **Not-for-profit fishing.** You must be fishing to make a profit for you to report your fishing income and expenses on Schedule C. You do not need to actually make a profit as long as you are making a good faith effort. If you are not fishing for profit, report your fishing income and expenses as explained under Not-for-Profit Activities in chapter 1 of Publication 535.

Schedule SE (Form 1040)

Use Schedule SE (Form 1040) to figure your self-employment tax (SE tax). Most fishermen can use *Short Schedule SE* (Section A) to figure their SE tax. You must file Schedule SE with your Form 1040 if you were self-employed and your net earnings from self-employment were \$400 or more.



Even if you do not have to file Schedule SE, it may be to your benefit to file it and use an optional method in Part II of Long Schedule SE (Section B). For more information, see *Optional methods, later*.

Self-employment tax. The SE tax is a social security and Medicare tax for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of wage earners.

Social security benefits. Social security benefits are available to self-employed persons just as they are to wage earners. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.

You must be *insured* under the social security system before you begin receiving social security benefits. You are insured if you have the required number of credits (also called quarters of coverage).

For 1998, you receive one credit (up to a maximum of four credits), for each \$700 (\$740 for 1999) of income subject to social security. Therefore, for 1998, if you had income (self-employment income and wages) of \$2,800 that was subject to social security taxes, you received four credits.

For an explanation of the number of credits you must have to be insured, and of the benefits available to you and your family under the social security program, consult your nearest Social Security Administration office.

Optional methods. You can generally use one of the optional methods in Part II of Long Schedule SE (Section B) when you have a loss or a small amount of net income from self-employment and any of the following situations exist.

- 1) You want to receive credit for social security benefit coverage.
- 2) You incurred child or dependent care expenses for which you could claim a credit (this method will increase your earned income, which could increase your child or dependent care credit).
- 3) You are entitled to the earned income credit (this method will increase your earned income, which could increase your earned income credit).

Estimated tax. You may have to pay estimated tax. This depends on how much income and SE taxes you expect for the year and how much of your income will be subject to withholding tax. The SE tax is treated, and collected, as part of the income tax. For more information, see *When Do Fishermen Pay Estimated Tax and File Tax Returns?*, later.

Reporting self-employment tax. Figure your SE tax on Schedule SE. Then report the tax on line 50 of Form 1040, and attach Schedule SE to Form 1040. If you file a joint return and you both have SE income, each of you must complete a separate Schedule SE. However, you are both liable for the total SE tax due on the return.

Self-employment tax deduction. You can deduct one-half of your SE tax as a business expense in figuring your adjusted

Table 1. Employment Tax Treatment of Fishing and Related Activities

Activity	Income Tax Withholding	Social Security and Medicare Taxes	Federal Unemployment Tax (FUTA)
a. Catching salmon or halibut.	Withhold unless c. applies.	Taxable unless c. applies.	Taxable unless c. applies.
b. Catching other fish, sponges, etc.	Withhold unless c. applies.	Taxable unless c. applies.	Taxable if vessel is more than 10 net tons and c. does not apply.
c. Individual is considered self-employed (see <i>Certain fishermen considered self-employed, below</i>).	Exempt	Exempt	Exempt
d. Native Americans exercising fishing rights.	Exempt	Exempt	Exempt

gross income. This deduction only affects your income tax. It does not affect either your net earnings from self-employment or your SE tax.

To deduct the tax, enter on Form 1040, line 27, the amount shown on the "Deduction for one-half of self-employment tax" line of the Schedule SE.

More information. For more information on self-employment tax, see Publication 533.

Form 1099-MISC

File Form 1099-MISC if any of the following situations apply.

- 1) You pay a share of your catch (or a share of the proceeds from the sale of your catch) to an individual who is not your employee.
- 2) You pay at least \$600 in rents, services, and other income payments in your fishing trade or business to an individual who is not your employee.
- 3) You are in the trade or business of purchasing fish for resale and pay \$600 or more to a commercial fisherman for fish or other forms of aquatic life.

For more information, including a discussion of the recordkeeping requirements that apply to resale buyers described in 3, above, see the instructions for Form 1099-MISC.

Certain fishermen considered self-employed. Certain fishermen who work on a fishing boat are considered to be self-employed for purposes of employment and self-employment taxes. A fisherman is considered self-employed if he meets **all** of the following conditions.

- 1) He receives a share of the catch or a share of the proceeds from the sale of the catch.
- 2) His share depends on the amount of the catch.
- 3) He receives his share from a boat (or from each boat in the case of a fishing operation involving more than one boat) with an operating crew that is normally made up of fewer than 10 individuals. This requirement is considered to be met if the average number of crew members on trips the boat made during the last 4 calendar quarters was less than 10.
- 4) He does not get any money for his work (other than his share of the catch or of

the proceeds from the sale of the catch), unless the pay meets all of the following conditions.

- a) He does not get more than \$100 per trip.
- b) He is paid only if there is some minimum catch.
- c) He is paid solely for additional duties (such as mate, engineer, or cook) for which additional cash payments are traditional in the fishing industry.

Example 1. You hire a captain, a mate, an engineer, a cook, and six other crew members to work on your fishing boat. The proceeds from the sale of the catch offset boat operating expenses such as bait, ice, and fuel. You divide 60% of the balance between the captain, the mate, and the crew members. You divide the other 40% between yourself and the captain. The mate, the engineer, and the cook also each receive an extra \$100 for each trip that brings back a certain minimum catch. The crew members do not receive any additional pay between voyages, but they must do certain work, such as repairing nets, splicing cable, and transporting the catch.

For purposes of employment and self-employment taxes, the entire crew of the boat (including the captain, mate, engineer, and cook) are considered self-employed individuals. You must file Form 1099-MISC to report amounts you pay to them.

Example 2. The facts are the same as in Example 1 except that the mate, the engineer, the cook, and the other six crew members all receive an extra \$100 for each trip that brings back a certain minimum catch.

For purposes of employment and self-employment taxes, the captain, the mate, the engineer, and the cook are self-employed individuals. The other six crew members who receive this extra payment in addition to the proceeds from the sale of the catch are employees. They are employees because the \$100 payment is not paid solely for additional duties for which additional cash pay is traditional in the fishing industry.

Employment Tax Forms

If you have employees, you will need to file forms to report employment taxes. For more information, see Publication 15. That publication explains your tax responsibilities as an employer.

To help you determine whether the people

working for you are your employees, get Publication 15-A. That publication has information to help you determine whether an individual is an independent contractor or an employee. If you incorrectly classify an employee as an independent contractor, you can be held liable for employment taxes for that worker plus a penalty. An **independent contractor** is someone who is self-employed. You do not generally have to withhold or pay any taxes on payments to an independent contractor.

Individuals you employ to work on a boat that normally has an operating crew of fewer than 10 individuals may be considered self-employed. For more information, see *Certain fishermen considered self-employed under Form 1099-MISC*, earlier.

Table 1. See Table 1 for information on the special employment tax treatment of fishing and related activities.

When Do Fishermen Pay Estimated Tax and File Tax Returns?

When you must pay estimated tax and file your tax return depends on whether you receive at least two-thirds of your total gross income from fishing in the current or prior year. **Gross income is not the same as total income** shown on line 22 of Form 1040.

Gross Income

Your gross income is all income you receive in the form of money, property, and services that is not exempt from tax. On a joint return, you must add your spouse's gross income to your gross income. To decide whether two-thirds of your gross income for 1998 was from fishing, use as your gross income the total of the following **income** (not loss) amounts from your tax return.

- 1) Wages, salaries, tips, etc.
- 2) Taxable interest.
- 3) Dividends.
- 4) Taxable refunds of state and local taxes.
- 5) Alimony received.
- 6) Gross business income from Schedule C (Form 1040), line 7.
- 7) Gross receipts from Schedule C-EZ (Form 1040), line 1.

- 8) Capital gains from Schedule D (Form 1040). Losses cannot be netted against gains.
- 9) Gains on sales of business property from Form 4797.
- 10) Taxable IRA distributions, pensions, annuities, and social security benefits.
- 11) Gross rental income from Schedule E (Form 1040), line 3.
- 12) Gross royalty income from Schedule E (Form 1040), line 4.
- 13) Your taxable net income from an estate or trust, Schedule E (Form 1040), line 36.
- 14) Income from a REMIC reported on Schedule E (Form 1040), line 38.
- 15) Gross farm rental income from Form 4835, line 7.
- 16) Farm income from Schedule F (Form 1040), line 11.
- 17) Your distributive share of gross income from a partnership or limited liability company treated as a partnership, from Schedule K-1 (Form 1065).
- 18) Your pro rata share of gross income from an S corporation, from Schedule K-1 (Form 1120S).
- 19) Unemployment compensation, as reported on Form 1099-G.
- 20) Other income reported on Form 1040, line 21, not reported with any of the items listed above.

Gross Income From Fishing

Gross income from fishing includes the following amounts.

- 1) Gross fishing income from Schedule C (Form 1040), line 7.
- 2) Gross fishing receipts from Schedule C-EZ (Form 1040), line 1.
- 3) Gross fishing income from Schedule E (Form 1040). See the instructions for line 41.

For more information, see *What Is Gross Income From Fishing?*, earlier.

Percentage From Fishing

Total your gross income from all sources as shown earlier. Then total your gross income from fishing. Divide your fishing gross income by your total gross income to determine the percentage of gross income from fishing.

Example 1. James Smith had the following total gross income and fishing gross income in 1998.

Gross Income		Total	Fishing
Taxable interest	\$43,000		
Dividends	500		
Rental income (Sch E)	1,500		
Fishing income (Sch C)	75,000	\$75,000	
Schedule D	5,000		
Total	\$125,000	\$75,000	

Schedule D showed gains from the sale of a rental house carried over from Form 4797 (\$5,000) in addition to losses from the sale of corporate stock (\$2,000). Mr. Smith's gross

fishing income is 60% of his total gross income ($\$75,000 \div \$125,000 = .60$). Therefore, he does not qualify to use special estimated tax and return due dates for 1998. However, he can still qualify for 1998 if at least two-thirds of his 1997 gross income was from fishing.

Example 2. Assume the same facts as in Example 1 except that Mr. Smith received only \$23,000, instead of \$43,000, taxable interest. This made his total gross income \$105,000. He qualifies to use special estimated tax and return due dates since at least two-thirds of his gross income is from fishing [$\$75,000 \div \$105,000 = .714$ (71.4%)].

Due Dates for Qualified Fishermen

If at least two-thirds of your gross income for 1997 or 1998 was from fishing, you are a qualified fisherman and have only one payment due date for 1998 estimated tax—January 15, 1999.

For your 1998 tax, you may choose either of the following options.

- 1) Pay all your estimated tax (figured on **Form 1040-ES**) by January 15, 1999, and file your Form 1040 by April 15, 1999.
- 2) File your Form 1040 by March 1, 1999, and pay all the tax due. You are not required to make an estimated tax payment. If you pay all the tax due, you will not be penalized for failure to pay estimated tax.

TIP *If at least two-thirds of your gross income for 1998 or 1999 is from fishing, for your 1999 tax, you may choose either of the following options.*

- 1) *Pay all your estimated tax by January 17, 2000, and file your Form 1040 by April 17, 2000.*
- 2) *File your Form 1040 by March 1, 2000, and pay all the tax due.*

Required annual payment. If at least two-thirds of your gross income for 1997 or 1998 was from fishing, the required annual payment due January 15, 1999, is the **smaller** of the two amounts shown below.

- 1) 66⅔% (.6667) of your total tax for 1998.
- 2) 100% of the total tax shown on your 1997 return. (The return must cover all 12 months.)

TIP *If at least two-thirds of your gross income for 1998 or 1999 is from fishing, the required annual payment due January 17, 2000, is the smaller of the two amounts shown below.*

- 1) 66⅔% (.6667) of your total tax for 1999.
- 2) 100% of the total tax shown on your 1998 return. (The return must cover all 12 months.)

Fiscal year fishermen. If you qualify to use these special rules but your tax year does not start on January 1, you may file your return and pay the tax by the first day of the 3rd month after the close of your tax year. Or you may pay your required estimated tax within 15 days after the end of your tax year. Then file your return and pay any balance due by

the 15th day of the 4th month after the end of your tax year.

Due Dates for Nonqualified Fishermen

If less than two-thirds of your gross income for 1997 and 1998 was from fishing, you cannot use these special estimated tax payment and return due dates for your 1998 tax year. In this case, you generally must make quarterly estimated tax payments on April 15, June 15, and September 15, 1998, and on January 15, 1999. You must file your return by April 15, 1999.

TIP *If less than two-thirds of your gross income for 1998 and 1999 is from fishing, you cannot use these special estimated tax payment and return due dates for your 1999 tax year. In this case, you generally must make quarterly estimated tax payments on April 15, June 15, and September 15, 1999, and on January 17, 2000. You must file your return by April 17, 2000.*

For more information on estimated taxes, see Publication 505.

Estimated Tax Penalty for 1998

If you did not pay all your required estimated tax for 1998 by January 15, 1999, and do not file your 1998 return and pay the tax by March 1, 1999, use **Form 2210-F, Underpayment of Estimated Tax by Farmers and Fishermen**, to determine if you owe a penalty. If you owe a penalty but do not file Form 2210-F with your return and pay the penalty, you will get a notice from the IRS. You should pay the penalty as instructed by the notice.

If you file your return by April 15 and pay the bill within 10 days after the notice date, the IRS will not charge you interest.

Occasionally, you may get a penalty notice even though you filed your return on time, attached Form 2210-F, and met the gross income test. If you receive a penalty notice for underpaying estimated tax that you think is in error, write to the address on the notice and explain why you think the notice is in error. Include a computation, similar to the one in Example 1, showing that you meet the gross income test. Do not ignore a penalty notice, even if you think it is in error.

Other Filing Information for 1998

Payment date on holiday or weekend. If the last day for filing your return or making a payment falls on a Saturday, Sunday, or legal holiday, your return or payment will be on time if it is filed or made on the next business day.

Automatic extension of time to file Form 1040. If you do not choose to file your 1998 return by March 1, 1999, the due date for your return will be April 15, 1999. However, you can get an automatic 4-month extension of time to file your return. Your Form 1040 would then be due by August 16, 1999. To get this extension, file **Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return**, by April 15, 1999. Form 4868 does not extend the time to pay the tax. For more information, see the instructions for Form 4868.



This extension does not extend the March 1, 1999, filing date for fishermen who did not make an estimated tax payment and want to avoid an estimated tax penalty. Therefore, if you did not make an estimated tax payment by January 15, 1999, and you file your tax return after March 1, 1999, you will be subject to a penalty for underpaying your estimated tax, even if you file Form 4868.

What Is the Capital Construction Fund?

The Capital Construction Fund (CCF) is a special investment program administered by the National Marine Fisheries Service (NMFS) and the Internal Revenue Service (IRS). This program allows fishermen to defer tax on certain income they invest in a CCF account and later use to acquire, build, or rebuild fishing vessels.

The following sections discuss CCF accounts and the types of bookkeeping accounts that you must maintain when you invest in a CCF account. They also discuss the tax treatment of CCF deposits, earnings, and withdrawals.

CCF Accounts

This section explains who can open a CCF account and how to use the account to defer tax.

Opening a CCF account. If you are a U. S. citizen and you own or lease an eligible vessel (defined later), you can open a CCF account. Before you open your CCF account, you must enter into an agreement with the Secretary of Commerce through the NMFS. This agreement will establish the following.

- 1) **Your agreement vessels.** (Which of your eligible vessels, defined later, will be the basis for the deferral of tax.)
- 2) **Your planned use of withdrawals.** (What kind of vessel you will acquire, build, or rebuild with the money in your CCF account.)
- 3) **Your CCF depository.** (Where you will set up your CCF account.)



You can request an application kit or get additional information from NMFS at the following address.

CCF Program
Financial Services Division (F/SF2)
NOAA/National Marine Fisheries Service
1315 East-West Highway, 13th Floor
Silver Spring, MD 20910-3282



You can call NMFS to request an application kit or get additional information at (301) 713-2393. The fax number is (301) 713-1306.

Eligible vessel. An eligible vessel is a vessel that meets the following requirements.

- 1) The vessel was built or rebuilt in the United States.

- 2) The vessel is owned by a U. S. citizen and has a home port in the United States (if it weighs between 2 and 5 net tons).
- 3) The vessel is documented under the laws of the United States (if it weighs 5 net tons or more).
- 4) The vessel is used commercially in the fisheries of the United States.

A vessel operated in the foreign or domestic commerce of the United States that meets requirements (1) and (3) above is also an eligible vessel.

Deferring tax on CCF deposits and earnings. You can use a CCF account to defer tax by taking the following actions.

- 1) Making deposits to your CCF account.
- 2) Excluding from tax, deposits that are assigned to certain accounts (discussed later).
- 3) Making withdrawals from your CCF account when you acquire, build, or rebuild fishing vessels.
- 4) Reducing the tax basis of fishing vessels you acquire, build, or rebuild to "recapture" the amounts that were previously excluded from tax.



Report on deposit or withdrawal activity. After you have opened your CCF account, you must report annual deposit and withdrawal activity to the NMFS on NOAA Form 34-82. This form is due within 30 days after you file your federal income tax return. For more information, contact the NMFS at the address or phone number given earlier.

Types of Accounts Within a CCF You Must Maintain

This section discusses the three types of bookkeeping accounts you must maintain when you invest in a CCF account. Your total CCF deposits and earnings for any given year are limited to the amount that can be attributed for that year to these three accounts.

Capital account. The capital account consists of amounts attributable to the following items.

- 1) Allowable depreciation deductions for agreement vessels.
- 2) Any nontaxable return of capital from either a or b, below.
 - a) The sale or other disposition of agreement vessels.
 - b) Insurance or indemnity proceeds attributable to agreement vessels.
- 3) Any tax-exempt interest earned on state or local bonds in your CCF account.

Capital gain account. The capital gain account consists of amounts attributable to the following items reduced by any capital losses from assets held in your CCF account for more than 6 months.

- 1) Any capital gain from either of the following sources.

- a) The sale or other disposition of agreement vessels held for more than 6 months.
 - b) Insurance or indemnity proceeds attributable to agreement vessels held for more than 6 months.
- 2) Any capital gain from assets held in your CCF account for more than 6 months.

Ordinary income account. The ordinary income account consists of amounts attributable to the following items.

- 1) Any earnings (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States.
- 2) Any capital gain from the following sources reduced by any capital losses from assets held in your CCF account for 6 months or less.
 - a) The sale or other disposition of agreement vessels held for 6 months or less.
 - b) Insurance or indemnity proceeds attributable to agreement vessels held for 6 months or less.
 - c) Any capital gain from assets held in your CCF account for 6 months or less.
- 3) Any ordinary income (such as depreciation recapture) from either of the following sources.
 - a) The sale or other disposition of agreement vessels.
 - b) Insurance or indemnity proceeds attributable to agreement vessels.
- 4) Any interest (not including tax-exempt interest from state and local bonds), dividends, or other ordinary income earned on the assets in your CCF account.

Tax Treatment of CCF Deposits

This section explains the tax treatment of income that you use as the basis for CCF deposits.

Capital gains. Do not report on your federal income tax return any transaction that produces a capital gain if you deposit the net proceeds into your CCF account. This treatment applies to either of the following transactions.

- The sale or other disposition of an agreement vessel.
- The receipt of insurance or indemnity proceeds attributable to an agreement vessel.

Depreciation recapture. Do not report on your federal income tax return any transaction that produces depreciation recapture if you deposit the net proceeds into your CCF account. This treatment applies to either of the following transactions.

- The sale or other disposition of an agreement vessel.

- The receipt of insurance or indemnity proceeds attributable to an agreement vessel.

Earnings from operations. Report earnings from the operation of agreement vessels on your Schedule C or C-EZ (Form 1040) even if you deposit part of these earnings into your CCF account. Subtract any part of the earnings that you deposited into your CCF account from the amount that you would normally enter as taxable income on line 39 (Form 1040). In the margin to the left of line 39, write "CCF" and the amount of these deposits. Do not deduct these CCF deposits on Schedule C or C-EZ (Form 1040).

Instructions that refer to line 37 (Form 1040). If you deposit earnings from operations into your CCF account and you must complete other forms such as Form 6251 or the worksheets for Schedule D, you will need to make an extra computation. When the other form tells you to use an amount from line 37, Form 1040, do not use that amount. Instead, add lines 38 and 39, Form 1040, and use that amount.

Self-employment tax. You must use your net profit or loss from your fishing business to figure your self-employment tax. Do *not* reduce your net profit or loss by any earnings from operations you deposit to your CCF account.



Partnerships and S corporations. The deduction for partnership earnings from operations that are deposited into a CCF account is separately stated on Schedule K (Form 1065), line 11, and allocated to the partners on Schedule K-1 (Form 1065), line 11.

The deduction for S corporation earnings that are deposited is separately stated on Schedule K (Form 1120S), line 10, and allocated to the shareholders on Schedule K-1 (Form 1120S), line 10.

Nontaxable return of capital. Do not report on your federal income tax return any transaction that produces a nontaxable return of capital if you deposit the net proceeds into your CCF account. This treatment applies to either of the following transactions.

- The sale or other disposition of an agreement vessel.
- The receipt of insurance or indemnity proceeds attributable to an agreement vessel.

Tax Treatment of CCF Earnings

This section explains the tax treatment of the earnings from the assets in your CCF account when the earnings are redeposited or left in your account. However, if you choose to withdraw the earnings in the year earned, you must generally pay tax on them.

Capital gains. Do not report on your federal income tax return any capital gains from the sale of capital assets held in your CCF account. This includes capital gains distributions reported to you on Form 1099-DIV or a substitute statement. However, you should attach a statement to your tax return to list the payers and the amounts and identify the capital gains as "CCF account earnings."

Interest and dividends. Do not report on your federal income tax return any ordinary income (such as interest and dividends) you earn on the assets in your CCF account. However, you should attach a statement to your return to list the payers and the amounts and to identify them as "CCF account earnings."

If you are required to file Schedule B (Form 1040), you can add these earnings to the list of payers and amounts on line 1 and identify them as "CCF earnings." Then subtract the same amounts from the list and identify them as "CCF deposits."

Tax-exempt interest. Do not report on your federal income tax return tax-exempt interest from state or local bonds you held in your CCF account. You are not required to report this interest on line 8b of Form 1040.

Tax Treatment of CCF Withdrawals

This section discusses the tax treatment of amounts you withdraw from your CCF account during the year.

Qualified Withdrawals

A qualified withdrawal from a CCF account is one that is approved by NMFS for either of the following uses.

- 1) Acquiring, building, or rebuilding fishing vessels.
- 2) Making principal payments on the mortgage of a fishing vessel.

How to determine the source of qualified withdrawals. When you make a qualified withdrawal, the amount you withdraw is treated as being made in the following order of application against your accounts.

- First, as made from the capital account.
- Second, as made from the capital gain account.
- Third, as made from the ordinary income account.

Excluding qualified withdrawals from tax. Do not report on your federal income tax return any qualified withdrawals from your CCF account.

Reducing the tax basis of acquired, built, or rebuilt vessels. You must reduce the depreciable basis of fishing vessels you acquire, build, or rebuild by the amount of a withdrawal that is treated as made from either the capital gain account or the ordinary income account. For more information, see *How to determine the source of qualified withdrawals*, and *Deferring tax on CCF deposits and earnings*, earlier.

Nonqualified Withdrawals

A nonqualified withdrawal from a CCF account is one that is not a qualified withdrawal. For more information, see *Qualified Withdrawals*, earlier.

Examples of nonqualified withdrawals include the following amounts from the ordinary income account or the capital gain account.

- Amounts remaining in a CCF account upon termination of your agreement with NMFS.

- Amounts you withdraw and use to make principal payments on the mortgage of a vessel with a basis that has already been reduced to zero.
- Amounts determined by IRS to cause your CCF account balance to exceed the amount that is appropriate to meet your planned use of withdrawals. (You will generally be given 3 years to revise your plans to cover this excess balance.)
- Amounts you leave in your account for more than 25 years. (There are percentages beginning with year 26 and later that determine the amount of the non-qualified withdrawal.)

How to determine the source of nonqualified withdrawals. When you make a non-qualified withdrawal from your CCF account, the amount you withdraw is treated as being made in the following order of application against your accounts.

- First, as made from the ordinary income account.
- Second, as made from the capital gain account.
- Third, as made from the capital account.

Paying tax on nonqualified withdrawals. Nonqualified withdrawals that are treated as made from either the ordinary income account or the capital gain account are taxed separately from your other gross income at the highest marginal ordinary income or capital gain tax rate.



Partnerships and S corporations. Taxable nonqualified partnership withdrawals are separately stated on Schedule K (Form 1065), line 24, and allocated to the partners on Schedule K-1 (Form 1065), line 25. Taxable nonqualified withdrawals by an S corporation are separately stated on Schedule K (Form 1120S), line 21, and allocated to the shareholders on Schedule K-1 (Form 1120S), line 23.

Interest. You must pay interest on the additional tax due to a nonqualified withdrawal. The interest period begins on the last date for paying tax for the tax year for which you deposited the amount that you withdrew from your CCF account. The period ends on the last date for paying tax for the tax year in which you make the nonqualified withdrawal. The interest rate on the nonqualified withdrawal is simple interest. The rate is subject to change annually and published in the Federal Register.



The current interest rate can also be obtained by calling NMFS at (301) 713-2393.

Interest deduction. You can deduct the interest you pay on a nonqualified withdrawal as a trade or business expense.

Reporting the additional tax and interest. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest for the nonqualified withdrawal on line 56 of Form 1040. To the left of line 56, write the amount of tax and interest and "CCF."

Tax benefit rule. If any portion of your non-qualified withdrawal is properly attributable to contributions (not earnings on the contributions) you made to the fund that did not reduce your tax liability for any tax year prior to the withdrawal year, the following tax treatment applies.

- 1) The portion that did not reduce your tax liability for any year prior to the withdrawal year is not taxed.
- 2) An amount equal to that portion is allowed as a net operating loss deduction.

More Information

This section briefly discusses the CCF program. For more detailed information, see the following legislative authorities.

- Section 607 of the Merchant Marine Act of 1936, as amended (46 U.S.C. 1177).
- Part 259 of title 50 of the Code of Federal Regulations (50 C.F.R., Part 259).
- Part 3 of title 26 of the Code of Federal Regulations (26 C.F.R., Part 3).
- Section 7518 of the Internal Revenue Code (IRC 7518).

The application kit you can obtain from NMFS at the address or phone number given earlier may contain copies of some of these sources of additional information.

How To Claim Fuel Tax Credits and Refunds

You may be eligible to claim a credit on your income tax return for federal excise tax you pay on certain fuels used for a nontaxable use. You may also be eligible to claim a quarterly refund of the fuel taxes during the year, instead of waiting to claim a credit on your income tax return.

Instead of paying the fuel tax and filing for a credit or refund, you may be able to buy certain fuel tax free. For more information, see *How To Buy Fuel Tax Free*, later.

Nontaxable Uses

This section discusses the nontaxable uses that are of particular interest to fishermen. For information about credits and refunds for fuels used for nontaxable uses not discussed in this section, see Publication 378.

Gasoline and special fuel used in commercial fishing boats. You may be eligible to claim a credit or refund of excise tax included in the price of gasoline or special fuel used in a commercial fishing boat.

Commercial fishing boats include only watercraft used in taking, catching, processing, or transporting fish, shellfish, or other aquatic life for commercial purposes, such as selling or processing the catch, on a specific trip basis. They include boats used in both fresh and salt water fishing. They do not include boats used for both sport fishing and commercial fishing on the same trip. Fuel used in aircraft to locate fish is not fuel used in commercial fishing.

Off-highway business use. You may be eligible to claim a credit or refund of excise tax included in the price of fuel if you use the fuel in an off-highway business use.

Off-highway business use is any use of fuel in a trade or business or in any income-producing activity. It does not include use in a highway vehicle registered for use on public highways. Do not consider any use in a motorboat as an off-highway business use.

Examples. Off-highway business use includes fuels used in the following ways.

- 1) In stationary engines to operate generators, compressors, and similar equipment.
- 2) For cleaning purposes.

How To Claim a Credit or Refund

This part tells you when and how to claim a credit or refund of excise taxes included in the price of fuels you use for a nontaxable use.

Claiming a Credit

You claim a credit on **Form 4136** and attach it to your income tax return. Do not claim a credit for any tax for which you have filed a refund claim.

You must claim a credit for excise tax you paid on any of the following.

- Fuels used for nontaxable purposes if the total for the tax year is less than \$750.
- Fuel that was not included in any claim for refund filed for the tax year.

When to claim a credit. You can claim a fuel tax credit on your income tax return for the year you used the fuels. Also, you may be able to claim a fuel tax credit on an amended return for that year. Generally, you must file an amended return by the **later** of 3 years from the date you filed your original income tax return or 2 years from the time you paid the income tax. A return filed early is considered to have been filed on the due date.

Fuel tax claim on amended return. You can file an amended return to claim or change your fuel tax credit only in the following situations.

- You did not claim any credit for fuel taxes on Form 4136 for the tax year.
- Your credit is for gasohol blending, as discussed in Publication 378.
- Your credit is for a claim group, explained next, for which you did not previously file a claim on Form 4136 for the tax year.

Claims on Form 4136 (other than for gasohol blending, line 8) are separated into seven **claim groups** based on the type of fuel and the use of that fuel. Once you file Form 4136 with a claim for a group, you cannot file an amended return with another claim for that group. However, you can file an amended return with a claim for another group.

The following table shows what claims are in each group. The numbers in the second column refer to the line numbers on Form 4136. The numbers in the third column are from the Type of Use Table in the Form 4136 instructions.

Group	Line No.	Type of Use
I	1b, 1d-f, 2b	1
II	1a, 1d-f, 2a	2
III	1c-f	5, 7
IV	1c-f, 2b	3, 4, 9
V	3c, 7	5, 7
VI	3a-b, 4a-b, 5, 6	See line instructions
VII	2b	10

For each tax year, you can make only one claim for each group.

Example. You file your income tax return and claim a fuel tax credit. Your Form 4136 shows an amount on line 1c for use of gasoline in a boat for commercial fishing. This is a Group IV claim. You cannot amend your return to claim a credit for an amount on line 1d for use of gasohol in a boat for commercial fishing (Type of Use 4), since that is also a Group IV claim. However, if you used the gasohol in an off-highway business use (Type of Use 2), you can amend your return to claim the credit for that fuel tax because that would be a Group II claim.

How to claim a credit. As an individual, you claim the credit on line 63 of Form 1040. Check box b on line 63. If you would not otherwise have to file an income tax return, you must do so to get a fuel tax credit. See the instructions for Form 1040.

Claiming a Refund

You can file a claim for refund for any quarter of your tax year for which you can claim \$750 or more. This amount includes the excise tax paid on all fuels used for any qualifying purpose during that quarter or any prior quarter (for which no other claim has been filed) during the tax year.

If you cannot claim at least \$750 at the end of a quarter, you carry the amount over to the next quarter of your tax year to determine if you can claim at least \$750 for that quarter. If you cannot claim at least \$750 at the end of the fourth quarter of your tax year, you must claim a credit on your income tax return.

Form 8849. Use Form 8849 to file a claim for refund. Fill out the appropriate schedule and follow the instructions for additional information you need to include with your claim for refund.

When to file a quarterly claim. You must file a quarterly claim by the last day of the first quarter following the last quarter included in the claim. If you do not file a timely refund claim for the fourth quarter of your tax year, you will have to claim a credit for that amount on your income tax return, as discussed earlier.

Including the Credit or Refund in Income

Include any credit or refund of excise taxes on fuels in your gross income if you deducted the taxes as an expense that reduced your income tax liability.

If you use the cash method of accounting and file a claim for **refund**, include the refund in your gross income for the tax year in which you receive the refund. If you claim a **credit** on your income tax return, include the credit in gross income for the tax year in which you file Form 4136. If you file an **amended return**

and claim a credit, include the credit in gross income for the tax year in which you receive it.

Example. Ed Brown, a cash basis fisherman, filed his 1997 Form 1040 on March 2, 1998. On his Schedule C, Ed deducted the total cost of gasoline (including \$110 of excise taxes) used in his commercial fishing vessel. Then, on Form 4136, Ed claimed the \$110 of excise tax paid on the gasoline as a credit. Ed reports the \$110 as additional income on his 1998 Schedule C.

How To Buy Fuel Tax Free

Instead of paying the fuel tax and filing a claim for credit or refund when the fuel is used for a nontaxable use, you may be eligible to buy it tax free.

Gasoline. Your supplier may be able to sell you gasoline at a tax-free price only for use in a **vessel employed in commercial fishing.**

Your supplier may be eligible to claim a credit or refund of the excise tax on the gasoline sold to you at a tax-free price. Refer your supplier to Publication 510 for details.

To buy gasoline at a tax-free price, give your supplier a signed certificate identifying you and stating how you will use the gasoline. You do not need to renew the certificate as long as the information it contains continues to be correct.

Exemption certificate. The following is an acceptable exemption certificate.

Date _____
The undersigned ("Buyer") hereby certifies that Buyer bought or will buy for use in a vessel employed in commercial fishing (Check the applicable type of certificate)
_____The (quantity) _____ of gasoline, or
_____ALL the gasoline it buys
at a price that does not include the excise tax from:
Name of seller: _____
Address of seller: _____

If the gasoline is not used as specified above, Buyer will so notify the person to whom Buyer gives this certificate. Buyer has not and will not claim a refund or credit under section 6421 of the Internal Revenue Code for the excise tax on this gasoline.

Buyer understands that Buyer or any other party may, for fraudulent use of this certificate, be subject to a fine or imprisonment, together with the costs of prosecution.

Name _____
Title _____
TIN _____
Address _____
Signature _____

Schedule C Example

This section gives an example of how to fill out Schedule C (Form 1040). The example uses the situation of Frank Carter who owns and operates a fishing boat. His completed return is at the end of this section.

Frank Carter is a sole proprietor who owns and operates a fishing boat. He uses the cash method of accounting and files his return on a calendar year basis. He keeps his business records with a single-entry bookkeeping system, similar to the sample record system illustrated in Publication 583.

Frank has two crew members, Bill Brown and Joe Green, who are considered self-employed for social security, Medicare, and federal income tax withholding purposes. After certain boat operating expenses are paid, the proceeds from the sale of the catch are divided 76% to Frank and 12% to each crew member.

Frank figures his net profit or loss from his fishing business by subtracting his fishing expenses from his gross income from fishing on Schedule C. He then reports the net profit or loss on **line 12, Form 1040.**

Schedule C (Form 1040)

First, Frank fills in the information required at the top of Schedule C. On line A, he enters "Fishing" and on line B, he enters 114110, the new 6-digit business code for commercial fishing. He then completes items C through H.

Part I—Income

Frank figures his gross income from fishing in Part I.

Line 1. Frank had sales of \$60,288 for the year. This includes all the fish he caught and sold during the year. He enters his total sales on line 1.

Line 3. Because Frank did not have any returns and allowances to report on line 2, line 3 is the same as line 1.

Line 5. Because Frank did not have any cost of goods sold to report on line 4, line 5 is the same as line 3.

Line 6. Frank's entry of \$712 represents a \$612 patronage dividend he received from his local cooperative and a \$100 fuel tax credit he claimed on the 1997 Form 1040 he filed on March 2, 1998. The patronage dividend was reported to him on Form 1099-PATR, *Taxable Distributions Received From Cooperatives.*

Line 7. Frank's gross income from fishing includes his gross profit from line 5 and his other income from line 6.

Part II—Expenses

Frank enters his fishing expenses in Part II.

Line 10. Frank used his truck 80% for business during the year. He spent a total of \$505 for gas, oil, insurance, tags, repairs, and upkeep. He can deduct \$404 (80% × \$505) on line 10.

Line 13. Frank enters the \$6,534 depreciation from Form 4562 (not shown).

Line 15. Frank's \$3,291 deduction is for insurance on his business property (80% of his truck insurance is included in line 10). The deduction is only for premiums that give him coverage for the year.

Line 16b. Frank had borrowed money to buy his fishing boat. The interest on this loan was \$800 for the year.

Line 20b. His rent for his mooring space was \$50 a month, or \$600 for the year.

Line 21. He spent \$3,600 for vessel repairs and \$993 for gear repairs for a total cost of \$4,593.

Line 22. He spent \$1,713 for galley supplies and \$4,751 for bait and ice for a total cost of \$6,464.

Line 23. Frank renewed his fishing license. He enters the \$35 state fee on this line.

Line 26. Frank paid his crew members total crew shares of \$10,992 for the year. He does not include any amount he paid to himself or withdrew from the business for his own use.

Line 27. Frank enters the total of his other fishing expenses on this line. These expenses are not included on lines 8–26. He lists the type and the amount of the expenses separately in Part V of page 2 (not shown), and carries the total entered on line 48 to line 27. His only entry on this line is the \$6,367 he spent on fuel for his fishing boat.

Line 28. Frank adds all his expenses listed in Part II and enters the total on this line.

Line 29. He subtracts his total expenses, \$40,080 (line 28) from his gross income from fishing, \$61,000 (line 7). Frank has a tentative profit of \$20,920.

Line 30. Frank did not use any part of his home for business, so he does not make an entry here.

Line 31. Frank has a net profit of \$20,920 (line 29 minus line 30). He enters his net profit here, on line 12 of Form 1040, and on line 2, Section A of Schedule SE (Form 1040), not shown.

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1998

Attachment
Sequence No. **09**

Name of proprietor FRANK CARTER	Social security number (SSN) 111 : 00 : 1111
A Principal business or profession, including product or service (see page C-1) FISHING	B Enter NEW code from pages C-8 & 9 ▶ 1 1 4 1 1 0
C Business name. If no separate business name, leave blank. CAP'N FRANK'S	D Employer ID number (EIN), if any 1 0 9 9 9 9 9 9
E Business address (including suite or room no.) ▶ <u>215 Seagull Drive</u> City, town or post office, state, and ZIP code <u>Hometown, OR 97331</u>	
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶	
G Did you "materially participate" in the operation of this business during 1998? If "No," see page C-2 for limit on losses <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
H If you started or acquired this business during 1998, check here <input type="checkbox"/>	

Part I Income

1 Gross receipts or sales. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here <input type="checkbox"/>	1	60,288	
2 Returns and allowances	2		
3 Subtract line 2 from line 1	3	60,288	
4 Cost of goods sold (from line 42 on page 2)	4		
5 Gross profit. Subtract line 4 from line 3.	5	60,288	
6 Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	712	
7 Gross income. Add lines 5 and 6	7	61,000	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8			19 Pension and profit-sharing plans	19		
9 Bad debts from sales or services (see page C-3)	9			20 Rent or lease (see page C-5):			
10 Car and truck expenses (see page C-3)	10	404		a Vehicles, machinery, and equipment	20a		
11 Commissions and fees	11			b Other business property	20b	600	
12 Depletion	12			21 Repairs and maintenance	21	4,593	
13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	6,534		22 Supplies (not included in Part III)	22	6,464	
14 Employee benefit programs (other than on line 19)	14			23 Taxes and licenses	23	35	
15 Insurance (other than health)	15	3,291		24 Travel, meals, and entertainment:			
16 Interest:				a Travel	24a		
a Mortgage (paid to banks, etc.)	16a			b Meals and entertainment			
b Other	16b	800		c Enter 50% of line 24b subject to limitations (see page C-5)			
17 Legal and professional services	17			d Subtract line 24c from line 24b	24d		
18 Office expense	18			25 Utilities	25		
28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns	28			26 Wages (less employment credits)	26	10,992	
29 Tentative profit (loss). Subtract line 28 from line 7	29			27 Other expenses (from line 48 on page 2)	27	6,367	
30 Expenses for business use of your home. Attach Form 8829	30			28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns	28	40,080	
31 Net profit or (loss). Subtract line 30 from line 29.	31			29 Tentative profit (loss). Subtract line 28 from line 7	29	20,920	
• If a profit, enter on Form 1040, line 12 , and ALSO on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.				30 Expenses for business use of your home. Attach Form 8829	30		
• If a loss, you MUST go on to line 32.				31 Net profit or (loss). Subtract line 30 from line 29.	31	20,920	
32 If you have a loss, check the box that describes your investment in this activity (see page C-6).				• If a profit, enter on Form 1040, line 12 , and ALSO on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.			
• If you checked 32a, enter the loss on Form 1040, line 12 , and ALSO on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.				• If a loss, you MUST go on to line 32.			
• If you checked 32b, you MUST attach Form 6198 .				32a <input type="checkbox"/> All investment is at risk.			
				32b <input type="checkbox"/> Some investment is not at risk.			

How To Get More Information

You can 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.

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.ustreas.gov. While visiting our Web Site, you can select:

- *Frequently Asked Tax Questions* to find answers to questions you may have.
- *Fill-in Forms* to complete tax forms online.
- *Forms and Publications* to download forms and publications or search publications by topic or keyword.
- *Comments & Help* to e-mail us with comments about the site or with tax questions.
- *Digital Dispatch* and *IRS Local News Net* to receive our electronic newsletters on hot tax issues and news.

You can also reach us with your computer using any of the following.

- Telnet at iris.irs.ustreas.gov
- File Transfer Protocol at ftp.irs.ustreas.gov
- Direct dial (by modem) **703-321-8020**

 **TaxFax Service.** Using the phone attached to your fax machine, you can receive forms, instructions, and tax

information 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.

 **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**. Alaska fishermen can call **1-800-829-0933** then dial extension **89019**.
- *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 assistant and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistants 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.

 **Walk-in.** You can pick up certain forms, instructions, and publications at many post offices, libraries, and IRS offices. Some libraries and IRS offices have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.

 **Mail.** You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response 7 to 15 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074

 **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, instructions, and publications.
- Popular tax forms which 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) for \$25.00 by calling 1-877-233-6767 or for \$18.00 on the Internet at www.irs.ustreas.gov/cdorders. The first release is available in mid-December and the final release is available in late January.

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Tax Publications for Individual Taxpayers

See *How To Get More Information* 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)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 1999
- 553 Highlights of 1998 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 508 Educational Expenses
- 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
- 520 Scholarships and Fellowships
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions

- 530 Tax Information for First-Time Homeowners
- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
- 550 Investment Income and Expenses
- 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
- 575 Pension and Annuity Income
- 584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 590 Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 Understanding the Collection Process
- 596 Earned Income Credit
- 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
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 Is My Withholding Correct for 1999?
- 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 IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 970 Tax Benefits for Higher Education
- 971 Innocent Spouse Relief
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 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 More Information* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog numbers when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
Sch C Profit or Loss From Business	11334	2210 Underpayment of Estimated Tax by Individuals, Estates and Trusts	11744
Sch C-EZ Net Profit From Business	14374	2441 Child and Dependent Care Expenses	11862
Sch D Capital Gains and Losses	11338	2848 Power of Attorney and Declaration of Representative	11980
Sch E Supplemental Income and Loss	11344	3903 Moving Expenses	12490
Sch EIC Earned Income Credit	11339	4562 Depreciation and Amortization	12906
Sch F Profit or Loss From Farming	11346	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
Sch H Household Employment Taxes	12187	4952 Investment Interest Expense Deduction	13177
Sch J Farm Income Averaging	25513	5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs	13329
Sch R Credit for the Elderly or the Disabled	11359	6251 Alternative Minimum Tax-Individuals	13600
Sch SE Self-Employment Tax	11358	8283 Noncash Charitable Contributions	62294
1040A U.S. Individual Income Tax Return	11327	8582 Passive Activity Loss Limitations	63704
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075	8606 Nondeductible IRAs	63966
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749	8812 Additional Child Tax Credit	10644
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064	8822 Change of Address	12081
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329	8829 Expenses for Business Use of Your Home	13232
1040-ES Estimated Tax for Individuals	11340	8863 Education Credits	25379
1040X Amended U.S. Individual Income Tax Return	11360		

Tax Publications for Business Taxpayers

See *How To Get More Information* 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)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 1999
- 553 Highlights of 1998 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Employer's Guides

- 15 Employer's Tax Guide (Circular E)
- 15-A Employer's Supplemental Tax Guide
- 51 Agricultural Employer's Tax Guide (Circular A)
- 80 Federal Tax Guide For Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands (Circular SS)
- 179 Guía Contributiva Federal Para Patronos Puertorriqueños (Circular PR)
- 926 Household Employer's Tax Guide

Specialized Publications

- 378 Fuel Tax Credits and Refunds

- 463 Travel, Entertainment, Gift, and Car Expenses
- 505 Tax Withholding and Estimated Tax
- 510 Excise Taxes for 1999
- 515 Withholding of Tax on Nonresident Aliens and Foreign Corporations
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 527 Residential Rental Property
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 535 Business Expenses
- 536 Net Operating Losses
- 537 Installment Sales
- 538 Accounting Periods and Methods
- 541 Partnerships
- 542 Corporations
- 544 Sales and Other Dispositions of Assets
- 551 Basis of Assets
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 560 Retirement Plans for Small Business (SEP, SIMPLE, and Keogh Plans)
- 561 Determining the Value of Donated Property
- 583 Starting a Business and Keeping Records
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 594 Understanding the Collection Process

- 597 Information on the United States-Canada Income Tax Treaty
- 598 Tax on Unrelated Business Income of Exempt Organizations
- 686 Certification for Reduced Tax Rates in Tax Treaty Countries
- 901 U.S. Tax Treaties
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 925 Passive Activity and At-Risk Rules
- 946 How To Depreciate Property
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Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
W-2 Wage and Tax Statement	10134	1120S U.S. Income Tax Return for an S Corporation	11510
W-4 Employee's Withholding Allowance Certificate*	10220	Sch D Capital Gains and Losses and Built-In Gains	11516
940 Employer's Annual Federal Unemployment (FUTA) Tax Return*	11234	Sch K-1 Shareholder's Share of Income, Credits, Deductions, etc.	11520
940EZ Employer's Annual Federal Unemployment (FUTA) Tax Return*	10983	2106 Employee Business Expenses*	11700
941 Employer's Quarterly Federal Tax Return	17001	2106-EZ Unreimbursed Employee Business Expenses*	20604
1040 U.S. Individual Income Tax Return*	11320	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts*	11744
Sch A & B Itemized Deductions & Interest and Ordinary Dividends*	11330	2441 Child and Dependent Care Expenses*	11862
Sch C Profit or Loss From Business*	11334	2848 Power of Attorney and Declaration of Representative*	11980
Sch C-EZ Net Profit From Business*	14374	3800 General Business Credit	12392
Sch D Capital Gains and Losses*	11338	3903 Moving Expenses*	12490
Sch E Supplemental Income and Loss*	11344	4562 Depreciation and Amortization*	12906
Sch F Profit or Loss From Farming*	11346	4797 Sales of Business Property*	13086
Sch H Household Employment Taxes*	12187	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*	13141
Sch J Farm Income Averaging*	25513	5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs*	13329
Sch R Credit for the Elderly or the Disabled*	11359	6252 Installment Sale Income*	13601
Sch SE Self-Employment Tax*	11358	8283 Noncash Charitable Contributions*	62299
1040-ES Estimated Tax for Individuals*	11340	8300 Report of Cash Payments Over \$10,000 Received in a Trade or Business*	62133
1040X Amended U.S. Individual Income Tax Return*	11360	8582 Passive Activity Loss Limitations*	63704
1065 U.S. Partnership Return of Income	11390	8606 Nondeductible IRAs*	63966
Sch D Capital Gains and Losses	11393	8822 Change of Address*	12081
Sch K-1 Partner's Share of Income, Credits, Deductions, etc.	11394	8829 Expenses for Business Use of Your Home*	13232
1120 U.S. Corporation Income Tax Return	11450		
1120-A U.S. Corporation Short-Form Income Tax Return	11456		

