

Fishing Information Newsletter

News You Can Use from the Internal Revenue Service
New England District

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Thanks from the Coordinator

The November edition marks the third issue of the Fishing Assistance and Information Newsletter. Our intent is to keep the fishing industry — participants and their tax return preparers — informed of the proper treatment of certain tax issues.

We started with a list of only 16 fishing associations, but in a few short months, our mailing list has grown to 147 participants... and continues to expand. We asked newsletter recipients to share our e-mail address with others in the industry and they didn't let us down!

Based solely on the e-mail addresses we've received, it appears that a large percentage of our readership comes from the tax practitioner community. This is a vital link for us, especially as tax preparers help to educate their clients on tax issues specific to the fishing industry.

However, we are also trying to reach out to individual fishermen, a segment that often is not represented by a skilled practitioner. We believe this group could benefit from this newsletter.

If anyone knows of fishing associations who have an e-mail address and would like to subscribe to our newsletter, please tell them to drop us a note. We do not copy-right our material and would be glad to allow the newsletter to be posted to an association's Web site in an effort to share information with the broadest possible audience.

Please remember the success of this newsletter depends on the responses, questions and concerns of the industry. Remember — don't be selfish — share our e-mail!

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How to Report Gross Income

We receive numerous inquiries from boat owners, sternmen, co-ops, and wholesale buyers regarding the correct way to sell the catch and report the monies received. Although there are many scenarios, the IRS has established these situations as ideal examples to be followed:

Boat Owners

Example One

Jack, a lobsterman and scalloper, operates a fishing boat. He hires Ted and Harry to work on his boat at various times throughout the year and receive 20% of the catch as payment. Jack, as the owner, sells the catch to a wholesaler at the end of the workday and is paid by check. Jack, in turn, issues a check to Ted and Harry for their percentage of the catch. Jack reports all monies received as gross income on 1040 Schedule C. He also takes an expense deduction for the monies paid to Ted and Harry for services rendered.

By using a checking account to handle these transactions, the monies received and paid are easily identifiable. At the end of the calendar year, Jack would then be required to file Form 1099 MISC for the total value of the catch paid to Ted and Harry during the calendar year.

COMMENT

The above example illustrates the easiest and most understandable way to determine amounts received and paid out. The IRS cannot make a buyer issue a single check to the boat owner/operator, and cannot require that the sternmen sell their catch to the same buyer.

Example Two

Jack, a lobsterman and scalloper, operates a fishing boat. He hires Ted and Harry to work on his boat. Ted and Harry work for Jack at various times throughout the year and receive 20% of the catch as payment. Ted and Jack sell their catch to the same wholesaler at the end of the workday. However, Harry prefers to take his catch and sometimes sells it at retail, other times he sells it to his brother-in-law who is a wholesaler in the southern part of the state.

Jack must keep a record of the money paid to Ted when they sell their catch at the end of the day. He can ask Ted the amount of payment he obtained, or he can record how many pounds of lobster or scallops Ted received, and what the market value of the catch was that day. In other words, if 200 pounds of lobsters were caught, Ted's 20% share would be 40 pounds. If Jack got \$3.75 a pound for the 160 pounds (his share), the value of Ted's share would be \$150 (40 pounds x \$3.75). Ted got \$150 from the wholesaler, or received 40 pounds of lobster worth \$150.

Jack would do similar bookkeeping for Harry. At the end of a day when Harry worked on the boat, Jack would record the number of pounds Harry received for his share of the catch and record the value of that share as if he had sold it on that particular day. If Jack got \$3.50 per pound for his catch that day, he would use the same amount to value Harry's share of the catch.

COMMENT

At the end of the year, Jack would total the amounts paid and/or the fair market value of the Ted and Harry's share of the catch and fill out Form 1099-MISC. He'd give Ted a copy of his 1099-MISC by January 31st of the next year. He would do the same for Harry. Jack would mail the original Form 1099-MISC for both of his employees, to the Internal Revenue Service address shown on Form 1096, by February 28th.

Sternman/Crewmember

If the sternman/crewmember (crew of fewer than 10) receives monetary payment from the boatowner, rather than product (fish), and that is the only source of self-employment income, the total amount shown on 1099-MISC would be gross receipts to be reported on Schedule C.

If product is received, a fair market value of the product must be established. If the value is other than what the boat owner reflected on 1099-MISC, the sternman must maintain records showing how much he received for the product. Records must show the basis in the catch (value placed by the boat owner on a catch by catch basis) and the sale price of the product (for each sale).

As you can see, if the sternman has the boat owner sell the entire catch, recordkeeping is significantly reduced.

Urchin Divers

The income and information return process for urchin divers is normally the same as for boat owners. Urchin divers usually hire a boat owner as a "tender" and reimburse them for operating expenses, plus a percentage of the catch. In such cases, the urchin diver would be re-

quired to issue a 1099-MISC to the boat owner for the value of the catch or monies paid.

Frequently Asked Questions ~ FAQs

What types of business expenses are allowed on a Schedule C of a crewmember/sternman (1099-MISC income only)?

A crew member/sternman would have very few business expenses. While this list is not all-inclusive, the following might apply: safety equipment (gloves, waterproof clothing, boots); equipment (small knives); or the cost of any license required to work as a crewmember.

Normally there would not be any allowable expense for a vehicle used for transportation, unless it could be shown as an integral part of doing business — for example, moving product from the docks to the buyer.



Schedule C-EZ, is an excellent fit for most crewmembers/sternman, since most would have less than \$2,500 in business expenses.

Taxpayer Advocate Services

John and Mary filed their 1998 joint tax return on Feb. 26, 1999. Their accountant advised them that since more than two-thirds of their gross income was from fishing, they could file the return by March 1, and pay the tax in full without penalty. Several weeks after filing, they received a notice from the IRS indicating they owed an estimated tax penalty. Mary called the IRS toll-free number shown on the notice, explained the situation, and was told her account would be adjusted. But, a month later they received another IRS bill. What should they do?

Call the Advocate! If you contacted the IRS about a problem and it remains unresolved, or if you are experiencing a hardship because of IRS treatment or delay, contact the Taxpayer Advocate Service — the voice at the IRS who works independently to assist you. Call 24 hours a day, 7 days a week, toll-free 1-877-777-4778.

Topics for the Next Issue

-  Capital Construction Fund (CCF)
-  Travel Expenses



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