MARINE ADVISORY SERVICE

Tax Management for Commercial Fishermen

COOPERATIVE EXTENSION SERVICE
COLLEGE OF AGRICULTURE AND NATURAL RESOURCES
THE UNIVERSITY OF CONNECTICUT, STORRS

CONTENTS

Acknowledgements: I would like to express my appreciation to Constance Fontaine for typing the manuscript and George Ecker for providing suggestions and information concerning current tax regulations.

This report is published with funds provided by the Office of Sea Grant, National Oceanic and Atmospheric Administration, U.S. Department of Commerce, and the University of Connecticut Cooperative Extension Service.

CMAS NA 80 AA - D - 00092

Issued in furtherance of the Acts of Congress of May 8 and June 30, 1914. E.J. Kersting, Director, Connecticut Cooperative Extension Service.

Prepared in 1980
Revised 1981

Tax Management for Commercial Fishermen

Norman K. Bender[1]

Introduction

Developing an improved understanding of tax management techniques can assist you in managing your tax affairs in a manner that minimizes your tax burden while allowing you to operate in accordance with state and federal tax laws.

Tax management means keeping informed of state and federal tax codes that affect your fishing operations. Using this knowledge you will pay only the minimum legal tax required under existing tax codes, and may achieve personal goals such as the purchase of a new fishing boat or the diversification of fishing operations to minimize loss of income caused by bad weather or unprofitable market conditions.

It is virtually impossible for one person to be constantly up-to-date on all tax regulations affecting his fishing operations. You can obtain the latest fisheries-related tax information from your local Sea Grant Marine Advisory Service office. Marine specialists there are familiar with tax regulations, or they have access to other specialists who do know what they are.

This bulletin highlights state and federal tax regulations affecting Connecticut's commercial fishermen. It reviews common tax regulations, as well as special fishery programs like the Capital Construction Fund. It should be used to guide you in managing your tax situation rather than to provide the final word regarding specific regulations. Additional information is available from the Marine Advisory Service, Connecticut Tax Division, and the Internal Revenue Service.

---

[1]Regional Marine Extension Specialist, Marine Advisory Service, The University of Connecticut, Avery Point, Groton, Connecticut.

Tax Preparers

You can manage taxes yourself or you can seek the help of a qualified tax preparer. Accountants, bookkeepers, and tax preparation firms often handle the tax management needs of commercial fishermen. The effectiveness of these tax preparers depends on their knowledge of special fishery-related tax regulations and rulings and their understanding of your specific fishing operation. Local fishermen can help you locate tax preparers with the necessary background. Select a tax preparer who can minimize your tax bill while meeting state and federal tax codes. Since most tax preparers will work with your fishing records (income and expenses) only at the end of your tax year, work out a record system geared not only to your needs but to the needs of the tax preparer as well. It may be well worth the extra expense to have an accountant recommend a record system for you. This will be helpful if you utilize a tax preparer's service only at the end of the year or if you employ an accountant throughout the year.

Good Records Are Important

When managing your fishing operations to minimize your income tax, it is important to work at it throughout the year — not just when filing your income tax return. You must maintain a record-keeping system that meets your business needs, as well as document income and expenses as required by the tax codes. There are two approaches to keeping good records.

1. Records can be maintained just to meet Internal Revenue Service and State Tax Department requirements for information which substantiates income and expense data listed on tax forms, or
2. A record system can be set up to meet IRS and state tax requirements while also providing information you will need for loan applications, short-term decision-making such as cash flow projections, and long-run financial planning purposes.

You should keep a set of records that assists you in making those day-to-day decisions that constantly occur. It is difficult to establish the best depreciation schedule for your fishing assets without a good record system. Fish records can help accomplish more than just managing taxes. A cash flow projection for each month will help you maintain enough money on hand to meet expected seasonal expenses (winter overhaul, spring refitting, etc.), as well as unexpected expenses.

When applying for credit you must demonstrate reasonable proof that you can repay a loan over a specified time period. A cash flow projection together with income and net worth statements are used by credit specialists when evaluating your loan application.

There are many kinds of record books available from Marine Advisory Service offices, business supply companies, and accounting firms. Select a record system that:

1. Meets your income and expense information needs
2. Is not too complex for your particular situation, and
3. Provides information easily when you need it.

A good record book lets you list business expenses in an easily understood accounting form. A record system, in its simplest form, keeps track of income received and expenses incurred in a fishing business. How that income and expense information is recorded, analyzed, and used results in the variety of systems used today.

Whether you hire an accountant to keep your books and prepare your tax forms, your spouse maintains them, or you do them yourself, you should properly document all fishing expenses and income. Remember, the tax preparer has only the records you have provided to work with.

There are several methods of substantiating expenses.

1. Maintaining a separate checking account for fishing-related expenses is the simplest method. Monthly bank statements provide an automatic record of deposits, and the cancelled checks will help substantiate fishing expenses.

2. Recording information from store receipts and keeping them in envelopes is probably the most common method of keeping track of your fishing

expenses. However, it is easy to misplace a receipt or even forget to obtain one when you are in a hurry and have other things on your mind.

3. To replace a missing receipt, a handwritten note can fill the need for expense documentation. Handwritten notes should have the following information:

    a. Item purchased
    b. Price
    c. Where the item was purchased, and
    d. Date of purchase.

The Internal Revenue Service will usually allow handwritten receipts for occasional purchases of relatively small cost items such as tools. The I.R.S. might, however, be dubious about a handwritten receipt for a $10,000 diesel engine.

It is a good idea to record expense and income data on a regular basis to avoid overlooking small purchases easily forgotten in a few days.

Those few fishing firms in Connecticut with full-time bookkeepers usually maintain records on a daily basis. For most Connecticut fishermen, it is sufficient to record incomes and expenses at the end of each week.

You must choose between the "cash" method and the "accrual" method when setting up an accounting system. The accrual method records each transaction (purchase of an item or income received) on the date the transaction occurs. The cash method records each transaction when actual payments are made.

Several publications provide additional information designed specifically for commercial fishermen operating in near-shore fisheries. The *Tax Guide for Commercial Fishermen,* IRS Publication No. 595, describes records that meet I.R.S. tax reporting requirements for fishermen operating as sole proprietors — that is, they are not operating as partnerships or corporations. This tax guide is available at local Marine Advisory offices.

Several Marine Advisory Programs for commercial fishermen have published record-keeping books for setting up a new system, as well as providing tips for updating existing records. These record books are: Louisiana (*Fisherman's Record Book*), Maine (*Commercial Fishermen's

Here are sample Income and Expense sheets which include basic information needed for fishing records:

INCOME: Month ________ Income Break-Down

Date	Total Income	Remarks	Lobsters	Shellfish	Finfish	Other
Monthly Total						

EXPENSES: Month ________

Date	Description	Expense	Ck.#	Operating Expenses	Gear & Equip.	Repair & Mainte.
Monthly Total						

ANNUAL INCOME AND EXPENSE SHEET

Year 19 _____

Month	Income	Expenses	Net Income
January			
February			
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
Total			

Net Income = Income minus Expenses

Account Book), and Maryland (*Watermen's Recordkeeping Book and Manual*). Copies can be obtained by writing to the addresses at the back of this booklet under "additional reading."

Federal Tax Laws

Numerous changes in federal tax codes in recent years affect your fishing operations. Keeping informed may reduce your federal tax bill while helping you comply with rules concerning withholding requirements, deductible expenses, and investment credit, just to mention some of the major tax law changes.

Withholding Requirements Change

One change that may have the most far-reaching implication concerns the 1976 "sternman's issue." Since then the federal tax code regarding the relationship of the captain to the crew changes the way in which the crew are treated for tax purposes.

Prior to 1976 the Internal Revenue Service considered fishing boat crews to be employees of the boat owner. This view conflicted with common practice. In most of the United States, crew members were paid shares after each fishing trip. According to industry practice, each member of the crew was considered to be self-employed. Who was responsible for withholding federal income taxes, the boat owner, or each crew member? Would each crew member be treated as an employee or self-employed for Social Security (Federal Insurance Contribution Act — F.I.C.A.) tax contribution purposes?

Formerly, the boat operator was required to withhold federal income tax as well as Social Security contributions from each crew member's share or wages. The Tax Reform Act of 1976 states that for any fishing vessel with an operating crew of fewer than ten individuals, each crew member is regarded as self-employed "if that individual is paid by a share of the catch or a share of the proceeds from the sale of such catch." A new I.R.S. rule now includes the captain as part of the ten-member operating crew when determining whether crew members are employees or self-employed. This relieves the boat owner of the responsibility for withholding income taxes from the crew. Also, he is not required to make Social Security payments on behalf of the crew members. The boat owner, however, must file an I.R.S. Form 1099-F for each crew member considered to be self-employed, usually on or before the last day of February. A copy of Form 1099-F is sent each crew member and to the Internal Revenue Service. (Copies of Form 1099-F are available from the Groton Marine Advisory Service office, or your local I.R.S. office.) It provides the crew member's name and address, tax payer identification number (usually the Social Security number), share of proceeds from sale of catch due crew member, percentage of catch or proceeds from catch due crew member, and the percentage of catch or proceeds from catch due operator of the boat.

Crew members defined as self-employed are liable for federal self-employment tax which contributes to the Social Security program. If you are a self-employed crew member you first establish your net income (or loss) from commercial fishing on Schedule C, Profit or (Loss) from Business or Profession, then list the net profit on both Form 1040, U.S. Individual Income Tax Return and Schedule SE (Form 1040). You pay self-employment tax if you have net earnings from self-employment of $400 or more.

An area of federal tax law that has confused many fishing captains and crew members is Federal Unemployment Tax (FUTA). According to the I.R.S., fishing boat owners are exempt from paying the Federal Unemployment Tax on fishermen's wages unless [2]"the services were: 1) related to catching salmon or halibut for commercial purposes; or 2) performed on a vessel of more than 10 net tons." This means that most Connecticut fishing boat owners are not liable for this tax. However, it also means that crew members defined as self-employed working aboard these boats can not collect federal unemployment insurance benefits. However, according to the I.R.S., owners of fishing vessels of ten net tons or more are liable for Federal Unemployment Taxes (FUTA) for all crew

[2]Tax Guide for Commercial Fishermen, I.R.S. Publication 595, Page 13.

members including those considered self-employed.

The "sternman's issue" affects the owners of fishing boats, as well as crew members. The major push to have crew members classified as self-employed came from owners of fishing boats and the present tax code eliminates the owners' financial liability to the Social Security program. However, crew members considered self-employed now pay the higher self-employment tax rate instead of the employee contribution rate.

Deductible Expenses

Regardless of the size of your fishing operations, there are deductions and credits to consider when preparing your income tax return. Since tax codes change, it is important to review the latest regulations. A list of additional readings identifies several federal tax publications that cover the latest regulations.

Be sure to claim all deductible fishing-related expenses on your tax return. For an expense to be deductible it must be: 1) ordinary and necessary; 2) paid or incurred during the tax year; 3) directly connected with your fishing business; and 4) reasonable in amount.

This is where your knowledge and experience enters the picture. You should know what expenses are ordinary, necessary, and reasonable. Keep a record book of all your expenses during the tax year. Include all your fishing expenses, even small, apparently negligible items. You will be surprised how those little expenses add up over the year.

Some of the more common business expenses that may be deductible are:

1. Taxes such as
   —Real Property Taxes
   —State or Local Income Taxes
   —Sales Taxes, and
   —Employer's portion of Social Security and Federal Unemployment Taxes.
2. Rent incurred in leasing land, buildings, or dockspace.
3. Repairs including the cost of labor and supplies. Your own labor is not deductible. Include the

cost of hauling, winter storage, and spring refitting.

4. Interest incurred on loans for fishing boats, trucks, gear, etc.
5. Wages and salaries paid crew members.
6. Insurance premiums related to your fishing operations, such as hull insurance (fire and casualty coverage), protection and indemnity insurance (liability coverage), workmen's compensation insurance, and state unemployment contributions.
7. Fees for legal and professional services that are fishery-related may be deducted on your income tax return (examples are fees for services provided by lawyers, accountants, or marine surveyors), and dues for membership in trade or professional associations are also deductible when business-related.
8. You have a choice when deducting vehicle expenses for trucks and cars. You may itemize all fishery expenses (with receipts for gas, oil, repairs, insurance, etc.) or you may take the standard mileage rate which is currently 20 cents per mile for the first 15,000 and 11 cents for each additional mile. You cannot use the standard mileage rate for a vehicle that was depreciated by any method other than the straight-line method, or for a vehicle that you had claimed additional first year depreciation on. If a car or truck is fully depreciated and used in a business, you may deduct only 11 cents per mile for all business travel mileage claimed on your federal income tax return.
9. Hauling, winter storage, and spring refitting expenses may be deductible as well as maintenance and repairs that may be necessary throughout the tax year.
10. Fuel has become an increasingly important operating expense along with fuel oil and lubricants.
11. There are various other fishing expenses too numerous to list. Remember that all deductible

expenses should be related to your fishing operations, be reasonable in amount, and that you should be able to document the expense with a receipt or cancelled check.

Depreciation

The 1981 Federal Tax Act has modified depreciation with what is called the "Accelerated Cost Recovery System." Your own experience with various types of gear will determine whether you should capitalize the cost of these items and use the Accelerated Cost Recovery System (A.C.R.S.) or claim the costs as a business expense in the year they are incurred. The cost of lobster pots, traps, and nets can be recovered through use of the A.C.R.S. if they have a useful life of one year or more. Since rules are now being developed to implement the new cost recovery system, the following section provides an overview of the new system as it applies to commercial fishing operations. The new method of calculating depreciation replaces the concept of "useful life" with a simpler system of year categories.

Depreciable tangible property is placed within specific year categories (3-year, 5-year, 10-year and 15-year) which determine the percentage of the property's basis to be deducted on your federal income tax forms. The new tax law allows for the Accelerated Cost Recovery System (and its percentage tables) to apply to qualifying business property placed in service after December 31, 1980 and before January 1, 1985. Property purchased before calender year 1981 would continue to be depreciated using the old depreciation regulations and methods while depreciable property placed in service in your fishing operations during calender years 1981 through 1984 would have its costs recovered through use of an IRS percentage table. Property placed in service during calender year 1985 and after would use another table with an even faster recovery of costs incurred when purchasing and utilizing business assets.

You can use an optional table which allows flexibility in choosing a recovery period in which the costs are deducted on your tax returns. For example, discussions with IRS indicate that most fishing businesses would utilize the 3-year and 5-year categories for calculating recovery costs. Fishing vessels and some machinery would fall within the 5-year category while most other tangible depreciable property would qualify for the 3-year category. You can choose between using the applicable percentage (of recovery costs per year) found in the IRS cost recovery tables, or you can use the straight-line percentage over the recovery period. The optional straight-line percentage allows you to choose among several time periods in which to recover costs of depreciable assets. Three-year property costs can be recovered over periods of 3, 5, or 12 years while five year property costs can be recovered over time periods of 5, 12, or 25 years. First-year additional depreciation has been replaced by a procedure which permits a limited amount of capital purchases to be fully deducted in the year of purchase, starting in 1982.

I.R.S. Publication No. 534, "Depreciation" treats this subject thoroughly.

Investment Credit

If you buy certain new or used recovery property (tangible assets) for use in your fishing operations, you may qualify for Federal investment credit. This could put a sizable amount of money back into your pocket. Since 1972, Federal tax law allows for an investment tax credit to be subtracted directly from your Federal income tax. Your property may qualify if it is a boat, truck, engine, machinery, or other capital asset. Your property must meet certain requirements to qualify for investment credit.

Your property must qualify for the Accelerated Cost Recovery System (A.C.R.S.) and fall within certain year categories. The investment tax credit of 10 percent remains the same in the 1981 tax law. You first determine the year property class your recovery property (truck, boat, machinery, etc.) falls within, then use the allowable percentage of its cost for that year class to calculate the investment credit for that specific property.

Property with a "mid-point guideline life" of four years or less would fall within the three-year category while most property that has a "mid-point guideline life" of more than four years would fall within the five-year category.

The percentage of purchase costs of qualifying recovery property to be applied toward calculation of investment credit is:

1. Recovery property within the five-year, 10-year, or 15-year categories qualifies for 100 percent of available investment credit rates, and
2. Recovery property within the three-year category qualifies for 60 percent of allowable investment credit rates.

Investment credit is not a deduction from gross income; it is subtracted directly from the tax due. Suppose you bought a new truck for $7,500, used electronics for $6,000, and a used lobster boat of 8 years for $17,500. Assume all of the property qualified for investment credit. The amount of your investment that is subject to the credit is calculated as follows:

Property	Cost of Qualifying Property ($)	Year-Category	Percent to be Counted	Amount Subject to Investment Credit ($)
New Truck	$ 7,500	3-year	60%	$ 4,500
Used Electronics	6,000	5-year	100%	6,000
Used Lobster Boat	17,500	5-year	100%	17,500
Amount of Investment Subject to Credit				$28,000

You can then subtract $2,800 (10% of $28,000) from your federal income tax due for that year.

The total amount of tax credit allowed against your tax bill in any one year is limited. However, any excess tax credit can be carried back or forward to other tax years.

There is a provision for recapture of tax credits already claimed in previous years if qualifying property is not kept for the total years claimed when calculating credit for that asset.

There are differences of opinion concerning the percentage of investment tax credit allowed on tax deferred funds withdrawn from a Capital Construction Fund account. The National Marine Fisheries Service suggests claiming 100 percent of the regular investment tax on tax deferred funds withdrawn from a Capital Construction Fund account. The Internal Revenue Service, in the 1980 edition of the "Tax Guide for Commercial Fishermen," allows commercial fishermen to claim 50% of the regular credit on funds withdrawn from a Capital Construction Fund agreement. It is suggested that fishermen contact both the regional N.M.F.S. and I.R.S. office requesting clarification of this question when filing a tax return utilizing both a Capital Construction Fund agreement and the investment tax credit.

Capital Construction Fund

Substantial tax savings may be realized through use of a Capital Construction Fund (CCF) agreement when purchasing a new vessel or reconstructing a used one. The CCF is a special tax deferment program that enables owners of commercial fishing, party, and charter boats to use tax-free income for the purchase of a new vessel or to reconstruct one presently owned. If eligible, a portion of fishing or charter-produced income (not to exceed 100 percent of fishing or chartering income for a given year) can be invested in an interest-bearing trust account. Taxable income for that year is reduced by the deposited amount for federal income tax purposes. The deferred federal income taxes are recovered as a result of reduced depreciation allowance based upon the amount of CCF contribution toward the cost of the fishing vessel.

As a result of the Tax Reform Act of 1976, a CCF agreement can be set up for fishing vessels of two (2) net tons or more. Previously, it could be used only for boats of five (5) net tons or more. Now many commercial fishing, party, and charter captains may qualify to reduce their federal income tax while setting aside money for a new, or reconstructed fishing vessel through use of a Capital Construction Fund.

Gasoline and Lube Oil Excise Tax Exemptions

As a commercial fisherman you are exempt from paying the federal manufacturers' excise taxes on gasoline and lubricating oils used in commercial fishing vessels. Purchase the gasoline and lubricating oil tax-free, if possible, or obtain a refund of taxes already paid.

To make tax-free purchases you must first apply for and receive a validated Form 637 (Registration for Tax-free Transactions under Chapter 32 of the Internal Revenue code) from your district I.R.S. office. You can then use an exemption certificate to make tax-free purchases. An exemption certificate can be filed for each individual purchase or a certificate can be filed with a fuel supplier for up to a three (3) year period.

However, if you have already paid the tax on fuel used for commercial fishing, you have two options when recovering these taxes. You may apply for credit for taxes paid by using IRS Form 4136 (Computation of Credit for Federal Tax on Gasoline, Special Fuels, and Lubricating Oil). The second option is to apply for a tax refund from your fuel supplier — not the I.R.S. Any credit or refund received on purchases of exempt gasoline and lubricating oil must be deducted from your expense deduction for gasoline and lubricating oil.

You may also be eligible to purchase special motor fuel (diesel fuel) tax-free if used in a commercial fishing vessel. Here too, you can file an exemption certificate with your supplier to avoid paying the tax or, if you already paid the tax, you can file for credit on your tax return or request a refund from your supplier.

Connecticut Tax Laws Affecting the Fishing Industry

Sales and Use Tax Exemptions

You can reduce part of your tax burden by utilizing the state Sales and Use Tax exemption. Existing regulations[3] provide an exemption from Connecticut Sales and Use Tax on production materials, tools, and fuel purchased for use directly in the production of seafood. Commercial fishing is described as "the catching, gathering, and processing of fish solely as a regular commercial business."[4] Commercial fishermen actively harvesting finfish, lobsters, and shellfish may benefit from the exemption.

An amendment to the Sales and Use Tax Act now extends the exemption to commercial fishing boats and ancillary equipment. The 1981 amendment revises certain sections of the Act while leaving other sections unchanged.

[3]Regulation No. 11, Sec. 12-426-116. Machinery, Materials, Tools, and Fuel. Statutes and Regulations pertaining to the Sales and Use Tax Act, State of Connecticut, Hartford, Conn. April, 1980.

[4]Ibid.

Since implementation of state statutes often requires additional rules, and the 1981 amendment was recently signed into law, you may want to contact the Marine Advisory Service office listed at the back of this booklet, or the Connecticut Department of Revenue Services for current information regarding establishing eligibility, application procedures, and items qualifying for the Sales and Use Tax exemption.

The major benefit for a fishing operation is reduction of the tax burden, resulting in greater after-tax income. You can take advantage of the Connecticut Sales Tax exemption by using a "Blanket Certificate of Exemption for Purchase of Materials, Tools, Fuel, and Machinery" when purchasing exempt items. The certificate is filled out and given to the person or firm selling the materials, tools, fuel, and machinery. A sample copy of the exemption certificate appears on page 21. The certificate can be filled out for each individual purchase of an exempt item by marking "individual purchase" on the certificate and writing the purchase price, date, and items purchased on the reverse side. For frequent purchases from the same merchant or supplier, state law allows a blanket certificate to be used over a three-year period only. Complete the certificate and file copies with the firms where you buy exempt items. Each blanket certificate should be renewed every three years. Each fisherman filing a blanket certificate assumes all responsibilities for the accuracy of the information on the form.

The State Legislative Research office has provided information concerning items classified as production materials, tools, and fuel commonly used in commercial fishing operations currently exempt from the Connecticut Sales and Use Tax.

[5]The following materials, tools, and fuel are sales tax exempt:

- Gasoline
- Diesel fuel
- Rope
- Nets
- Bait
- Lines
- Hooks
- Tools and similar items

---

[5]Letter, October 6, 1978.

— Cables attached to nets
— Knives and other tools used for on-board processing of fish
— Ice for on-board refrigeration of the catch.

[6]The following items are not exempt under the materials, tools, and fuel section of the tax act:

— Protective clothing for fishermen
— Incidental equipment

Starting July 1, 1981, Public Act 81-323 provides additional exemptions for boats and certain machinery and equipment used in commercial fishing operations. The new law provides for an exemption from the Connecticut sales tax for commercial fishing vessels and any machinery and equipment designed exclusively for use in a commercial fishing vessel, provided that the purchaser derives 50 percent or more of his gross income from commercial fishing. The 50% income requirement is established by the gross income figure on your federal income tax form. The restriction imposed by the designation, "designed exclusively," for use in commercial fishing and for use on a commercial fishing vessel may force the State Tax Department to exclude certain machinery from the exemption if it can be used on non-fishing vessels. For example, a radar unit can be used on a pleasure boat, therefore it is not "designed exclusively" for commercial fishing vessels and is subject to the sales tax when purchased by a fisherman.

A proposed technical amendment to P.A. 81-323 would remove the restrictive wording "designed exclusively" and return the law to its intended objective of providing a sales tax exemption for vessels and equipment used in commercial fishing operations (still subject to the 50 percent income qualification).

The State Department of Revenue Services is developing a list of machinery and equipment that will be exempt from the sales tax. Additional work covering application procedures should complete the task of rule-making for implementation of the amended Sales and Use Tax Act.

You may want to keep a record of exempt purchases to document your expenses if any questions arises concerning an item's eligibility under the Sales and Use Tax Act. Your records should include purchase price, description of item purchased, date of purchase, and name and address of seller.

---

[6]Ibid.

Unincorporated Business Tax

A new law sets up an unincorporated business tax on income from individual or unincorporated businesses, partnerships, trades, professions or occupations. The tax rate is 5 percent of the taxable net income applicable when the unincorporated business has both a gross income of $50,000 or more and an adjusted net income of $15,000 or more, with a minimum unincorporated business tax of $250.

Taxpayers are required to apply for a tax registration number using "Tax Registration Application for Unincorporated Business Tax" available from the Marine Advisory Service office listed on page 20 or the Connecticut Department of Revenue Services, 92 Farmington Ave., Hartford, Ct. 06115. The tax registration number is used when filing the "Estimated Unincorporated Business Tax" form.

A final tax return is to be filed within 105 days of the end of the business' income year or April 15th if on a calendar year. An estimated tax liability of $500 or more results in the taxpayer being required to pay 50 percent of the estimated tax by the 15th day of the seventh month of income year (July 15th if on a calendar year).

The booklet "Connecticut Statutes Pertaining to the Unincorporated Business Tax Act" explains the new law in detail and is listed under additional reading on page 20. It covers the definition of gross income and net income, deductions and credits, and filing requirements.

Boat Registration Fee Replaces Local Property Tax

A new state law, Public Act 81-424 eliminates the local property tax on watercraft that are used on Connecticut's waters for 60 days or more in any calendar year. The property tax has been replaced by a registration fee based upon the overall length, age and type of material used to construct the vessel.

The owner of a commercial fishing vessel who meets the requirement that at least 50% of income is from commercial fishing will pay a boat registration fee (up to $25) to the Connecticut Motor Vehicle Department. Commercial fishermen who do not meet the 50% fishing income requirement will pay a registration fee according to the boat registration fee schedule. The fee for wood boats 15 years or older will be 50% of the amount listed in the registration fee schedule, while the fee for wood boats 25 years or older will be an amount equal to 25% of the fee listed in the schedule.

At this time final regulations including application procedures are being developed by the Connecticut Motor Vehicle Department.

Capital Gains and Dividends Tax

The State of Connecticut taxes capital gains resulting from the sale or exchange of assets owned by an individual, partnership, or corporation. As a commercial fisherman, you may be liable for this tax when you sell a fishing boat, engine, or other tangible property.

Connecticut's Capital Gains Tax follows the Federal IRS regulations. You first determine your taxable gain on your federal tax forms. Then you file a "Connecticut Capital Gains and Dividends Tax Return" with the State Department of Special Services, Tax Division in Hartford. The state presently levies a 7 per cent tax on capital gains.

There is a Connecticut tax on all dividends earned by a taxpayer with an adjusted gross income of $20,000 or more during any taxable year, as shown on the taxpayer's federal income tax return. [7]The tax rate on dividends varies from 1% to 9%, depending upon the taxpayer's adjusted gross income.

Additional Tax Regulations Affecting Fishing Businesses

It may be common for you to buy or sell fishing boats and gear over the course of several years, depending upon the condition of your boat and changes in fishing methods. You should become aware of federal and state tax laws which affect sales and exchanges of business

---

[7]P.6, Connecticut Statutes and Regulations Pertaining to the Tax on Capital Gains and Dividends.

assets. Depending upon the type of asset and the form of sale or exchange, you may be liable for taxes on a capital gain, be able to deduct part of a capital loss, or have no change in your tax situation. The *Tax Guide for Commercial Fishermen* describes how to determine the basis and adjusted basis for business assets.

The fishermen's tax guide also reviews the calculation of gains and losses in your fishing operations. Here you will find out how to determine whether property is a capital or an ordinary asset, how to handle casualties (loss of assets such as boats or gear), and how to report gains and losses on your federal income tax return.

If your income for the past tax year was much higher than for the previous four (4) years, you may be eligible to calculate your income tax using the income-averaging method. Income-averaging may result in a lower tax bill since commercial fishing income varies greatly from one year to another.

Filing dates vary depending upon whether you decide to file a federal estimated tax return with payment of your estimated tax (you file a Form 1040-ES in mid-January with payment of your estimated tax. Then you file a Form 1040 by April 15) or you elect to file just a Form 1040 with your tax due with the form (This due date is usually in early March). Also, remember that owners or operators of fishing boats who have crewmembers considered to be self-employed must file a Form 1099-F for each crewmember with copies to the crewmember and the IRS, as well as a summary Form 1096 to the IRS by the last day of February.

A final caution — keep in mind that accurate records of business incomes and expenses together with knowledge of state and federal tax laws are your best tools to minimize fishing taxes while maintaining compliance with applicable tax codes.

ADDITIONAL READING

Connecticut Department of Revenue Services

Connecticut Statutes and Regulations Pertaining to the Sales and Use Tax Act.

Connecticut Statutes and Regulations Pertaining to the Tax on Capital Gains and Dividends

Connecticut Statutes and Regulations Pertaining to the Unincorporated Business Tax Act

Internal Revenue Service

Tax Guide for Commercial Fishermen, Publication No. 595

Your Federal Income Tax, Publication No. 17

National Marine Fisheries Service

Fishing Vessel Capital Construction Fund

Record-keeping Books

Commercial Fishermen's Account Book. Maine Sea Grant Publication, Ira C. Darling Center, University of Maine, Walpole, ME 04573.

Fisherman's Record Book. Sea Grant Program, Center for Wetland Resources, Louisiana State University, Baton Rouge, LA 70803.

Watermen's Record-keeping Book and Manual. Sea Grant Program, H.J. Patterson Hall, University of Maryland, College Park, MD 20742.

For additional information contact:

Marine Advisory Service
The University of Connecticut
Avery Point
Groton, CT 06340

Telephone (203)
445-8664
446-1020, Extension 234

STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES
92 FARMINGTON AVENUE
HARTFORD, CONNECTICUT 06115

CERTIFICATE OF EXEMPTION FOR PURCHASES OF MACHINERY, MATERIALS, TOOLS AND FUEL

I hereby certify that all items checked in the squares below:

☐ Machinery ☐ Materials ☐ Tools ☐ Fuel

Description of Items:

____

____

as defined by Regs., Conn. State Agencies S12-426-11b, purchased from:

Name and Address of Seller:

____

____

____

shall be purchased:

☐ to be used in a manufacturing production process.

☐ to be used in an agricultural production process.

☐ to be used in the fishing industry.

☐ to be used to furnish power for either of the above-mentioned processes or for the fishing industry.

☐ to be used directly in the furnishing of gas, water, steam or electricity, when delivered to consumers through mains, lines or pipes.

I further certify that I assume full liability for the payment to the State of Connecticut of any taxes, together with penalties and interest, that may be determined to be due on any purchases covered by this certificate. This certificate may be used for individual exempt purchases, in which event the certificate shall be plainly marked "Individual Purchase." The articles purchased and their sales price shall be listed on the reverse side. Machinery shall be purchased only with an "Individual Purchase Certificate." This certificate may also be used for a continuing line of exempt purchases, in which event the certificate shall be plainly marked "Blanket Certificate." Such a certificate shall remain in effect for a three-year period, unless a written revocation is made by the purchaser prior to the expiration of the period. The invoices, purchase orders or records covering all purchases made under this certificate shall be appropriately marked to indicate that an exempt purchase has occurred. The words "Exempt under machinery, materials, tools and fuel certificate" will satisfy the requirement.

SIGNED ______________________________
Name of Company or Individual

By ______________________________

Title ______________________________

Date __________ Permit Number (if any) __________

Note: The seller must support all sales made under this certificate by a separate invoice or record describing the articles purchased, the date of purchase and the sales price of the articles. This certificate may be reproduced in print or type for use in making exempt purchases. All applicable squares must be checked or this certificate will be void.