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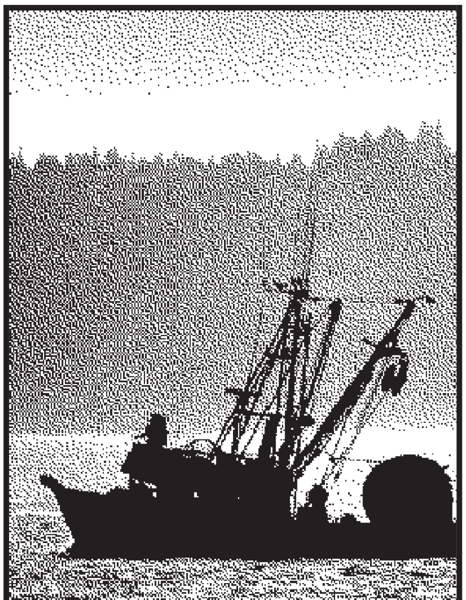
Tax Highlights for Commercial Fishermen

For use in preparing 2003 Returns

Attention: This publication will not be revised for use in preparing 2004 returns. For the next revision, we are considering using a new format that will not require annual updates. Since the tax law this publication covers generally does not significantly change from year to year, you can use this 2003 text as a general guide to prepare 2004 returns. To find changes that may affect 2004 returns, see *What's New* in your income tax return instructions; Publication 553, Highlights of 2004 Tax Changes; or *What's Hot In Tax Forms, Pubs, and Other Tax Products* at *www.irs.gov/formspubs.* To comment on this revision process, see *Comments and Suggestions* on page 2.



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Introduction

This publication highlights some special tax rules that may apply to you if you have your own fishing trade or business. The following persons have their own fishing trade or business.

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

Generally, you report your profit or loss from fishing on Schedule C or Schedule C–EZ of Form 1040. An example with a filled-in Schedule C, shown later, provides details on how to complete this form.

This publication does ***not*** contain all 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.*

RECORDS

If you are just starting out in a fishing business or you need information on keeping books and records, 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.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can email us at ***taxforms@irs.gov**. Please put “Publications Comment” on the subject line.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Important Changes for 2003

Additional depreciation. You may be able to claim an additional 50% special depreciation allowance for property acquired after May 5, 2003. For more information, see *Depreciation*.

Nonqualified capital construction fund withdrawals. For tax years ending after May 5, 2003, the maximum tax rate applied to nonqualified withdrawals from the capital gain account in a capital construction fund decreases from 20% to 15%.

Important Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1–800–THE–LOST (1–800–843–5678)** if you recognize a child.

Important Dates for 2004

This section highlights important due dates for the 2004 calendar year. For other important dates, see Publication 509, *Tax Calendars for 2004.*

January 15

Fishermen. If at least two-thirds of your 2002 or 2003 gross income was from fishing, you may want to pay at least two-thirds of your 2003 tax by this date, using Form 1040–ES, to meet your estimated tax requirement for 2003. You have until April 15 to file your 2003 Form 1040 and pay any remaining tax without an estimated tax penalty. See March 1, later, if you do not pay two-thirds of your tax by this date.

If less than two-thirds of your gross income is from fishing, you generally must make quarterly estimated tax payments. See *Due Dates for Nonqualified Fishermen*, later.

February 2

Fishing boat operators. Fishing boat operators must give a 2003 Form 1099–MISC, *Miscellaneous Income,* to certain crew members who were self-employed.

March 1

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.

If you file Forms 1099 electronically (not by magnetic media), your due date for filing them with the IRS will be extended to March 31. The due date for giving the recipient these forms is still February 2.

Fishermen. If at least two-thirds of your 2002 or 2003 gross income was from fishing, you can file your 2003 Form 1040 by this date and pay your tax in full without incurring an estimated tax penalty.

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*, or you can get an extension by Internet or phone.

More information. For more information on important dates, see *When Do Fishermen Pay Estimated Tax and File Tax Returns*, later.

Useful Items

You may want to see:

Publication

- ❑ **15** Circular E, Employer’s Tax Guide
- ❑ **15–A** Employer’s Supplemental Tax Guide
- ❑ **15–B** Employer’s Tax Guide to Fringe Benefits
- ❑ **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 Tax Help* near the end of this publication for information about getting publications and forms.

What Is Gross Income From Fishing?

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

- Fish.
- Shellfish (such as clams and mussels).
- Crustacea (such as lobsters, crabs, and shrimp).
- Sponges.
- Seaweeds.
- Other aquatic forms of animal or vegetable life.

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

Wages. Wages you receive as an employee in a fishing business are not gross income from fishing.

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 *Which fishermen are 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 relating to the purchase of capital assets or depreciable property used in your fishing business. Reduce the basis of these assets by the dividends received.

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 Do You Claim Fuel Tax Credits and Refunds,* later.

Which Fishing Expenses Can You Deduct?

You generally can deduct ordinary and necessary fishing expenses as business expenses in Part II of Schedule C (Form 1040). An ***ordinary*** fishing expense is one that is common and accepted in a fishing trade or business. A ***necessary*** fishing expense 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. The most common business expenses for small businesses are listed in Part II of Schedule C. For more information on business expenses, see Publication 535. There is also information on specific business expenses in Publication 334.

Depreciation

If property you acquire to use in your business has a useful life that extends substantially beyond the year it is placed in service, 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 year and deduct part of it each year. This method of deducting the cost of business property is called depreciation. Use Form 4562, *Depreciation and Amortization,* to report depreciation.

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

- ***Fishing boats.*** You generally can depreciate a fishing boat used in your fishing trade or business as 7-year property using the Modified Accelerated Cost Recovery System (MACRS).
- ***Nets, pots, and traps.*** You generally can depreciate a net, pot, or trap used 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 in the current year.
- ***Repair or improvement.*** If a repair or replacement increases the value of your property, makes it more useful, or lengthens its life, it is an improvement. You must depreciate the cost of improvements. If the repair or replacement does not increase the value of your property, make it more useful, or lengthen its life, it is a repair. You deduct the cost of repairs as a business expense.

Section 179 deduction. Instead of depreciating property, you can choose to deduct a limited amount of the cost of certain depreciable property in the year you place it in service in your business. This deduction is known as the ***section 179 deduction.*** For more information, see Publication 946.

Special depreciation allowance You may be able to claim an additional 30% special depreciation allowance for property acquired after September 10, 2001. You may be able to claim an additional 50% special depreciation allowance for property acquired after May 5, 2003. The special depreciation allowance is an additional deduction you can take before you figure MACRS depreciation for the year you place the property in service. For more information, see the *Instructions for Form 4562* or Publication 946.

Travel and Transportation

This section briefly explains some of 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 ordinary and necessary costs of getting from one workplace to another in the course of your business when you are traveling within the city or general area that is 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 business is located.

CAUTION

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 ordinary and necessary expenses of traveling away from home for your business, profession, or job. You are traveling away from home if you meet the following requirements.

- 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.
- You need to sleep or rest to meet the demands of your work while away from home.

Limited deduction for meals. You generally can deduct only 50% of the costs of the following meals.

- Meals you provide to either employees or self-employed individuals who provide services to your fishing trade or business.
- Your own meals while you are traveling away from home for business.

Exceptions to limit. You can deduct the full costs of the following meals.

- Meals that qualify as a de minimus fringe benefit as discussed in section 2 of Publication 15–B. 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.
- Meals whose value you include in an employee's wages.
- Meals whose value you include in the income of a 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 file to report your payments for services.
- 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).

CAUTION

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, subtract your deductible fishing expenses from your gross income from fishing. File Schedule C with your Form 1040.

TIP

You may be able to use the simpler ***Schedule C–EZ (Form 1040),*** *instead of Schedule C, if you made a profit and had fishing expenses of $2,500 or less. For more information, see Part I of Schedule C–EZ.*

Who is self-employed? You are self-employed 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 self-employed. Your trade or business may consist of part-time work, including work you do in addition to your regular job.

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

What is a trade or business? 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

Table 1. **Employment Tax Treatment of Fishing Activities and Certain Fishermen**

Activity or Person	Treatment Under Employment Taxes: 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 considered self-employed. (See *Which fishermen are considered self-employed?*)	Exempt	Exempt	Exempt
d. Native American exercising fishing rights.	Exempt	Exempt	Exempt

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.

Husband and wife business. If you and your spouse jointly own and operate an unincorporated fishing business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. You and your spouse must report the business income and expenses on Form 1065, *U.S. Return of Partnership Income*. Do ***not*** use Schedule C or C-EZ. For more information, see Publication 541, *Partnerships.*

Exception. If you and your spouse wholly own an unincorporated business as ***community property*** under the community property laws of a state, foreign country, or U.S. possession, you may treat the business either as a sole proprietorship or a partnership. The ***only*** states with community property laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting position will be treated as a conversion of the entity.

CAUTION

Not-for-profit fishing. *You must have the intention of making a profit in order 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.*

More information. For specific information on completing Schedule C, see *Schedule C Example* and the filled-in Schedule C, later.

Schedule SE (Form 1040)

Use Schedule SE (Form 1040) to figure and report your self-employment tax. See *Self-employment tax (SE tax),* later. Most fishermen can use *Section A — Short Schedule SE* to figure their self-employment 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.

TIP

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 (SE tax). The SE tax is a social security and Medicare tax primarily 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 coverage. 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).

Earning credits in 2003 and 2004. You can earn a maximum of four credits per year. For 2003, you earn one credit for each $890 ($900 for 2004) of income subject to social security taxes. You need $3,560 ($890 x 4) of self-employment income and wages to earn four credits in 2003. For 2004, you will need $3,600 ($900 x 4) of self-employment income and wages to earn four credits.

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

Optional methods. You may want to use one of the optional methods in Part II of Long Schedule SE (Section B) when you have a loss or a small net profit and any of the following apply.

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

CAUTION

Using the optional methods will increase your SE tax.

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. 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 55 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.

Husband and wife partnership. If you and your spouse operate a fishing business as a partnership, each of you should include your respective share of SE income on a separate Schedule SE.

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.

Self-employment tax deduction. You can deduct one-half of your SE tax as a business expense in figuring your adjusted 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 28, the amount shown on the *Deduction for one-half of self-employment tax* line of the Schedule SE.

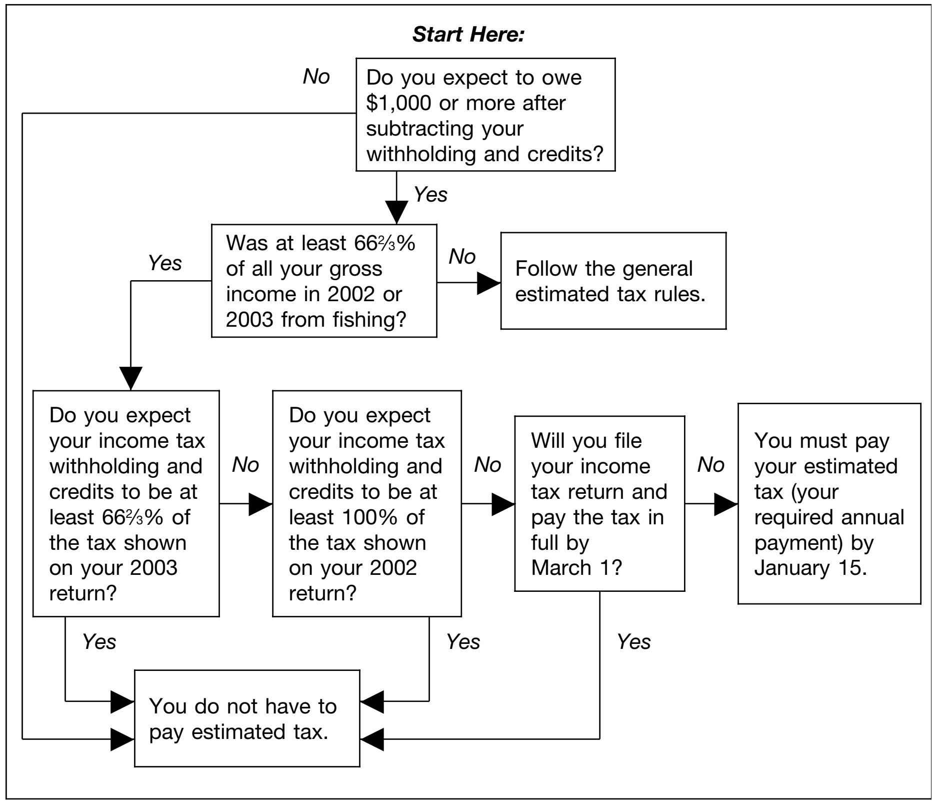
More information. For more information on self-employment tax, see Publication 533.

Form 1099–MISC

Give Form 1099–MISC to each person to whom you have paid the following during the year. This form can be filed electronically if the recipient consents.

1. A share of your catch (or a share of the proceeds from the sale of your catch) to an

Figure 1. **Estimated Tax for Fishermen**



individual who is not your employee (self-employed). For information about individuals considered to be self-employed, see *Which fishermen are considered self-employed*, later.

2. At least $600 in rents, services, and other income payments to an individual who is not your employee (self-employed).
3. Cash payments of at least $600 to a commercial fisherman for the purchase of fish for resale. See the instructions for Form 1099–MISC for definitions of ***cash*** and ***fish*** and for information about the recordkeeping requirements for resale buyers.

Which fishermen are 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 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 a minimum catch.
   c. He is paid solely for additional duties (such as for services performed 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 five 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 among the captain, the mate, and the crew members. You divide the other 40% between yourself and the captain. The mate, engineer, and 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, each crew member (including the captain, mate, engineer, and cook) is considered self-employed. 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 all the crew members but the captain receive an extra $100 for each trip that brings back a certain minimum catch.

For purposes of employment and self-employment taxes, the captain, mate, engineer, and cook are self-employed individuals. The other five 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

You are generally required to withhold federal income tax, social security tax, and Medicare tax from your employee's wages. You also must pay the employer's share of social security and Medicare taxes. In addition, you may be required to pay federal unemployment tax under the Federal Unemployment Tax Act (FUTA). If you have employees, you will need to file forms to report these employment taxes. For more information, see Publication 15, which explains your payroll tax responsibilities as an employer.

To help you determine whether the people working for you are your employees, see Publication 15–A. It has information to help you determine whether an individual is an independent contractor or an employee.

CAUTION *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 *Which fishermen are considered self-employed?* under *Form 1099–MISC,* earlier.

Table 1. See *Table 1,* shown earlier, for information on the employment tax treatment of fishing activities and certain fishermen.

When Do Fishermen Pay Estimated Tax and File Tax Returns?

When you must pay estimated tax and file your tax return depends on how much of your gross income comes from fishing. See *Figure 1* to determine if you have to pay estimated tax. Gross income is discussed later.

General Rule for Making Estimated Tax Payments

You must make estimated tax payments for 2003 if you expect to owe at least $1,000 in tax, after subtracting your withholding and credits, and you expect your withholding and credits to be less than the smaller of the following.

1. 90% of the tax to be shown on your 2003 tax return.
2. 100% of the tax shown on your 2002 tax return. Your 2002 tax return must cover all 12 months for this rule to apply.

If at least two-thirds of your gross income for 2002 or 2003 is from fishing, substitute $66\frac{2}{3}$% for 90% in (1) above.

If you receive at least two-thirds of your total gross income from fishing in the current or prior year, special estimated tax and return due dates apply to you. See the discussion under *Due Dates for Qualified Fishermen*, later.

What Is Gross Income?

Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. ***Gross income is not the same as total income*** shown on line 22 of Form 1040. 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 2003 was from fishing, use as your gross income the total amount of the following ***income*** (not loss) items from your tax return.

- Wages, salaries, tips, etc., from Form 1040, line 7.
- Taxable interest from Form 1040, line 8a.
- Ordinary dividends from Form 1040, line 9a.
- Taxable refunds, credits, or offsets of state and local income taxes from Form 1040, line 10.
- Alimony from Form 1040, line 11.
- Gross business income from Schedule C (Form 1040), line 7 (includes gross fishing income).
- Gross business receipts from Schedule C–EZ (Form 1040), line 1 (includes gross fishing income).
- Capital gains from Form 1040, line 13a, including gains from Schedule D (Form 1040). Losses are not netted against gains.
- Gains on sales of business property from Form 1040, line 14.
- Taxable IRA distributions, pensions, annuities, and social security benefits.
- Gross rental income from Schedule E (Form 1040), line 3.
- Gross royalty income from Schedule E (Form 1040), line 4.
- Taxable net income from an estate or trust reported on Schedule E (Form 1040), line 37.
- Income from a REMIC reported on Schedule E (Form 1040), line 39.
- Gross farm rental income from Form 4835, line 7.
- Gross farm income from Schedule F (Form 1040), line 11.
- Your distributive share of gross income from a partnership, or limited liability company treated as a partnership, from Schedule K–1 (Form 1065).
- Your pro rata share of gross income from an S corporation from Schedule K–1 (Form 1120S).
- Unemployment compensation from Form 1040, line 19.
- Other income reported on Form 1040, line 21, not included with any of the items listed above.

Percentage From Fishing

Figure your gross income from all sources. Then figure 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 2003.

Gross Income

	Total	Fishing
Taxable interest	$3,000	
Dividends	500	
Rental income (Sch E)	41,500	
Fishing income (Sch C)	75,000	$75,000
Schedule D	5,000	
Total	**$125,000**	**$75,000**

Schedule D showed gain from the sale of a rental house carried over from Form 4797 ($5,000) in addition to a loss from the sale of corporate stock ($2,000). However, that loss is not netted against the gain to figure Mr. Smith's total gross income or his gross fishing income. His gross fishing income is 60% of his total gross income ($75,000 ÷ $125,000 = .60). Therefore, based on his 2003 income, he does not qualify to use the special estimated tax payment and return due dates for 2003, discussed next. However, he would qualify if at least two-thirds of his 2002 gross income was from fishing.

Example 2. Assume the same facts as in Example 1 except that Mr. Smith received only $21,500, instead of $41,500, rental income. This made his total gross income $105,000. He qualifies to use the special estimated tax payment and return due dates, discussed next, since 71.4% (at least two-thirds) of his gross income is from fishing ($75,000 ÷ $105,000 = .714).

Due Dates for Qualified Fishermen

If at least two-thirds of your gross income for 2002 or 2003 was from fishing, you are a ***qualified fisherman*** and can choose either of the following options for your 2003 tax.

- Make your required annual payment, discussed next, by January 15, 2004, and file your Form 1040 by April 15, 2004.
- File Form 1040 by March 1, 2004, and pay all the tax due. You are not required to make the annual payment. If you pay all the tax due, you will not be penalized for failure to pay estimated tax.

Required annual payment. If at least two-thirds of your gross income for 2002 or 2003 was from fishing, only one estimated tax payment is due. The required annual payment is the ***smaller*** of the following amounts.

- $66\frac{2}{3}$% (.6667) of your total tax for 2003.
- 100% of the total tax shown on your 2002 return. (The return must cover all 12 months.)

TIP ***2004 tax.*** *If at least two-thirds of your gross income for 2003 or 2004 is from fishing, you can choose either of the following options for 2004.*

- *Make your required annual payment by January 18, 2005, and file your Form 1040 by April 15, 2005.*
- *File Form 1040 by March 1, 2005, and pay all the tax due.*

Fiscal year fishermen. If you qualify to use these special rules but your tax year does not start on January 1, you can file your return and pay the tax by the first day of the 3rd month after the close of your tax year. Or you can make your required annual payment 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 ***2002 and 2003*** was from fishing, you cannot use the special estimated tax payment and return due dates for your 2003 tax year. Instead, you should have made quarterly estimated tax payments on April 15, June 16, and September 15, 2003, and on January 15, 2004. You must file your return by April 15, 2004.

If less than two-thirds of your gross income for ***2003 and 2004*** is from fishing, you cannot use the special estimated tax payment and return due dates for your 2004 tax year. You generally must make quarterly estimated tax payments on April 15, June 15, and September 15, 2004, and on January 18, 2005. You must file your return by April 15, 2005.

For more information on estimated taxes, see Publication 505.

Estimated Tax Penalty for 2003

If you did not pay all your required estimated tax for 2003 by January 15, 2004, or file your 2003 return and pay the tax by March 1, 2004, you should 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.

TIP *If you file your return by April 15 and pay the bill within 21 calendar days (10 business days if the bill is $100,000 or more) after the notice date, the IRS will not charge you interest on the penalty.*

CAUTION ***Do not ignore a penalty notice, even if you think it is in error.*** *You may get a penalty notice even though you filed your return on time, attached Form 2210–F, and met the gross income from fishing requirement. 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 *(under* Percentage From Fishing, *earlier), showing that you met the gross income from fishing requirement.*

Other Filing Information for 2003

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. The actual filing and payment due dates provided in this publication generally reflect this adjustment for Saturdays, Sundays, and legal holidays.

Extension of time to file Form 1040. If you choose not to file your 2003 return by March 1, 2004, the due date for your return will be April 15, 2004. However, you generally can get an automatic 4-month extension of time to file your return. Your Form 1040 would then be due by August 16, 2004.

You can get this extension by filing Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return,* by April 15, 2004. You also can get an extension by using IRS ***e-file.*** Form 4868 does not extend the time for paying taxes. For more information, see the instructions for Form 4868.

CAUTION *This extension* ***does not*** *extend the March 1, 2004, due date for qualified fishermen who did not make the required annual payment and want to avoid an estimated tax penalty. Therefore, if you did not make your required annual payment by January 15, 2004, and you file your tax return after March 1, 2004, you will be subject to a penalty for underpaying your estimated tax, even if you get an extension of time to file Form 1040.*

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 paying income 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 you must maintain when you invest in a CCF account. They also discuss the income 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 income tax.

Opening a CCF account. If you are a U.S. citizen and you own or lease one or more eligible vessels (defined later), you can open a CCF account. However, 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.

- ***Agreement vessels.*** Eligible vessels named in the agreement that will be the basis for the deferral of income tax.
- ***Planned use of withdrawals.*** Use of CCF funds to acquire, build, or rebuild a vessel.
- ***CCF depository.*** Where your CCF funds will be held.

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

NOAA/NMFS, Financial Services Division,
F/CS2
Capital Construction Fund Program
1315 East-West Highway
Silver Spring, MD 20910–3282

You can obtain information on the Capital Construction Fund Program at the following website: **www.nmfs.noaa.gov/ocs/financial_services/ccf.htm**.

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

Eligible vessels. There are two types of vessels that may be considered eligible, those weighing 5 tons or more and those weighing less than 5 tons. For each type, certain requirements must be met.

Vessel weighing 5 tons or more. To be considered eligible, the vessel must meet all the following requirements.

- Be built or rebuilt in the United States.
- Be documented under the laws of the United States.
- Be used commercially in the fisheries of the United States.
- Be operated in the foreign or domestic commerce of the United States.

Vessel weighing less than 5 tons. A small vessel, weighing at least 2 net tons but less than 5 net tons, must meet all the following requirements to be considered eligible.

- Be built or rebuilt in the United States.
- Be owned by a U.S. citizen.
- Have a home port in the United States.
- Be used commercially in the fisheries of the United States.

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

- Making deposits to your CCF account from taxable income.
- Excluding from income deposits assigned to certain accounts (discussed later).
- Making withdrawals from your CCF account when you acquire, build, or rebuild fishing vessels.
- Reducing the basis of fishing vessels you acquire, build, or rebuild to ***recapture*** amounts previously excluded from tax.

TIP ***Reporting requirements.*** *Beginning with the tax year in which you establish your agreement, 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 even if no deposits or withdrawals are made. For more information, contact the NMFS at the address or phone number given earlier.*

Types of Accounts You Must Maintain Within a CCF

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 attributed to these three accounts for that year.

Capital account. The capital account consists primarily 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 or in the foreign or domestic commerce 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), most dividends, and other ordinary income earned on the assets in your CCF account.

Tax Treatment of CCF Deposits

This section explains the tax treatment of income used as the basis for CCF deposits.

Capital gains. Do not report 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 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. You subtract any part of the earnings you deposited into your CCF account from the amount you would otherwise enter as taxable income on line 40 (Form 1040). Next to line 40, write "CCF" and the amount of the deposits. Do not deduct these CCF deposits on Schedule C or C–EZ (Form 1040).

CAUTION *If you deposit earnings from operations into your CCF account and you must complete other forms such as Form 6251,* Alternative Minimum Tax (Individuals), *or a worksheet for Schedule D (Form 1040), you will need to make an extra computation. When the other form instructs you to use the amount from line 38, Form 1040, do not use that amount. Instead, add lines 39 and 40, 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 into your CCF account.

TIP ***Partnerships and S corporations.*** *The deduction for partnership earnings from operations 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 deposited into a CCF account is separately stated on Schedule K (Form 1120S), line 10, and allocated to the shareholders on Schedule K–1 (Form 1120S), line 10.

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 income tax on them.

Capital gains. Do not report any capital gains from the sale of capital assets held in your CCF account. This includes capital gain 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 to identify the capital gains as "CCF account earnings."

Interest and dividends. Do not report 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 or line 5 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 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.

- Acquiring, building, or rebuilding qualified vessels (defined next).
- Making principal payments on the mortgage of a qualified vessel.
- NMFS will not approve amounts withdrawn to purchase nets not continuously attached to the vessel, such as seine nets, gill set-nets, and gill drift-nets.
- NMFS will approve amounts withdrawn to purchase trawl nets.

Qualified vessel. This is any vessel that meets all of the following requirements.

- The vessel was built or rebuilt in the United States.
- The vessel is documented under the laws of the United States.
- The person maintaining the CCF account agrees with the Secretary of Commerce that the vessel will be operated in United States foreign trade, Great Lakes trade, noncontiguous domestic trade, or the fisheries of the United States.

How to determine the source of qualified withdrawals. When you make a qualified withdrawal, the amount is treated as being withdrawn in the following order from the accounts listed below.

1. The capital account.
2. The capital gain account.
3. The ordinary income account.

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

CAUTION *Reduce the depreciable basis of fishing vessels you acquire, build, or rebuild when you make a qualified withdrawal from either the capital gain or the ordinary income account.*

Nonqualified Withdrawals

A nonqualified withdrawal from a CCF account is generally any withdrawal that is not a qualified withdrawal. Qualified withdrawals are defined under *Qualified Withdrawals,* earlier.

Examples. Examples of nonqualified withdrawals include the following amounts from either 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 if the basis of that vessel and the bases of other vessels you own have already been reduced to zero.
- Amounts determined by IRS to cause your CCF account balance to exceed the amount 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 is a graduated schedule under which the percentage applied to determine the amount of the nonqualified withdrawal increases from 20% in the 26th year to 100% in the 30th year.)

How to determine the source of nonqualified withdrawals. When you make a nonqualified withdrawal from your CCF account, the amount is treated as being withdrawn in the following order from the accounts listed below.

1. The ordinary income account.
2. The capital gain account.
3. The capital account.

Paying tax on nonqualified withdrawals. In general, nonqualified withdrawals are taxed separately from your other gross income and at the highest marginal tax rate in effect for the year of withdrawal. However, nonqualified withdrawals treated as made from the capital gain account are taxed at a rate that cannot exceed 15% for individuals and 34% for corporations.

TIP *__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 nonqualified withdrawals that are treated as made from either the ordinary income or the capital gain account. The interest period begins on the last date for paying tax for the year for which you deposited the amount you withdrew from your CCF account. The period ends on the last date for paying tax for the 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 is published in the Federal Register.

You also can call NMFS at **301–713–2393** to get the current interest rate.

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 income tax return showing your computation of the tax and the interest on a nonqualified withdrawal. Include the tax and interest on line 60 of Form 1040. To the left of line 60, write in the amount of tax and interest and "CCF."

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

- The part that did not reduce your tax liability for any year prior to the withdrawal year is not taxed.
- That part is allowed as a net operating loss deduction.

More Information

This section briefly discussed 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).
- Chapter 2, Part 259 of title 50 of the Code of Federal Regulations (50 C.F.R., Part 259).
- Subchapter A, 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. Also, see their web page at **www.nmfs.noaa.gov/ocs/financial_services/ccf.htm**.

How Do You Claim Fuel Tax Credits and Refunds?

You may be eligible to claim a credit on your income tax return for federal excise tax imposed on certain fuels used for a nontaxable use. You also may 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 may be of particular interest to fishermen. The nontaxable uses of fuel for which a fisherman may claim a credit or refund are generally the following.

- Use in a boat engaged in commercial fishing.
- Off-highway business use.

For information about other nontaxable uses (not discussed in this section) for which a credit or refund may be claimed, see Publication 378.

Commercial fishing. A credit or refund may be allowed for the excise tax on gasoline used in a boat engaged in commercial fishing.

Boats engaged in commercial fishing 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.

CAUTION *Fuel used in aircraft to locate fish is not fuel used in commercial fishing.*

Off-highway business use. A credit or refund may be allowed for the excise tax on fuel used for off-highway business use.

Off-highway business use is any use of fuel in a trade or business or in an income-producing activity other than as a fuel in a highway vehicle registered or required to be registered for use on public highways. Off-highway business use includes fuels used in any of the following ways.

- In stationary machines such as generators, compressors, power saws and similar equipment.
- For cleaning purposes.

CAUTION *Fuel used in a motorboat does not qualify as fuel used for an off-highway business use.*

How To Claim a Credit or Refund

This section tells you how and when to make a claim for a credit or refund of excise taxes on fuels.

Credit or refund. A credit is an amount you claim on your income tax return when you file it at the end of the year. If you meet certain requirements (discussed later), you can claim a refund during the year.

Credit only. You can claim the following taxes only as a credit.

- Tax on fuels used for nontaxable uses if the total for the tax year is less than $750.
- Tax on fuel you did not include in any claim for refund previously filed for any quarter of the tax year.

Claiming a Credit

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

When to file. You can claim a fuel tax credit on your income tax return for the year you used the fuel.

How to claim a credit. As an individual, you claim the credit on line 67 of Form 1040. Check box b on line 67. If you would not otherwise have to file an income tax return, you must do so to claim a fuel tax credit.

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 is the excise tax on all fuels used for any nontaxable use 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. 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 using Form 4136. Only one claim can be filed for a quarter.

How to file. You can claim a refund on **Form 8849**. File the claim for refund by filling out Schedule 1 (Form 8849) and attaching it to Form 8849. Send it to the address shown in the instructions. Do not claim a refund on Form 8849 for any amount for which you have filed or will file a claim on Schedule C (Form 720) or Form 4136.

When to file. 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 claimed the total cost of the fuel (including the excise taxes) as an expense deduction 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 the credit.

Example. Ed Brown, a cash basis fisherman, filed his 2002 Form 1040 on March 3, 2003. On his Schedule C, Ed deducted the total cost of gasoline (including $110 of excise taxes) used in his boat while engaged in commercial fishing operations. Then, on Form 4136, he claimed the $110 as a credit. Ed reports the $110 as additional income on his 2003 Schedule C (Form 1040).

Table 4. **Sample Exemption Certificate**

EXEMPTION CERTIFICATE

(To support vendor's claim for credit or payment under section 6421 of the Internal Revenue Code)

____

Name and Address of Seller

The undersigned buyer ("Buyer") hereby certifies the following under penalties of perjury:

A. Buyer will use the gasoline to which this certificate relates in a boat engaged in commercial fishing.

B. Buyer bought or will buy the gasoline to which this certificate relates from the above named seller at a price that does not include the excise tax.

C. This certificate applies to the following (complete as applicable):

1. If this is a single purchase certificate, check here ❑ and enter the number of gallons of gasoline ____________________

2. If this is a certificate covering all purchases, check here ❑.

■ If Buyer uses the gasoline to which this certificate relates for a use other than stated in the certificate, 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 the gasoline to which this certificate relates.

■ Buyer understands that the fraudulent use of this certificate may subject Buyer and all parties making such fraudulent use of this certificate to a fine or imprisonment, or both, together with the costs of prosecution.

____

Signature and Date Signed

____

Printed or Typed Name and Title of Buyer

____

Name, Address, and Taxpayer Identification Number of Buyer

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 ***boat engaged 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 *Credits or Refunds* under *Gasoline* in Publication 510, *Excise Taxes for 2004,* for details.

To buy gasoline at a tax-free price, give your supplier a signed certificate identifying you and stating that you will use the gasoline in a boat engaged in commercial fishing. You do not need to renew the certificate as long as the information it contains continues to be correct. See *Table 4* for a sample exemption certificate.

Schedule C Example

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, Nan Brown and Sandy 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 75% to Frank and 25% to his crew members.

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 6-digit business code for commercial fishing shown in the instructions for Schedule C. 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. Frank did not have any returns and allowances to report on line 2, so 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.

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 or 1065-B.

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

OMB No. 1545-0074

2003

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-2 of the instructions): FISHING

B Enter code from pages C-7, 8, & 9 ▶ 114110

C Business name. If no separate business name, leave blank.: CAP'N FRANK'S

D Employer ID number (EIN), if any: 10 9999999

E Business address (including suite or room no.) ▶ 215 Seagull Drive
City, town or post office, state, and ZIP code: Hometown, OR 97331

F Accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2003? If "No," see page C-3 for limit on losses . ☑ **Yes** ☐ **No**

H If you started or acquired this business during 2003, check here . . . ▶ ☐

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 ▶ ☐	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	Car and truck expenses (see page C-3)	9	2,763	20	Rent or lease (see page C-5):		
				a	Vehicles, machinery, and equipment	20a	
10	Commissions and fees	10	10,992	b	Other business property	20b	600
11	Contract labor (see page C-4)	11		21	Repairs and maintenance	21	4,593
				22	Supplies (not included in Part III)	22	6,464
12	Depletion	12		23	Taxes and licenses	23	35
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	6,534	24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Meals and entertainment		
15	Insurance (other than health)	15	3,291	c	Enter nondeductible amount included on line 24b (see page C-5)		
16	Interest:			d	Subtract line 24c from line 24b	24d	
a	Mortgage (paid to banks, etc.)	16a		25	Utilities	25	
b	Other	16b	800	26	Wages (less employment credits)	26	
17	Legal and professional services	17		27	Other expenses (from line 48 on page 2)	27	6,367
18	Office expense	18					

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	42,439
29	Tentative profit (loss). Subtract line 28 from line 7	29	18,561
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • 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 a loss, you **must** go to line 32.	31	18,561

32 If you have a loss, check the box that describes your investment in this activity (see page C-6).
• 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 you checked 32b, you **must** attach **Form 6198.**

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

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 2002 Form 1040 he filed on March 3, 2003. 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 9. Frank used his truck 65% for business during the year. He spent a total of $4,250 for gas, oil, insurance, tags, repairs, and upkeep. He can deduct $2,763 (65% × $4,250), the business portion of these expenses, on line 9.

Line 10. Frank paid his crew members total crew shares of $10,992 for the year.

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

Line 15. Frank's $3,291 deduction is for insurance on his business property (65% of his truck insurance is included on line 9). The deduction is only for premiums that give him coverage for the year.

Line 16b. Frank 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 boat repairs and $993 for gear repairs for a total cost of $4,593.

Line 22. He spent $1,713 for boat 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 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, $42,439 (line 28) from his gross income from fishing, $61,000 (line 7). Frank has a tentative profit of $18,561.

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 $18,561 (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.

How To Get Tax Help

You can get help with unresolved tax issues, 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.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at **1–877–777–4778.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.
- Visit the website at **www.irs.gov/advocate**.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

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.

Internet. You can access the IRS website 24 hours a day, 7 days a week, at **www.irs.gov** to:

- ***E-file.*** Access commercial tax preparation and *e-file* services available for free to eligible taxpayers.
- Check the amount of advance child tax credit payments you received in 2003.
- Check the status of your 2003 refund. Click on "Where's My Refund." Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- See answers to frequently asked tax questions.
- Search publications online by topic or keyword.
- Figure your withholding allowances using our Form W–4 calculator.
- Send us comments or request help by email.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

You can also reach us using File Transfer Protocol at **ftp.irs.gov**.

Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703–368–9694** from your fax machine. 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.

For help with transmission problems, call **703–487–4608.**

Long-distance charges may apply.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to **www.irs.gov** or look in the phone book under "United States Government, Internal Revenue Service."
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax or account questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2003 refund, call **1–800–829–4477** for automated refund information and follow the recorded instructions or call **1–800–829–1954**. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to **www.irs.gov** or look in the phone book under “United States Government, Internal Revenue Service.”

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Use 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 for tax products. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) on the Internet at **www.irs.gov/cdorders** for $22 (no handling fee) or call **1–877–233–6767** toll free to buy the CD-ROM for $22 (plus a $5 handling fee). The first release is available in early January and the final release is available in late February.

CD-ROM for small businesses. IRS Publication 3207, *Small Business Resource Guide,* is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling **1–800–829–3676** or by visiting the website at **www.irs.gov/smallbiz**.

Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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Tax Publications for Business Taxpayers

See *How To Get Tax Help* 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)
334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
509 Tax Calendars for 2005
553 Highlights of 2004 Tax Changes
910 Guide to Free Tax Services

Employer's Guides

15 (Circular E), Employer's Tax Guide
15-A Employer's Supplemental Tax Guide
15-B Employer's Tax Guide to Fringe Benefits
51 (Circular A), Agricultural Employer's Tax Guide
80 (Circular SS), Federal Tax Guide For Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands
926 Household Employer's Tax Guide

Specialized Publications

225 Farmer's Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
505 Tax Withholding and Estimated Tax
510 Excise Taxes for 2005
515 Withholding of Tax on Nonresident Aliens and Foreign Entities
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 (NOLs) for Individuals, Estates, and Trusts
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 Qualified Plans)
561 Determining the Value of Donated Property
583 Starting a Business and Keeping Records
587 Business Use of Your Home (Including Use by Daycare Providers)
594 The IRS Collection Process
595 Tax Highlights for Commercial Fishermen
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
947 Practice Before the IRS and Power of Attorney
954 Tax Incentives for Distressed Communities
1544 Reporting Cash Payments of Over $10,000
1546 The Taxpayer Advocate Service of the IRS—How To Get Help With Unresolved Tax Problems

Spanish Language Publications

1SP Derechos del Contribuyente
179 Circular PR Guía Contributiva Federal Para Patronos Puertorriqueños
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
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 Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. Items with an asterisk are available by fax. For these orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number
W-2 Wage and Tax Statement	10134
W-4 Employee's Withholding Allowance Certificate*	10220
940 Employer's Annual Federal Unemployment (FUTA) Tax Return*	11234
940-EZ Employer's Annual Federal Unemployment (FUTA) Tax Return*	10983
941 Employer's Quarterly Federal Tax Return*	17001
1040 U.S. Individual Income Tax Return*	11320
Sch A & B Itemized Deductions & Interest and Ordinary Dividends*	11330
Sch C Profit or Loss From Business*	11334
Sch C-EZ Net Profit From Business*	14374
Sch D Capital Gains and Losses*	11338
Sch D-1 Continuation Sheet for Schedule D*	10424
Sch E Supplemental Income and Loss*	11344
Sch F Profit or Loss From Farming*	11346
Sch H Household Employment Taxes*	12187
Sch J Income Averaging for Farmers and Fishermen*	25513
Sch R Credit for the Elderly or the Disabled*	11359
Sch SE Self-Employment Tax*	11358
1040-ES Estimated Tax for Individuals*	11340
1040X Amended U.S. Individual Income Tax Return*	11360
1065 U.S. Return of Partnership Income*	11390
Sch D Capital Gains and Losses*	11393
Sch K-1 Partner's Share of Income, Deductions, Credits, etc.*	11394
1120 U.S. Corporation Income Tax Return*	11450
1120-A U.S. Corporation Short-Form Income Tax Return*	11456
1120S U.S. Income Tax Return for an S Corporation	11510
Sch D Capital Gains and Losses and Built-In Gains	11516
Sch K-1 Shareholder's Share of Income, Deductions, Credits, etc.	11520
2106 Employee Business Expenses*	11700
2106-EZ Unreimbursed Employee Business Expenses*	20604
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts*	11744
2441 Child and Dependent Care Expenses*	11862
2848 Power of Attorney and Declaration of Representative*	11980
3800 General Business Credit*	12392
3903 Moving Expenses*	12490
4562 Depreciation and Amortization*	12906
4797 Sales of Business Property*	13086
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*	13141
5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*	13329
6252 Installment Sale Income*	13601
8283 Noncash Charitable Contributions*	62299
8300 Report of Cash Payments Over $10,000 Received in a Trade or Business*	62133
8582 Passive Activity Loss Limitations*	63704
8606 Nondeductible IRAs*	63966
8822 Change of Address*	12081
8829 Expenses for Business Use of Your Home*	13232