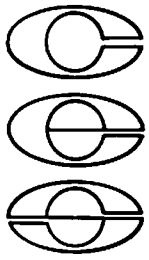
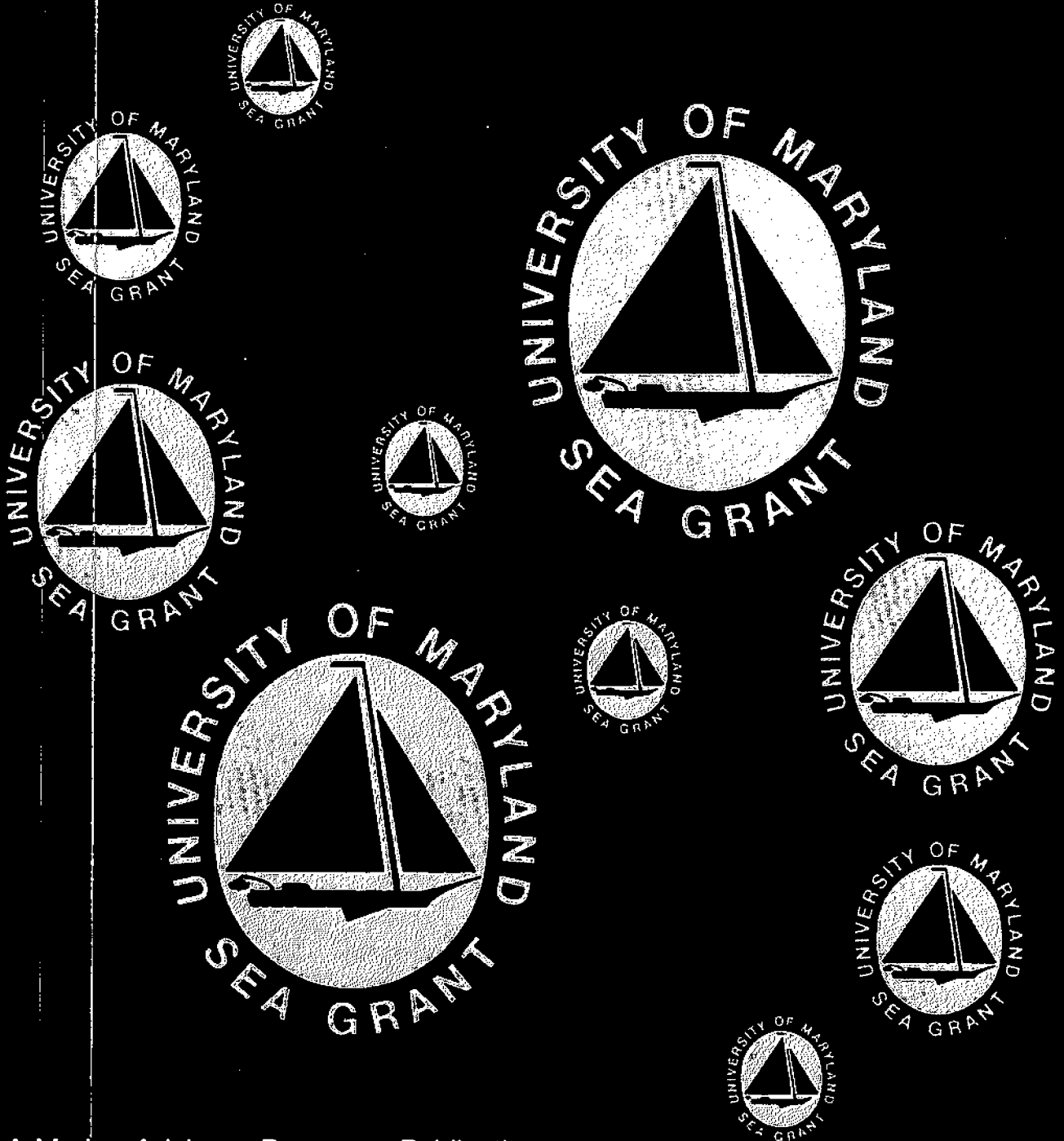


COOPERATIVE EXTENSION SERVICE UNIVERSITY OF MARYLAND-EASTERN SHORE



THE WATERMAN'S RECORD-KEEPING MANUAL

MEP 304



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WATERMAN'S RECORDKEEPING MANUAL

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Table of Contents

INTRODUCTION	1
Are You Working for Uncle Sam?	1
How Can A Waterman Increase His Income?	1
A Good Manager is a Business Mechanic	1
How's Your Business Running?	1
THE VALUE OF GOOD RECORDS	2
How Can Records Help?	2
Records Identify Problem Areas	2
Records Help You Borrow	2
Planning Your Operations	2
Your Records Can Help Reduce Your Taxes	3
Good Records Help Take Advantage of Capital Gains and Loss Tax Provisions	3
Other Ways Records Help Reduce Your Taxes	3
Records Simplify Tax Reporting	4
THE RECORDKEEPING SYSTEM	4
The Worry-Free Recordkeeping System?	4
What Does It Look Like?	4
The First Phase: Firsthand Reports	4
The Second Phase: The Catchall Envelope	6
Had Enough?	6
What Good Does It Do You?	6
The Third Phase: The Record Book	6
One Heavy Line	6
Annual Summary of Monthly Entries	7
How Much Are You Making?—Net Cash Income	7
Secondary Records	10
Withholding Requirements Change	10
Payroll Records	11
Social Security	13
State Income Withholding Tax	13
Total Pay Minus Total Withheld Equals Net Pay	13
Reporting and Depositing Withheld Taxes	13
What About the State Taxes?	17
Unemployment Taxes	17
The Depreciation Record	17
Investment Tax Credit	17
Straight-Line	18
Other Methods of Depreciation	18
Additional First Year Depreciation Allowance	19
Yearly Depreciation Expense	20
First Year Restriction	20
Is It Worth the Effort?	20
Break the Boat Down or Not?	20
Record of Debts	21
USING YOUR RECORDS	22
How Well Did You Do?—The Profit and Loss Statement	22
What is Profit?	24
Where Do You Stand Now?—The Financial Statement or Balance Sheet	24
Where Are You Headed?	25

Introduction

A Good Manager is a Business Mechanic

Are You Working for Uncle Sam?

Many watermen have the idea that the time they spend working on their business records is time spent working for Uncle Sam. To them, records are merely a means of keeping up with the amount of taxes they owe to the various governments, whether state, federal, or local.

Actually, watermen should consider this recordkeeping time as the most important time they spend working for themselves and not the government, because a good set of records is the basis for the best possible means of increasing their income rather than keeping track of what is the government's.

How Can a Waterman Increase His Income?

When you think about it, there are really only two ways a waterman (himself) can increase his take-home pay:

1. Increase the number of products he sells; or
2. Squeeze extra profits out of his present operation through better management.

The first method of increasing income is the route most often seen as the best approach by many watermen. However, this method has quite a few limitations. In the first place, most watermen already bring in as much product as they possibly can. There are not too many watermen who could work much harder than they already do. In the second place, legal restrictions or the absence of a market limit the amount of product that could be sold even if it were caught. Therefore, it will be very hard for many watermen to increase their income by this first method.

The second method, however, has some possibilities. Better management means finding a more economical way of carrying on your business; for example, finding areas where expenses can be cut leaving more money to take home, or buying better equipment which makes jobs easier and requires less hired help. The benefits of good management are easy to see. All one has to do is look around at his neighbors. Most watermen have basically the same amount of time and equipment to manage, yet some watermen are better off financially than others. The difference is largely due to a difference in the way people handle their money—in short, their management skills.

A good business manager looks at his business in the same way that he looks at any piece of equipment he uses in his business—both are tools that he uses to produce a product. He knows that, just like any machine, his business can get out of tune and begin to run poorly; therefore, he keeps his eyes and ears focused on the business so that he immediately notices any change in the way it is running and can take whatever steps are necessary to keep the business running smoothly toward the goal he has selected.

As with any machine, finding out what is wrong with a business is probably the most difficult part of getting it fixed. Once you know the exact cause of the trouble, fixing it becomes a clear-cut job to be done by yourself or with the advice of a more experienced mechanic. The best place a business manager can go to find out what is causing his business to run poorly is his business records. Just as the sound of an engine cranking off and running can tell a good mechanic how well the machine is operating, the sound that a business makes, through a good set of records, can tell a good business mechanic how his business is running.

How's Your Business Running?

Is your business providing you with as much income and other benefits as it can for the amount of work you are putting into it? Or is your business like a leaky bucket being used to bail out a boat? It is getting the job done, but it is taking a lot more work than it should. The chances are that, if your records are merely being kept for Uncle Sam's use, you do not really know exactly how well your business is doing. You could be trying to bail water with a sieve. This is why it is possible to increase the income and other benefits you get from your business through the second method mentioned above—by becoming a better manager of your business. By plugging up the holes, more water can be moved with only a slight increase in the amount of work needed. To make the kind of decisions that will plug those holes, you have to be as familiar with the sounds made by your whole business machine as you are with the noises made by the various pieces of equipment you work with. Therefore, the time you spend keeping and studying your business records should be considered time well spent on an important job that will benefit you more than anybody else.

The Value of Good Records

How Can Records Help?

Basically, records tell you two things: (1) where your money is coming from, and (2) where it goes. With this information, you can find out how much money you are making on each fishery you are involved in. Knowing this can help you decide when to devote time to a particular fishery. For example, if you have the capability to go after clams, oysters or fish, you must decide which particular fishery to enter during any time of the year. Using your records, figure out which fishery pays the most money, above expenses, during the particular period of the year in question. Then, considering other factors such as the market conditions, go after the product with the highest potential profit.

In making this decision, your records have helped you in two ways. First, the records show what you have done in earlier years during the period of time in question. Knowing that the month of March has usually been a poor month for fishing in years past could be very helpful in deciding whether to go to the expense of trying for fish in that month. Secondly, your records show how much it has cost to go into each of the possible fisheries so that you can compare the cost of each operation with the probable return under present conditions.

A typical example of poor business management is the waterman who stops crabbing to go oystering because "it was time to go oystering". Had he been keeping good records, he might have found out that he had been making more money crabbing than he could have made by oystering. Following the crowds usually leads you to the fished-out spots anyway. An example of good management is the waterman who knows from studying his records how much it costs him to set out and pull his gill nets and decides not to set them during the month of March. He knows that March is usually a bad month for fishing and figures that he more than likely will not be able to catch enough fish to pay for his expenses, let alone make a reasonable profit for himself.

Records Identify Problem Areas

By keeping track of where your money is going, your records let you know if your expenses are reasonable. Should some expenses begin to get out of line, the reason can be quickly discovered and plans made to correct

the problem. Also, by predicting what your future cash needs will be, plans can be made for meeting those needs without causing too much of a burden or drain on the business when the money is needed. For example, knowing that a piece of equipment will need to be replaced or repaired in the near future, or that a period of reduced earnings is coming up, will allow you to begin planning for the situation by putting money aside for that purpose or by arranging to borrow the needed money. In addition, your records will let you compare the costs of maintaining a piece of equipment you presently own with the costs of replacing it with a new piece. Many times it is more profitable to purchase or lease rather than repair because of such tax considerations as deductions for depreciation and interest expense. Beyond this, buying or leasing allows you the pleasure of working with a newer and perhaps better piece of equipment.

Records Help You Borrow

Should you decide that you will need to borrow money to purchase the equipment you need, your records can be worth more to you than a rich uncle. Nothing impresses a loan officer more than your documented proof as to how you can repay the loan. Using your records to prove how much money you have made in the past and how you plan to use future income to repay the bank, will be one of the best things you can do to insure yourself that you get the money you need.

Planning Your Operations

On a more regular basis, you can use your records to plan your income producing activities. Your records will tell you how much income you can reasonably expect from a given amount of work. For example, your records should tell you how much income you should expect, on the average, from a given number of crab pots. Your records will also help you find out how much money you need every month to stay in business. Such things as mortgage payments on your house or boat, insurance payments, food and medical expenses for you and your family add up to an amount which remains fairly constant over time and cannot be easily reduced on short notice. This means that these expenses will have to be taken care of whether you go out on the water or not. For these reasons, such expenses are called fixed expenses.

Of course, you will run into other expenses for such things as gas and bait as soon as you actually begin work. Since these expenses will increase or decrease with the

amount of time you spend on the water, they are called variable expenses. Obviously, the first expenses you have to worry about paying are these variable expenses. No profit-minded person is going to stay in a business where the variable cost of producing a product is greater than the receipts from the sale of that product. This may seem like such an obvious fact of life that it is not worth mentioning. However, the idea of comparing the variable costs of an operation to the income received for the products produced is highly important to a business mechanic interested in fine tuning his business machine for greater profit. A good business mechanic knows that he cannot do anything about his fixed costs in a short period of time, so he bases his production decisions on his variable costs whose level he can control. He knows that although the variable costs of his operation may tend to increase as he attempts to produce a larger amount of product, he can continue to make money as long as the costs of producing the product are less than the revenue he receives for the product. Fine tuning this relationship between variable costs and revenue, the profit-minded man will attempt to increase his production of product as long as the additional cost of producing another unit of product (whether it is a bushel of clams or a pound of eels) is less than the income he receives for that unit of product. Therefore, a profit-minded waterman keeps expense records on each of his operations so he can get an idea of his variable costs of producing his product. With this knowledge, he can make better decisions concerning the maximum amount of effort he should put into his business to get the maximum amount of profit out of it.

After the waterman has an idea of the variable costs of producing his product, he can make an estimate of the average income from an average fishing effort. Then with this figure and an idea of his fixed costs, the waterman can get a good estimate of the amount of fishing effort he will have to put out to cover his fixed expenses and stay in business in the long run.

Your Records Can Help Reduce Your Taxes

A good record insures that all tax deductible expenses are recorded in a manner which makes their reporting and documentation simple and efficient at tax reporting time. It insures that all depreciation allowances are recorded and taken. Such records make the discovery of all deductions more of a certainty. Good records also simplify the accounting and reporting of expenses which

are shared by business and personal life. Such expenses as electricity, gas or telephone expenses are many times used by both the business and family. For example, if a part of the home is used for business purposes such as keeping records or meeting with crewmen, then the expenses of keeping that portion of the home heated and lighted during the time it is used for business purposes become a deductible business expense. If your records provide a means of determining the business share of home expenses, it is much more likely that those expenses will be used as deductions.

Good Records Help Take Advantage of Capital Gains and Loss Tax Provisions

Capital gains or losses occur when you sell a capital asset such as a boat, motor or any other business possession that you have owned for more than a year. A capital gain occurs if you sell it for more than you paid for it. If you can prove, through your records, that a portion of the money you received from the sale of the asset is a capital gain, your taxes on that portion of the sale price will be quite a bit below what you would have to pay if the money were considered regular income. On the other hand, if you sold the asset for less than the value you had depreciated it to, then you have a capital loss. This loss can be used as a regular business expense deduction for income tax purposes.

Other Ways Records Help Reduce Your Taxes

A good set of records allows you to take advantage of government programs which can reduce the amount of taxes you must pay. Examples of such tax reducing programs are the investment tax credit programs, personal retirement plans for self-employed persons or the Capital Construction Fund. To benefit from these programs, you must maintain certain types of records as outlined by the government.

Another way to reduce your taxes is to plan your big expenditures on expense items so that they occur during high income years. This way the expenditures can be used to lower your high income to a lower tax bracket.

The reverse is true when planning to sell an asset. Part of the selling price you receive from the sale of the asset may be considered as regular income and will be taxed accordingly. Therefore, plan to sell such assets during years of low income so that the extra income will not kick you up into such a high tax bracket as it would if you sold it in a year of high earnings. It can be quite amazing how much tax money you can save by waiting for a new year to begin before you buy or sell an asset.

Records Simplify Tax Reporting

A well organized record system should be set up in such a way that the information needed for tax reporting is easily located and can flow directly on to the proper reporting form. Therefore, your records should make it easy for you to prepare your own taxes or to reduce the cost of having someone do it for you. Additionally, your records should make it easy to estimate how much taxes you will have to pay so that you can begin to set some money aside in an interest-drawing account to ease the burden of paying in one lump sum at the end of the year.

The Recordkeeping System

The Worry-Free Recordkeeping System?

For a recordkeeping system to function properly, that is, to tell you where the money comes from and where it goes, it should be easy to use. It should not take too much time and thus, become a burden to be avoided. It should be efficient enough to organize all the information needed for wise business management in a systematic manner with the minimum amount of effort. A well laid out recordkeeping system should also relieve the bookkeeper of unnecessary worry about whether or not enough information is being recorded in the proper manner.

Most bookkeepers, whether hired or appointed (like many watermen's wives), want to do a good job of keeping records. Combine this desire to do an excellent job with a feeling of responsibility for the correctness of the records should the family business be audited by the IRS, and you come up with an idea of the frustration experienced by many bookkeepers when they sit down to do the business records. As a result of this worry

about not doing enough or doing the wrong thing, many ugly and unnecessary hours are spent fuming over watermen's records. By following a well laid out system, which tells you what to record and how to do it, the amount of time spent in keeping records can be greatly reduced and still provide enough business information to fine tune your business engine so that you get the maximum benefit from the amount of work you are putting in. A good system, therefore, should cut to a minimum the amount of time required to keep the records up to date and correct and, at the same time, reduce unnecessary worry and frustration over the type of information to be kept.

What Does It Look Like?

The system described below has been designed especially for watermen. It was designed with the help of many experts, including watermen, accountants, economists and tax specialists.

There are three major parts to the Waterman's Record-keeping System:

1. Firsthand reports
2. Catchall envelope
3. Record book

The First Phase: Firsthand Reports

The first phase of the recordkeeping program is perhaps the most important because it is in this phase that the first record of the incoming or outgoing money is made. It is also probably the most difficult step in keeping good records since it should be done at the time and place that the money is spent or received—a time when many watermen feel that they do not want to be bothered with writing anything down. Yet, experience will tell you that the longer you put off recording an expense or an income item the more likely that you will forget to do it at all. Unrecorded expenses and incomes result in business records which are virtually worthless for business management or tax reporting purposes. Therefore, a concerned waterman will develop the habit of insuring that all business transactions are recorded when and where they occur.

These firsthand reports are probably best recognized as the receipts you receive when you buy something; however, they also include deposit slips, cancelled checks, and even handwritten notes you make yourself when

nothing else is available. For example, suppose you purchased 20 gallons of gasoline from a dealer who refused to give you a receipt. In this case, a note you made at the time of purchase, which might look something like the following note, would be adequate for management and tax reporting purposes.

March 10, 1975

Paid \$10 for 20 gals. of gas
to Bayside Service Center

Notice that this firsthand report, like the receipt the dealer should have given you, contains four necessary pieces of information:

1. The date
2. The money amount
3. What the money was for
4. Who you were dealing with

Of course, this type of report should only be used when no other type of report is available for a couple of reasons. First of all, it is not as reliable as a report made for you by somebody else. The IRS will accept this kind of receipt, as long as no large amount of money is involved, but you should not try to strain their trust in you too much. The main reason you don't want to use many of these types of reports is because you have to make them yourself. One of the main goals of a good recordkeeping system is to make your recordkeeping job as easy as possible. Therefore, any time someone else will make these firsthand reports for you, your work is reduced and your reliability is strengthened. Another way of reducing the amount of time required for recordkeeping is to use business credit cards for business purchases or arrange for your suppliers to bill you by the month so that all expenses for the month can be paid at one sitting.

By far the best way to insure that these firsthand reports are done properly and with a maximum amount of reliability is to use a business checking account which is completely separate from your personal account. By using checks as much as possible, your record making chores are greatly reduced since a properly made out check is the best form of report for business and tax purposes. To be properly written, a check should have on it the four pieces of information mentioned above. Perhaps the only one of these four bits of information that many people do not already put on their checks is number three—what the money was for. However, most business checks have a space for this necessary piece of

information, so its addition to your standard check-writing habits should not cause too much trouble.

Not only does your business checking account help prove and keep track of your business expenses, it is also a nearly complete recordkeeping system that can tell you at a glance how much money has come in, how much has gone out, and how much is left over for personal uses. Using a check to withdraw that money for personal uses is a simple and clear-cut way of keeping up with the amount of money your business is providing for you and your family. Using the deposit slips (which the bank gives you when you put money into your business account) as firsthand reports of your income simplifies this necessary recordkeeping function since the date and amount are recorded for you by the bank. To complete your report, all you have to do is record what the money was for and who paid you. For example, let us say that you have sold 15 bushels of clams to a dealer for \$150. Next, you deposit the check he gave you into your business checking account and write what the money was for and who paid you on to the deposit slip. Since the deposit slip already has the date and amount on it, you have a complete record of the income.

Recording your income is important for both business and tax purposes. For proper management decisions you must know where your money is being made so that decisions as to what activity to undertake can be based on sound information. For tax reporting purposes, the IRS makes a big effort to determine if a taxpayer has been reporting all of his income. This has been especially true of the recent audits of members of the fishing industry where the IRS's suspicion has been aroused by some fishermen's lack of income but abundance of expenses. In these cases, the IRS has been especially resourceful in investigating the affairs of the fishermen concerned, including such perfectly legal actions as subpoenaing the fishermen's friends, neighbors and business relations. The best way to avoid such an experience is to have a well ordered record of regular income reports. Using your deposit slips and monthly statements to back up your records will certainly go a long way to prove your honest intentions at audit time.

To sum up the first phase of the Watermen's Recordkeeping system, it is based on the need to record as quickly and easily as possible four important bits of information every time your business either receives or spends money. The four necessary bits of information are:

1. The date
2. The money amount
3. What the money was for
4. Who you were dealing with

The most reliable means of recording this information is by paying as many bills as possible with your business checks. When using cash to pay bills becomes necessary, always try to get a receipt, thereby reducing the amount of report making you have to do yourself. When all of these "automatic reports" are unavailable, remember that a report you make yourself with the four necessary pieces of information can be an acceptable receipt.

The Second Phase: The Catchall Envelope

Once these firsthand reports have been made, the need arises for a container to keep them together until they are needed at a later date. Of course, any container from a shoe box to a mayonnaise jar could possibly serve this purpose; however, the need to store these reports for several years makes it important to use a container that is as small and compact as possible. Therefore, it is advisable that watermen use a container that many businesses throughout the country have found to be perfect for this use. That container is an *ordinary manila envelope* big enough to hold a regular size piece of paper. Most businesses prefer to have an envelope with its flap located at the top rather than along the longer side.

Using an envelope rather than a box allows you to group your records according to the month, making it much easier to keep up with your business on a month-to-month basis. Monthly envelopes also make it much easier to track down any given piece of information you may be looking for.

Most importantly, having such a container for the sole purpose of catching all the firsthand reports and any other documents related to your business will greatly improve your chances of holding on to those important reports. Emptying your pockets into your catchall envelope as you come in the door will become a habit that will be of tremendous importance to you as a determined business manager.

Had Enough?

If you do not want to go any further than insuring that the proper kind of firsthand records have made it into your catchall envelope, you can stop at this point and feel confident that you have satisfied the requirements of the tax laws as they relate to recordkeeping. In addition, you can take your twelve monthly en-

velopes to an accountant and have your income taxes prepared so that you can completely satisfy your tax obligations.

What Good Does It Do You?

At this point, you have truly been working only for the benefit of Uncle Sam by keeping track of the taxes you owe. But you have done very little for yourself as manager of your fishing business. As the records stand at this point, you have found out very little about the condition of your business. Without this knowledge, it will be impossible to fine-tune your business machine so that it produces the maximum profit possible. To gain this knowledge you have got to get your firsthand reports out of their envelopes and into the third phase of your recordkeeping program where the information can be organized for management purposes.

The Third Phase: The Record Book

Although there are many commercially available record books which could be used for organizing the firsthand reports, the job can probably be more easily understood and done with the aid of a record book especially designed for watermen. The University of Maryland has designed such a record book especially for Maryland's watermen. The book is available through the Maryland Cooperative Extension Service. The main portion of the record book is devoted to income and receipt pages where income items are recorded and an equal number of expense pages where expense items are recorded. Figures 1 and 2 illustrate these pages in a reduced form.

One Heavy Line

One outstanding feature of both the income and the expense pages is the heavy black line that runs down the page not far from the left-hand side. This line is like the balancing point of a scale because the sum of all numbers to the left of the line should always equal the sum of all numbers to the right of it. The reason for this balancing act is the way the firsthand reports are entered into this record book: they are first entered into

the total column to the left of the heavy line and then they are entered a second time into an appropriate column to the right of the heavy line. For example, suppose you have a firsthand report which you made after selling 15 bushels of clams for \$150 on March 10. Since this is an income report you will first enter the \$150 into the "total receipts" column and then enter it a second time in the "clams" column. See Figure 1 for an idea of how it would look. At this point, it is clear why the heavy line is the balancing point of our scale. Each double entry adds an equal amount of numerical weight to both sides of the heavy line. The purpose of this double-entry system is twofold:

1. By adding up the "totals" column on the income and expense pages, it tells you your total income or total expenses. Then it goes on to break those totals down into the various segments to the right of the heavy line, so that you can tell where the money came from in the case of incomes and where your money went in the case of expenses. A glance at Figure 2 will more fully explain how this works. From the "total expense" column you can tell that expenses totaled \$686.00 during the period of time covered on the example sheet. Also, you can tell how that money was spent by looking at the expense columns to the right of the heavy line. The amount of \$220.00 was spent on crab pots; \$41.00 went for crab bait; etc.

2. The second purpose of the double-entry system is to serve as a check of the accuracy of your addition. After adding up all of the columns on the page, it is reassuring to have a means of determining if you have done your arithmetic correctly or not. This check is made by adding the totals of all columns to the right of the heavy line and comparing that sum to the total of the "totals" column to the left of the line. If the two figures are the same and the heavy line remains as the balancing point, then you can be fairly certain that your records are correct.

This check of the accuracy of your records should be done at least once a month at the time you bring your records up to date by entering the month's accumulation of firsthand reports into your record book. If you plan to do your bookkeeping each month when your monthly bank statement comes in, all of your bookkeeping chores can be done at one sitting. In this way, the bank can help you establish a regular schedule of recordkeeping which will combine all of your necessary recordkeeping functions into a relatively short period of an evening, leaving you with the definite knowledge of how much

money your business checking account contains, how much money passed through the business during the month, and how that money was earned and spent.

Annual Summary of Monthly Entries

After all of the firsthand reports have been transferred into the record book at the end of the month, the totals for the month should then be entered in the annual summary record which can be found in the Waterman's Record Book. Figure 3 is a picture of this record which has been partially filled in with example numbers. This record stresses your expense items since these yearly totals will be required to be listed on your income tax return. Using this record will greatly simplify the job of making out your income tax return. All you will have to do is copy the individual expense totals from the annual summary on to your tax return. Thus, at the end of the year all of this necessary information will already be prepared to flow directly on to your tax return. The same thing is true for your income, which can be copied from the first column of the annual summary.

How Much Are You Making?— Net Cash Income

The annual summary is also a convenient place to figure out how much money is left over each month after you have subtracted your expenses from your income. This figure, which is called your net cash income, will give you a fairly good idea of the amount of money you made each month. It probably will not be exact because you may have bought some things during the month, such as equipment or supplies, that are used in other months. However, the net cash income figure will be a good approximation which can be used for management decisions and also to estimate how much your taxes will be for the year so that you can set some money aside for that purpose.

To figure out your net cash income for any month, put your total income from your record book in the first column of the annual summary. In the next column enter your total expenses for the month taken from the "total expense" column of your record book. Next, subtract your expenses (column 2) from the total income (column 1) and enter the resulting net cash income in column 3 of the annual summary.

Figure 3 - Annual

Month	Totals						Operating Expenses					
	Total Cash Income \$		Total Cash Expense \$		Net Cash Income \$		Wages \$	Vessel Fuel \$	Truck/Auto Fuel \$	Bait and Ice \$	Dockage \$	Utilities (Bus. Share) \$
January	1200	00	275	00	925	00	5000	6000	2500		600	900
February	1000	00	236	00	764	00		5000	1500		600	1200
March	500	00	172	00	328	00		3500	1000		600	800
April												
May												
June												
July												
August												
September												
October												
November												
December												
Total												

Secondary Records

The firsthand reports, catchall envelope and the record book make up the main parts of the waterman's recordkeeping system; however, there are additional records which are rapidly becoming essential for a profit-minded waterman's business operating in this increasingly complex country.

Watermen may benefit from changes in the Federal Tax Codes. The Tax Reform Act of 1976 makes several revisions in the Federal Tax Laws that directly affect the commercial fishing industry.

Withholding Requirements Change

One change that may have the most far-reaching implications concerns the "sternman issue". The portion of the tax law regarding the relationship of the captain to the crew changes the way in which the captain treats the crew for tax purposes. Previously, the boat operator was required to withhold federal income taxes as well as social security from each crew member's share or salary. The new legislation states that for any fishing vessel with an operating crew of fewer than ten individuals, each crew member will be regarded as self-employed, "if that

Summary

Operating Expenses		Gear and Equipment				Repair and Maintenance					Other
Interest \$	Other \$	Pots, Tongs, Buoys, etc. \$	Rope And Twine \$	Work Clothing \$	Other \$	Vessel Hull \$	Vessel Engine \$	Truck/Auto \$	Equipment \$	Other \$	Other \$
		50 00		25 00			35 00	15 00			
				36 00	12 00		5 00		100 00		
			23 00	15 00		55 00	15 00	5 00			

individual is paid by a share of the catch of fish or a share of the proceeds from the sale of such catch." This relieves the captain of the responsibility of withholding money from his crew and making social security payments on behalf of the crewman, but does not eliminate the need for reporting to the Internal Revenue Service.

As a result of these changes in withholding requirements, the following discussion of payroll records applies only to those watermen who treat their crewmember's tax relationship in the employer-employee category: that is they pay their crewmember a fixed wage or salary (per

trip, per day or per week). It will not apply to those watermen whose operating crew consists of less than ten individuals who receive compensation in the form of a share of the catch or a share of the proceeds from the sale of the catch.

Payroll Records

An important secondary record for watermen who employ help in their businesses is the payroll record which is used to keep up with the various taxes which must be withheld from an employee's wages. Figure 4

illustrates a sample payroll record which has been partially filled in. One of these records is kept on every person a waterman hires in his business. At the top, there is space for the employee's name, social security number, and the number of exemptions he desires to claim. The number of exemptions is usually the same number that he normally claims on his income tax return. Also, there is a space to indicate whether the employee is married or not. Just beneath this area, columns and rows are supplied to record the necessary tax withholding information. The information for the "date" and "wages paid" columns, of course, is supplied by you. The taxes to be entered in the "Federal Withholding" and "Social Security" columns are given to you by the IRS publication entitled "Employer's Tax Guide" which is provided to you by IRS. The amount of Maryland State Income Tax to be withheld is given in a pamphlet called "State of Maryland Income Tax Withholding Tables" which is supplied by the Comptroller of the Treasury, Income Tax Division, Annapolis, Maryland 21401.

Finding the proper tax to enter in these columns is fairly simple and requires no mathematical work. For example, to find out how much Federal income tax must be withheld from \$40, you simply look it up in the proper table in the "Employer's Tax Guide". The tax tables are set up according to the pay period (how often the employee is paid) whether by the day, week, etc. and whether or not the employee is married. In this example, we will assume that we have a married employee, claiming two exemptions, who is paid on a daily basis.

On the left-hand side of this table are two columns listing possible daily wages. To find the tax, follow the two left-hand side columns down until you find a place where the \$40 daily wage is at least equal to or greater than the number in the first column but less than the number in the second column. This tells you the row that the tax will be in. Next, follow the row across until you come to a column which is headed by the number of exemptions claimed by the employee. Figure 5 is an example of this tax table with the proper tax circled. The number you find on the proper wage row and in the proper exemption column is the Federal income tax to be withheld, which is then entered in the payroll record under the Federal withholding heading.

Social Security

To find the amount of Social Security tax to be withheld, this same procedure is followed using the Social Security Employee Tax tables which are also located in the "Employer's Tax Guide". The Social Security tables are a little different from the income tax

tables in that they are only concerned with the amount of wages paid and not the marriage status, pay period, or number of exemptions as are the income tax tables. Figure 6 is a picture of the Social Security table with the proper tax circled. Once the Social Security tax is found, it too is entered into the payroll record in the "Social Security" column. Remember that you will be required to pay a Social Security tax on your employee which is equal to the amount you have withheld from his wages; so, it is a good practice to set aside some money for that tax each time you pay him.

State Income Withholding Tax

The amount of state income tax to be withheld is found in the "State of Maryland Income Tax Withholding Tables" using the method which was followed for the Federal income tax calculation. Figure 7 shows the table on which the tax is found with the proper tax on a \$40 daily wage encircled. The amount of this tax will change depending upon the county you are in because of county piggyback tax, so make sure you are using the state tax guide made up for your particular county.

Total Pay Minus Total Withheld Equals Net Pay

Once all three of the taxes have been entered in the payroll record, they are then added together, and the resulting total is entered into the "total withheld" column. Next, the "total withheld" is subtracted from "total pay" to find the "net pay" which is the actual amount the employee takes home. Thus, the payroll record organizes and simplifies the employer's withholding task by providing him with a worksheet for calculating the total withheld and net pay.

Reporting and Depositing Withheld Taxes

The payroll record also keeps track of all taxes withheld so that they can be reported and paid to the government at the proper time. To insure that you deposit these withheld taxes on time, it is helpful to total up the payroll record every month and add this monthly total to the accumulation of taxes already withheld during that quarter of the year.

If at the end of any month you find that the total of Federal income and Social Security taxes you have withheld from all employees plus the Social Security taxes you pay on your employees is \$200 or more, you must deposit those taxes. Failure to get the taxes in on time can result in a penalty; therefore, it is important to keep up with the amount of taxes you have withheld to date during every quarter. Then, if a deposit is

Figure 5

MARRIED Persons—DAILY OR MISCELLANEOUS Payroll Period

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$9.50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9.50	9.75	.05	0	0	0	0	0	0	0	0	0	0
9.75	10.00	.10	0	0	0	0	0	0	0	0	0	0
10.00	10.50	.15	0	0	0	0	0	0	0	0	0	0
10.50	11.00	.25	0	0	0	0	0	0	0	0	0	0
11.00	11.50	.30	0	0	0	0	0	0	0	0	0	0
11.50	12.00	.40	0	0	0	0	0	0	0	0	0	0
12.00	12.50	.45	.05	0	0	0	0	0	0	0	0	0
12.50	13.00	.55	.10	0	0	0	0	0	0	0	0	0
13.00	13.50	.60	.20	0	0	0	0	0	0	0	0	0
13.50	14.00	.70	.25	0	0	0	0	0	0	0	0	0
14.00	14.50	.75	.35	0	0	0	0	0	0	0	0	0
14.50	15.00	.85	.40	0	0	0	0	0	0	0	0	0
15.00	15.50	.90	.50	.10	0	0	0	0	0	0	0	0
15.50	16.00	1.00	.55	.15	0	0	0	0	0	0	0	0
16.00	16.50	1.05	.65	.25	0	0	0	0	0	0	0	0
16.50	17.00	1.15	.70	.30	0	0	0	0	0	0	0	0
17.00	17.50	1.20	.80	.40	0	0	0	0	0	0	0	0
17.50	18.00	1.30	.85	.45	.05	0	0	0	0	0	0	0
18.00	18.50	1.35	.95	.55	.10	0	0	0	0	0	0	0
18.50	19.00	1.45	1.00	.60	.20	0	0	0	0	0	0	0
19.00	19.50	1.50	1.10	.70	.25	0	0	0	0	0	0	0
19.50	20.00	1.60	1.15	.75	.35	0	0	0	0	0	0	0
20.00	21.00	1.70	1.30	.85	.45	.05	0	0	0	0	0	0
21.00	22.00	1.85	1.45	1.00	.60	.20	0	0	0	0	0	0
22.00	23.00	2.00	1.60	1.15	.75	.35	0	0	0	0	0	0
23.00	24.00	2.15	1.75	1.30	.90	.50	.10	0	0	0	0	0
24.00	25.00	2.30	1.90	1.45	1.05	.65	.25	0	0	0	0	0
25.00	26.00	2.45	2.05	1.60	1.20	.80	.40	0	0	0	0	0
26.00	27.00	2.60	2.20	1.75	1.35	.95	.55	.10	0	0	0	0
27.00	28.00	2.80	2.35	1.90	1.50	1.10	.70	.25	0	0	0	0
28.00	29.00	3.00	2.50	2.05	1.65	1.25	.85	.40	0	0	0	0
29.00	30.00	3.15	2.65	2.20	1.80	1.40	1.00	.55	.15	0	0	0
30.00	31.00	3.35	2.85	2.35	1.95	1.55	1.15	.70	.30	0	0	0
31.00	32.00	3.50	3.05	2.55	2.10	1.70	1.30	.85	.45	.05	0	0
32.00	33.00	3.70	3.20	2.70	2.25	1.85	1.45	1.00	.60	.20	0	0
33.00	34.00	3.90	3.40	2.90	2.40	2.00	1.60	1.15	.75	.35	0	0
34.00	35.00	4.05	3.55	3.10	2.60	2.15	1.75	1.30	.90	.50	.10	0
35.00	36.00	4.25	3.75	3.25	2.75	2.30	1.90	1.45	1.05	.65	.25	0
36.00	37.00	4.40	3.95	3.45	2.95	2.45	2.05	1.60	1.20	.80	.40	0
37.00	38.00	4.60	4.10	3.60	3.10	2.65	2.20	1.75	1.35	.95	.55	.15
38.00	39.00	4.80	4.30	3.80	3.30	2.80	2.35	1.90	1.50	1.10	.70	.30
39.00	40.00	4.95	4.45	4.00	3.50	3.00	2.50	2.05	1.65	1.25	.85	.45
40.00	41.00	5.15	4.65	4.15	3.65	3.15	2.70	2.20	1.80	1.40	1.00	.60
41.00	42.00	5.30	4.85	4.35	3.85	3.35	2.85	2.35	1.95	1.55	1.15	.75
42.00	43.00	5.50	5.00	4.50	4.00	3.55	3.05	2.55	2.10	1.70	1.30	.90
43.00	44.00	5.75	5.20	4.70	4.20	3.70	3.20	2.70	2.25	1.85	1.45	1.05
44.00	45.00	5.95	5.35	4.90	4.40	3.90	3.40	2.90	2.40	2.00	1.60	1.20
45.00	46.00	6.15	5.60	5.05	4.55	4.05	3.60	3.10	2.60	2.15	1.75	1.35
46.00	47.00	6.35	5.80	5.25	4.75	4.25	3.75	3.25	2.75	2.30	1.90	1.50
47.00	48.00	6.55	6.00	5.40	4.90	4.45	3.95	3.45	2.95	2.45	2.05	1.65
48.00	49.00	6.80	6.20	5.65	5.10	4.60	4.10	3.60	3.15	2.65	2.20	1.80
49.00	50.00	7.00	6.40	5.85	5.30	4.80	4.30	3.80	3.30	2.80	2.35	1.95
50.00	51.00	7.20	6.65	6.05	5.45	4.95	4.50	4.00	3.50	3.00	2.50	2.10
51.00	52.00	7.40	6.85	6.25	5.70	5.15	4.65	4.15	3.65	3.20	2.70	2.25
52.00	53.00	7.60	7.05	6.45	5.90	5.35	4.85	4.35	3.85	3.35	2.85	2.40
53.00	54.00	7.85	7.25	6.70	6.10	5.55	5.00	4.50	4.05	3.55	3.05	2.55
54.00	55.00	8.05	7.45	6.90	6.30	5.75	5.20	4.70	4.20	3.70	3.25	2.75
55.00	56.00	8.25	7.70	7.10	6.50	5.95	5.40	4.90	4.40	3.90	3.40	2.90
56.00	57.00	8.45	7.90	7.30	6.75	6.15	5.60	5.05	4.55	4.10	3.60	3.10
57.00	58.00	8.65	8.10	7.50	6.95	6.35	5.80	5.25	4.75	4.25	3.75	3.25
58.00	59.00	8.90	8.30	7.75	7.15	6.60	6.00	5.45	4.95	4.45	3.95	3.45
59.00	60.00	9.15	8.50	7.95	7.35	6.80	6.20	5.65	5.10	4.60	4.15	3.65
60.00	61.00	9.40	8.75	8.15	7.55	7.00	6.40	5.85	5.30	4.80	4.30	3.80
61.00	62.00	9.65	8.95	8.35	7.80	7.20	6.65	6.05	5.50	5.00	4.50	4.00
62.00	63.00	9.85	9.20	8.55	8.00	7.40	6.85	6.25	5.70	5.15	4.65	4.15
63.00	64.00	10.10	9.45	8.80	8.20	7.65	7.05	6.50	5.90	5.35	4.85	4.35
64.00	65.00	10.35	9.70	9.05	8.40	7.85	7.25	6.70	6.10	5.55	5.05	4.55
65.00	66.00	10.60	9.95	9.25	8.60	8.05	7.45	6.90	6.30	5.75	5.20	4.70
66.00	67.00	10.85	10.15	9.50	8.85	8.25	7.70	7.10	6.55	5.95	5.40	4.90
67.00	68.00	11.05	10.40	9.75	9.10	8.45	7.80	7.30	6.75	6.15	5.60	5.05
68.00	69.00	11.30	10.65	10.00	9.35	8.70	8.10	7.55	6.95	6.40	5.80	5.25
69.00	70.00	11.55	10.90	10.25	9.55	8.90	8.30	7.75	7.15	6.60	6.00	5.45
70.00	71.00	11.80	11.15	10.45	9.80	9.15	8.50	7.95	7.35	6.80	6.20	5.65
71.00	72.00	12.05	11.35	10.70	10.05	9.40	8.75	8.15	7.60	7.00	6.45	5.85

Figure 6

Social Security Employee Tax Table

6.13 percent employee tax deductions

Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld
At least	But less than		At least	But less than		At least	But less than		At least	But less than	
\$35.16	\$35.32	\$2.16	\$45.93	\$46.09	\$2.82	\$56.69	\$56.86	\$3.48	\$67.46	\$67.62	\$4.14
35.32	35.49	2.17	46.09	46.25	2.83	56.86	57.02	3.49	67.62	67.79	4.15
35.49	35.65	2.18	46.25	46.42	2.84	57.02	57.18	3.50	67.79	67.95	4.16
35.65	35.81	2.19	46.42	46.58	2.85	57.18	57.35	3.51	67.95	68.11	4.17
35.81	35.98	2.20	46.58	46.74	2.86	57.35	57.51	3.52	68.11	68.28	4.18
35.98	36.14	2.21	46.74	46.91	2.87	57.51	57.67	3.53	68.28	68.44	4.19
36.14	36.30	2.22	46.91	47.07	2.88	57.67	57.84	3.54	68.44	68.60	4.20
36.30	36.47	2.23	47.07	47.23	2.89	57.84	58.00	3.55	68.60	68.77	4.21
36.47	36.63	2.24	47.23	47.39	2.90	58.00	58.16	3.56	68.77	68.93	4.22
36.63	36.79	2.25	47.39	47.56	2.91	58.16	58.32	3.57	68.93	69.09	4.23
36.79	36.95	2.26	47.56	47.72	2.92	58.32	58.49	3.58	69.09	69.25	4.24
36.95	37.12	2.27	47.72	47.88	2.93	58.49	58.65	3.59	69.25	69.42	4.25
37.12	37.28	2.28	47.88	48.05	2.94	58.65	58.81	3.60	69.42	69.58	4.26
37.28	37.44	2.29	48.05	48.21	2.95	58.81	58.98	3.61	69.58	69.74	4.27
37.44	37.61	2.30	48.21	48.37	2.96	58.98	59.14	3.62	69.74	69.91	4.28
37.61	37.77	2.31	48.37	48.54	2.97	59.14	59.30	3.63	69.91	70.07	4.29
37.77	37.93	2.32	48.54	48.70	2.98	59.30	59.47	3.64	70.07	70.23	4.30
37.93	38.10	2.33	48.70	48.86	2.99	59.47	59.63	3.65	70.23	70.40	4.31
38.10	38.26	2.34	48.86	49.03	3.00	59.63	59.79	3.66	70.40	70.56	4.32
38.26	38.42	2.35	49.03	49.19	3.01	59.79	59.96	3.67	70.56	70.72	4.33
38.42	38.59	2.36	49.19	49.35	3.02	59.96	60.12	3.68	70.72	70.89	4.34
38.59	38.75	2.37	49.35	49.52	3.03	60.12	60.28	3.69	70.89	71.05	4.35
38.75	38.91	2.38	49.52	49.68	3.04	60.28	60.45	3.70	71.05	71.21	4.36
38.91	39.08	2.39	49.68	49.84	3.05	60.45	60.61	3.71	71.21	71.38	4.37
39.08	39.24	2.40	49.84	50.00	3.06	60.61	60.77	3.72	71.38	71.54	4.38
39.24	39.40	2.41	50.00	50.17	3.07	60.77	60.93	3.73	71.54	71.70	4.39
39.40	39.56	2.42	50.17	50.33	3.08	60.93	61.10	3.74	71.70	71.86	4.40
39.56	39.73	2.43	50.33	50.49	3.09	61.10	61.26	3.75	71.86	72.03	4.41
39.73	39.89	2.44	50.49	50.66	3.10	61.26	61.42	3.76	72.03	72.19	4.42
39.89	40.05	2.45	50.66	50.82	3.11	61.42	61.59	3.77	72.19	72.35	4.43
40.05	40.22	2.46	50.82	50.98	3.12	61.59	61.75	3.78	72.35	72.52	4.44
40.22	40.38	2.47	50.98	51.15	3.13	61.75	61.91	3.79	72.52	72.68	4.45
40.38	40.54	2.48	51.15	51.31	3.14	61.91	62.08	3.80	72.68	72.84	4.46
40.54	40.71	2.49	51.31	51.47	3.15	62.08	62.24	3.81	72.84	73.01	4.47
40.71	40.87	2.50	51.47	51.64	3.16	62.24	62.40	3.82	73.01	73.17	4.48
40.87	41.03	2.51	51.64	51.80	3.17	62.40	62.57	3.83	73.17	73.33	4.49
41.03	41.20	2.52	51.80	51.96	3.18	62.57	62.73	3.84	73.33	73.50	4.50
41.20	41.36	2.53	51.96	52.13	3.19	62.73	62.89	3.85	73.50	73.66	4.51
41.36	41.52	2.54	52.13	52.29	3.20	62.89	63.06	3.86	73.66	73.82	4.52
41.52	41.69	2.55	52.29	52.45	3.21	63.06	63.22	3.87	73.82	73.99	4.53
41.69	41.85	2.56	52.45	52.62	3.22	63.22	63.38	3.88	73.99	74.15	4.54
41.85	42.01	2.57	52.62	52.78	3.23	63.38	63.54	3.89	74.15	74.31	4.55
42.01	42.17	2.58	52.78	52.94	3.24	63.54	63.71	3.90	74.31	74.47	4.56
42.17	42.34	2.59	52.94	53.10	3.25	63.71	63.87	3.91	74.47	74.64	4.57
42.34	42.50	2.60	53.10	53.27	3.26	63.87	64.03	3.92	74.64	74.80	4.58
42.50	42.66	2.61	53.27	53.43	3.27	64.03	64.20	3.93	74.80	74.96	4.59
42.66	42.83	2.62	53.43	53.59	3.28	64.20	64.36	3.94	74.96	75.13	4.60
42.83	42.99	2.63	53.59	53.76	3.29	64.36	64.52	3.95	75.13	75.29	4.61
42.99	43.15	2.64	53.76	53.92	3.30	64.52	64.69	3.96	75.29	75.45	4.62
43.15	43.32	2.65	53.92	54.08	3.31	64.69	64.85	3.97	75.45	75.62	4.63
43.32	43.48	2.66	54.08	54.25	3.32	64.85	65.01	3.98	75.62	75.78	4.64
43.48	43.64	2.67	54.25	54.41	3.33	65.01	65.18	3.99	75.78	75.94	4.65
43.64	43.81	2.68	54.41	54.57	3.34	65.18	65.34	4.00	75.94	76.11	4.66
43.81	43.97	2.69	54.57	54.74	3.35	65.34	65.50	4.01	76.11	76.27	4.67
43.97	44.13	2.70	54.74	54.90	3.36	65.50	65.67	4.02	76.27	76.43	4.68
44.13	44.30	2.71	54.90	55.06	3.37	65.67	65.83	4.03	76.43	76.60	4.69
44.30	44.46	2.72	55.06	55.23	3.38	65.83	65.99	4.04	76.60	76.76	4.70
44.46	44.62	2.73	55.23	55.39	3.39	65.99	66.16	4.05	76.76	76.92	4.71
44.62	44.78	2.74	55.39	55.55	3.40	66.16	66.32	4.06	76.92	77.08	4.72
44.78	44.95	2.75	55.55	55.71	3.41	66.32	66.48	4.07	77.08	77.25	4.73
44.95	45.11	2.76	55.71	55.88	3.42	66.48	66.64	4.08	77.25	77.41	4.74
45.11	45.27	2.77	55.88	56.04	3.43	66.64	66.81	4.09	77.41	77.57	4.75
45.27	45.44	2.78	56.04	56.20	3.44	66.81	66.97	4.10	77.57	77.74	4.76
45.44	45.60	2.79	56.20	56.37	3.45	66.97	67.13	4.11	77.74	77.90	4.77
45.60	45.76	2.80	56.37	56.53	3.46	67.13	67.30	4.12	77.90	78.06	4.78
45.76	45.93	2.81	56.53	56.69	3.47	67.30	67.46	4.13	78.06	78.23	4.79

Figure 7

STATE OF MARYLAND
INCOME TAX DIVISION

DAILY
TAX TABLES

WITHHOLDING TAX TABLES

If the payroll period with respect to an employee is DAILY

And the wages are—		And the number of withholding exemptions claimed is										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
The amount of tax to be withheld shall be												
15.50	16.00	.84	.68	.51	.35	.21	.12	.03	0	0	0	0
16.00	16.50	.87	.71	.54	.38	.24	.14	.06	0	0	0	0
16.50	17.00	.92	.75	.59	.42	.29	.17	.08	0	0	0	0
17.00	17.50	.93	.78	.62	.45	.30	.18	.08	.02	0	0	0
17.50	18.00	.98	.81	.65	.48	.33	.20	.11	.03	0	0	0
18.00	18.50	1.02	.86	.69	.53	.36	.23	.12	.05	0	0	0
18.50	19.00	1.07	.90	.74	.57	.41	.27	.15	.06	0	0	0
19.00	19.50	1.10	.93	.78	.62	.45	.30	.18	.08	.02	0	0
19.50	20.00	1.14	.98	.81	.65	.48	.33	.20	.11	.03	0	0
20.00	21.00	1.19	1.02	.86	.69	.53	.36	.23	.12	.05	0	0
21.00	22.00	1.26	1.10	.93	.78	.62	.45	.30	.18	.08	.02	0
22.00	23.00	1.35	1.19	1.02	.86	.69	.53	.36	.23	.12	.05	0
23.00	24.00	1.41	1.25	1.08	.92	.75	.59	.42	.29	.17	.08	0
24.00	25.00	1.49	1.32	1.17	1.01	.84	.68	.51	.35	.21	.12	.03
25.00	26.00	1.58	1.41	1.25	1.08	.92	.75	.59	.42	.29	.17	.08
26.00	27.00	1.64	1.47	1.31	1.14	.98	.81	.65	.48	.33	.20	.11
27.00	28.00	1.73	1.56	1.40	1.23	1.07	.90	.74	.57	.41	.27	.15
28.00	29.00	1.80	1.64	1.47	1.31	1.14	.98	.81	.65	.48	.33	.20
29.00	30.00	1.86	1.70	1.53	1.37	1.20	1.04	.87	.71	.54	.38	.24
30.00	31.00	1.95	1.79	1.62	1.46	1.29	1.13	.96	.80	.63	.47	.32
31.00	32.00	2.01	1.85	1.68	1.52	1.35	1.19	1.02	.86	.69	.53	.36
32.00	33.00	2.09	1.92	1.76	1.59	1.43	1.26	1.10	.93	.78	.62	.45
33.00	34.00	2.18	2.01	1.85	1.68	1.52	1.35	1.19	1.02	.86	.69	.53
34.00	35.00	2.24	2.07	1.91	1.74	1.58	1.41	1.25	1.08	.92	.75	.59
35.00	36.00	2.31	2.15	1.98	1.82	1.65	1.49	1.32	1.17	1.01	.84	.68
36.00	37.00	2.40	2.24	2.07	1.91	1.74	1.58	1.41	1.25	1.08	.92	.75
37.00	38.00	2.46	2.30	2.13	1.97	1.80	1.64	1.47	1.31	1.14	.98	.81
38.00	39.00	2.54	2.37	2.21	2.04	1.88	1.73	1.56	1.40	1.23	1.07	.90
39.00	40.00	2.63	2.46	2.30	2.13	1.97	1.80	1.64	1.47	1.31	1.14	.98
40.00	41.00	2.69	2.52	2.36	2.19	2.03	1.86	1.70	1.53	1.37	1.20	1.04
41.00	42.00	2.76	2.60	2.43	2.28	2.12	1.95	1.79	1.62	1.46	1.29	1.13

7.50% of all over \$42.00 plus

	2.76	2.60	2.43	2.28	2.12	1.95	1.79	1.62	1.46	1.29	1.13
--	------	------	------	------	------	------	------	------	------	------	------

TABLES INCLUDE 50% LOCAL INCOME TAX

required, it can be deposited on time with the necessary deposit forms supplied by the IRS. At the end of each quarter, a quarterly report must be filed with the Federal government using IRS Form 941. The exact dates and procedure for making deposits and filing the 941 forms are very well laid out in the "Employer's Tax Guide" and should be consulted for the full details of this operation.

What About the State Taxes?

Just like the Federal taxes, the state income taxes withheld must also be reported and paid on a schedule which is outlined in a publication entitled "Withholding Guide for Maryland Employers". This guide is available from the Comptroller of the Treasury.

Unemployment Taxes

The payroll record is also helpful in keeping up with the amount of unemployment taxes you have to pay since you need to know the total amount of wages you have paid in order to determine how much this tax will be.

Boats which are registered as weighing over 10 net tons are levied with Federal unemployment taxes. These taxes are paid by the employer (no withholding) and the Federal Unemployment Tax is 3.4% of the first \$6,000 earned by each employee, however, 2.7% can be credited through state unemployment taxes. The frequency of deposits depend on the amount of tax due. Again, for complete instructions about this tax, it is best to read your "Employer's Tax Guide".

Vessels of 10 net tons or less are exempt from state unemployment taxes in Maryland, if the crew is paid on a share basis and not by a salary or wage. If not exempt, this tax is levied on the first \$6,000 earned by each employee, but the rate varies according to the experience rating of the employer. The range in rates is from 2.1 to 5 percent. A new employer will start with 2.7 percent. For complete information contact the Department of Human Resources, 1100 North Eutaw Street, Baltimore, MD 21201.

The Depreciation Record

Another important secondary record for the waterman interested in keeping his taxes as low as possible is the depreciation record. This is a record of all equipment which has an expected life or usefulness of more than one year. It is used to calculate and document the amount of depreciation expense which can be written off as a tax deductible business expense each year. Figure 8 illustrates the depreciation record which is included in

the Waterman's Record Book published by the University of Maryland.

As an example of the way this record is used, let us assume that on July 1, 1975 you bought a new boat for \$15,000. Before buying the new boat you gave a great deal of consideration to the effect the purchase would have on your business through the tax advantages of the investment tax credit program, and the yearly deduction for depreciation and interest expenses. So, on the day you made the purchase, you already knew how it would be depreciated and simply recorded this information in the depreciation record as shown in Figure 8. The first column is used to describe the asset to be depreciated, whether it is a boat as in this example or any other piece of equipment you use in your business. Next, show whether or not the asset is new or used by placing an "N" or "U" in column 3. Column 7 is used to record the amount of investment tax credit you are eligible for during the year in question.

Investment Tax Credit

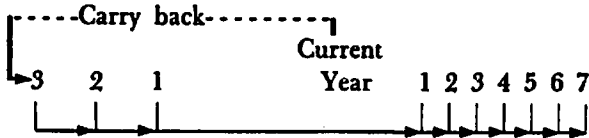
In order to encourage businessmen to invest in business equipment, the government allows business men to pay their taxes with tax credits which the businessmen earn by purchasing certain business assets. The amount of the tax credit is determined, in part, by the useful life of the asset. To qualify for the credit at all, the asset must have a useful life of at least three years. If the asset has a useful life of seven or more years, it may qualify for the maximum tax credit allowable. For assets with useful lives between three and seven years, the tax credit increases with an increase in useful life. The rules for figuring the tax credit to be claimed are best explained by IRS in their *Tax Guide for Small Business*, Publication Number 334 or *Tax Guide for Commercial Fishermen*, Publication Number 595.

A \$15,000 boat which you expected to keep for more than seven years would definitely qualify for the maximum investment tax credit of 10 percent for the 1975 tax year if the item was acquired and placed in use after January 21, 1975. Thus, 10 percent times \$15,000 will give you \$1,500 worth of tax credits which are used to make a dollar for dollar reduction in your current year's tax bill. If your tax bill for this year is \$750, you can use \$750 of your tax credits to reduce this year's tax bill to zero. Any investment tax credits you do not use in the current year (\$750 in this case) can be used to reduce your tax bills in other years. The rules require that unused credits be carried back three years to reduce the tax bills of those years first and then going forward for seven years until the unused credits are used up. The

Figure 8 - Depreciation

1	2	3	4	5	6	7	8	9	10
Description	Date Acquired	New Or Used	Depreciation Method	Years Of Life	Cost Of Asset \$	Investment Credit \$	Additional First Year Depreciation Claimed \$	Salvage Value \$	Depreciable Balance for Regular Depreciation \$
BOAT HULL	7-1-75	N	SL	18	10,000.00	1,000.00	2,000.00	500.00	7,500.00
BOAT ENGINE	7-1-75	N	SL	5	2,000.00	133.33		0.00	2,000.00
BOAT EQUIPMENT	7-1-75	N	SL	3	3,000.00	100.00		0.00	3,000.00
TOTAL					15,000.00	1,233.33	2,000.00	500.00	12,500.00
HULL, ENGINE AND EQUIPMENT	7-1-75	N	SL	18	15,000.00	1,500.00	3,000.00	500.00	11,500.00

diagram below illustrates the carry back and carry forward procedure:



Then forward

If you are eligible for a large investment tax credit, it could be very helpful to keep a record of when you used it and how much you have to carry forward. One record of this type which you can easily set up yourself is shown in Figure 9.

Figure 9 - Record of Tax Credit

Tax Credits	1972	1973	1974	1975
Remaining at beginning of year				
Earned during year				
Subtotal				
Used for year				
Carried back				
Remaining at year end				

Column 5 of the Depreciation Record is used to enter the number of years of useful life the asset has; in other words, the number of years it is depreciated. The fourth column records the depreciation method you are using to determine the yearly depreciation charge.

Straight-Line

The simplest method to use is called Straight-line depreciation. This method takes the initial cost of the asset, subtracts the asset's estimated salvage value (the price you could junk it for), and then divides the resulting figure by the number of years of useful life. Stated in mathematical form:

$$\left(\begin{matrix} \text{Amount you paid} \\ \text{for the asset} \end{matrix} \right) - \left(\begin{matrix} \text{salvage} \\ \text{value} \end{matrix} \right) = \begin{matrix} \text{depreciation} \\ \text{basis} \end{matrix}$$

$$\frac{\text{depreciation basis}}{\text{Number of years of useful life}} = \begin{matrix} \text{Yearly depreciation} \\ \text{charge} \end{matrix}$$

Other Methods of Depreciation

There are two other methods of depreciation used fairly often. They are Declining Balance and Sum of the Years Digits. These methods are a little more complicated than the straight-line to use. However, these

operates an unincorporated business and files a joint return with his wife, he can claim 20 percent of the first \$20,000 paid for the asset or group of assets. This additional depreciation can only be taken in the first year of the asset's life and, of course, reduces the amount of depreciation which can be used during the regular depreciation period.

If you decide to take the additional first year deduction, enter the dollar amount of it in column 8. In our present example, we are assuming that your business is not incorporated and that you file a joint tax return with your wife. Therefore, the amount of additional depreciation you are allowed is:

$$\$15,000 \times 20\% = \$3,000$$

which has been entered in column 8.

In column 9, you enter the boat's salvage value at the end of 18 years. You determine this figure when you buy the asset by estimating what you could sell it for at the end of its depreciation period. If you plan to keep the asset for more than three years, you can reduce the salvage value up to 10 percent of the purchase price. For the present example, let us assume that you have estimated that you could sell the boat for \$2,000 at the end of 18 years of use. To find the salvage value allowable by IRS, multiply the original purchase price by 10 percent and subtract this figure from your \$2,000 estimate to get the \$500 figure which is entered in column 9. The calculation follows:

Your estimate	\$2,000
MINUS 10% × \$15,000	1,500
	\$ 500

SALVAGE VALUE TO BE USED: \$ 500

Next, to determine the cost basis for figuring the regular depreciation expense to be claimed in the first and later years, you must subtract the salvage value (column 9) and the 20 percent first year allowance (column 8) from the cost (column 6). The resulting figure is known as the asset's *basis* or the depreciable balance for regular depreciation and is entered in column 10. You should be cautioned that there may be other adjustments to the asset's basis if you were involved in the Capital Construction Fund or if your asset was paid for partly through a trade of an asset you already owned.

Yearly Depreciation Expense

Once you have found the basis for depreciating the asset which you entered in column 10, the yearly depre-

ciation expense is easily found by dividing the basis by its useful life span (column 5). The yearly depreciation expense can then be entered in the yearly depreciation column. This expense can be claimed every year of the asset's life, including the first year even though you have already claimed the 20 percent additional depreciation allowance—that is why the 20 percent allowance is called "additional".

First Year Restriction

There is one important limitation on the regular depreciation which can be taken in the first year. You can only claim regular depreciation on the fraction of the first year you used the asset.

To figure what the *regular* first year allowance is, you multiply the regular yearly allowance by the fraction of the year you used it. In our example, you bought the boat and began working it on the first of July. Thus, the regular depreciation for the first year is:

$$\text{Yearly depreciation} \times 6/12$$

Is It Worth the Effort?

In summary, your depreciation record has allowed you to keep track of your \$15,000 investment and document the effect of this investment on your taxes. Specifically, you have been able to claim an investment credit that will save you $\$15,000 \times .10 = \$1,500$ worth of taxes. Also you can claim normal and additional depreciation expenses. Assuming you are in the 20 percent income tax bracket, one dollar of expenses reduces your taxable income by a dollar and therefore reduces your taxes by 20¢. This means you can save 20¢ worth of taxes for every dollar of expense you can claim. The year you put your \$15,000 boat into operation you can claim \$3,000 worth of additional depreciation and \$908.34 worth of regular depreciation as a regular business expense. In your 20 percent bracket that means a tax savings equal to $20\% \times \$3,908.34 = \781.67 . Add this savings to the investment tax credit, and you should get some idea of the value of keeping those depreciation records properly.

Break the Boat Down or Not?

Notice that the \$15,000 boat is handled in two ways on the Depreciation Record shown in Figure 8. First, the \$15,000 boat is broken down into hull, engine and equipment before the calculations are done. Next, the whole \$15,000 is used together to determine what the investment credit, depreciation, etc., would be under

those conditions. It has been done both ways so you can see the difference in the treatment. Notice that breaking down the \$15,000 results in a lower investment credit (1,233.33) than if the boat was treated as one unit (\$1,500.00). This is because the investment credit rules do not allow you a full 10 percent credit on assets which last less than seven years. So you lose \$266.67 ($\$1,500.00 - \$1,233.33 = \266.67) worth of tax credits when you use the break-down method rather than the unit method. However, this is not the end of the story. Because of the short life of the engine and equipment, you can claim a larger depreciation expense by listing the parts of the boat separately than you can if you depreciate the whole boat as a unit. Yearly depreciation under the break-down method is \$1,816.67 for the first three years, at least. Whereas, you can claim \$638.89 per year if you depreciate the boat as a unit. That means you can claim \$1,177.78 ($\$1,816.67 - \$638.89 = \$1,177.78$) more depreciation expense if you use the break-down method rather than the unit method. Assuming you are in the 20 percent tax bracket, the extra \$1,177.78 expenses will reduce your taxes by \$235.56 ($\$1,177.78 \times 20\% = \235.56) every year for at least three years. Comparing the \$235.56 for three years to the one-shot tax credit makes the break-down method seem like a better deal.

Try both methods on your particular situation to see which is best for you. After three years, when the equipment is fully depreciated, you have the option of purchasing new equipment, claiming new investment credit and maintaining your yearly depreciation expenses at \$1,816.67; or deciding not to buy more equipment and allowing your yearly depreciation expense to drop by the amount of depreciation charged to that equipment.

Record of Debts

Of the many other secondary records which can be a great help to a serious waterman, a record of your debts may be the most helpful in planning the operation of your business. Such a record of debts as is shown in Figure 10 can be set up easily using a ruler and a piece of paper. Using a record of this type is a sure way of keeping track of any debts you owe and how much you have paid. As you make a debt, set up a column for it with a description of the debt for a column heading as shown in Figure 10. Next, enter the date that the debt was made into the date column and under the appropriate column heading enter the total amount of money owed. In the example shown in Figure 10, money is owed for a car, boat motor and a loan from a rich uncle. The car was bought on December 24, 1974, and the total amount left to pay on it at that time was

\$2,000. About a month later, the boat motor was bought with a little cash down and a balance of \$800. Then, on the 15th of February, the rich uncle came through with the \$1,000 loan. As each of these debts occurred, an appropriate column was set up, and the date and total amount left to pay was entered into the record.

As you pay off the debts, the amount paid is written in brackets in the proper debt column and subtracted from the total owed. The date of the payment and the number of the check used to make the payment are also recorded at the time of payment. In the example shown, a \$20 payment was made on the car every month since the car was bought. The example record also shows that payments of \$15 and \$50 were paid on the boat motor and personal loan debts.

Your record of debt will also show you three other important facts about your debts. By adding up the figures at the bottom of each column, you can find your total recorded debt remaining to be paid off. Secondly, adding up the payment figures in brackets just above the last figure in each column will tell you what your total payments are. Then, if all these payments are due each month, you can make the proper plans to make sure you have the money available to meet those payments. Payments such as these are true fixed expenses

Figure 10 - Record of Debts

Date	Check No.	Car	Boat Motor	Loan From Relative
12/24/74		\$2,000.00		
1/25/75	604	(20.00)		
				1,980.00
1/28/75			\$800.00	
2/15/75				\$1,000.00
2/25/75	605	(20.00)		
				1,960.00
2/27/75	614		(15.00)	
				785.00
3/15/75	621			(50.00)
				950.00
3/25/75	627	(20.00)		
				1,940.00
3/28/75	629		(15.00)	
				770.00

Total March payments (\$20) + (\$15) + (\$50) = \$85.00

Total left to pay \$1,940 + \$770 + \$950 = \$3,660

which have to be paid whether you go out on the water or not. Therefore, planning to make these kind of payments is very important for the health of your business.

In the example shown in Figure 10, the payment figures (in brackets) for March add up to a total monthly payment equal to \$85. The example record also shows that there is a total of \$3,660 left to pay off as of 3/28/75. This \$3,660 figure, which is also known as the total recorded liability, is found by summing the last figure in each of the debt columns.

The third important fact that your record of debt shows you is how much you have left to pay on each individual debt. This remaining debt is simply the last figure in each debt column. The example record in Figure 10 shows that \$1,940 remains to be paid on the car, \$770 on the boat motor and \$950 to the rich uncle.

In summary, a record of debts can tell you how much money you have paid and how much you have remaining to pay on your debts. Most importantly, the record of debts can tell you when and how your debts are to be paid so that you can plan to make the payments at the proper time. Thus, your record of debts is very important for the wise management of your business.

Using Your Records

All of your business records, starting with the first-hand reports, which flow through the catchall envelope and into the record book, the payroll record, depreciation record and the record of debts, are producing sounds which, when taken together, are like the sound that any machine makes as it is used for its designed purpose. To the person accustomed to hearing the sounds of his business, they become very important for fine-tuning that business so that the maximum benefit can be gained from it. Several ways in which the business records can be used for management purposes were discussed earlier in the opening pages of this manual. In addition to those suggested uses, there are a couple of other things which can now be done with the records as we have developed them to this point. The additional uses are discussed below.

How Well Did You Do? -- The Profit and Loss Statement

Finding out how much profit you have made for a given period of time will always be the most interesting and informative thing you can do with your records

because it forces you to face the hard, cold facts of success or failure. However, figuring out your profits is not as simple as most people believe. There are several ways of defining the word profit, and there is a tendency for a person to change the way he figures his profits under different circumstances so that the facts are easier to accept. Since proper management demands that all the facts be faced in a mature fashion, it is helpful to adopt a standardized method of profit calculation. Using a standardized method will also be helpful for discussing your business with other people such as your banker. Generally, most businessmen and bankers will call your standardized calculation of profits a "profit and loss statement".

The calculation and use of a profit and loss statement has been very well explained, especially for fishermen, in a three-page paper by Frederick J. Smith of the Oregon State Marine Advisory Service. This bulletin is free. If you would like a copy, request it from your area marine agent of the Maryland Cooperative Extension Service.

The type of profit and loss statement provided for you in the "Waterman's Record Book" being put out by the University of Maryland is shown in Figure 11. Basically, what you do is list all of your expenses and subtract them from your total income to get a figure called your "net cash income". This net cash income figure is different from your "net income" or "profit" because of two factors: (1) depreciation and (2) inventory. Although depreciation is not an actual cash outlay, it is a steady reduction in the value of your equipment and must be recognized as a business expense when determining the true performance of your business. Therefore, your yearly depreciation expense is subtracted from your net cash income before determining net income or profit. Since you do not actually have to give this depreciation expense to anyone, what you do with it is up to you. Perhaps the best thing to do with it is to reinvest it in your business or put it in the bank. Many people do not recognize the true nature of their depreciation expenses and use this portion of their total income as if it were a profit. This practice has given rise to the phrase "living off your depreciation" and shows that the business is not in a healthy condition.

One estimate of your depreciation expense that is easy to use on your profit and loss statement is the depreciation expense you claimed on your income tax return. However, you should realize that this figure may be lower than the actual expense since inflation is raising the dollar value of your assets, making them more expensive to replace.

Figure 11 - Profit and Loss Statement

Line Item	19____		19____		19____		19____		19____	
1 Total Income										
2 Total Expenses (from Annual Summary)										
3 Other Expenses (If already included in total expenses, leave blank)										
4 Net Cash Income (Line 1 minus Lines 2 and 3)										
5 Depreciation Expense										
6 Net Income (Line 4 minus Line 5)										
7 Return to Investment										
8 Return to Labor										
9 Return to Management										

The other reason your "net cash income" may be different from your "net income" or "profit" is because you may have bought some supplies, such as fuel, rope or twine but did not use them during the period of time covered on your profit and loss statement. If this is the case, you could wind up with a lower profit figure than you should have, since you charged yourself for something you did not use. To prevent this from happening, you need to put a value on all of your supplies which you have not used and add this to your "net cash income" to find your true "net income".

What Is Profit?

Dr. Frederick Smith suggests that you be careful when interpreting the meaning of your profits since there are actually three separate types of profit tied up in that one figure. First of all, you must realize that some of the profit is being earned by the money you have invested in boat and equipment. Without any help at all from you, that money could be earning 5 to 7 percent interest in the bank. Therefore, a portion of your profit is called the "return to investment" and is equal to your net income minus the value of your labor and management skills.

The important question to ask yourself, after you have figured your return to investment, is whether your return to investment figure is better than what your invested capital could earn without you. In this regard, you might also take into consideration the amount of interest you would demand if you sold your whole rig to another waterman and kept a mortgage on it.

The second thing that must be accounted for out of your profit is the value of the labor you put into your business. If you did not have the business, you would have to work for a wage somewhere else; since you are working for your own business, you should recognize that a part of your total profit figure is actually a wage you pay yourself. What you pay yourself should be at least equal to the wage you could make working for another business. This portion of your total profit figure is called your "return to labor".

The third component of your profit figure is called the "return to management". Return to management is what is left over after you have subtracted the returns to investment and labor. Return to management, then, is your pay for assuming the headaches of running your business. One way to get an idea of your return to management is to subtract from your net income the estimated value of your labor plus an estimated fair return to investment. Your estimated fair return to investment

could be the same interest rate you thought about above, when you considered selling out and holding the mortgage, multiplied by your total investment in your business.. An example of this process is shown below:

Net Income.	\$20,000
Minus	
Return to labor	\$16,000
Return to investment	3,000
Equals	\$19,000
	<hr/>
Return to Management	\$ 1,000

It is at this point that many businessmen realize that their business is not doing as well as they thought and that they really do need to tune the business machine a bit. On the other hand, some business managers may discover that they can make just as much money running somebody else's boat and not have all the headaches of management.

You will notice that the profit and loss statement shown in Figure 11 is set up to be used for several years. This will allow you to compare your profits over several years and chart your progress.

Where Do You Stand Now? - - The Financial Statement or Balance Sheet

Where the profit and loss statement allows you to see how well you have done over a certain period of time such as a month or a year, it does not take into consideration the change in your total holdings or net worth due to the payment of mortgage notes and the appreciation of your equipment caused by inflation. Therefore, your records are again put to work to produce another document that shows where you stand now in terms of what you own and what you owe. This document, known as a "financial statement", lists all of your business assets—that is, all of the boats, equipment, cash and other valuables that you control—and then subtracts the value of all your business liabilities (what you owe) to find what you own outright. This resulting figure is also known as your "net worth". Thus, in mathematical terms:

$$\begin{aligned}
 & \text{Assets (what you control)} \\
 & - \text{Liabilities (what you owe)} \\
 & = \text{Net worth (what you own outright)}
 \end{aligned}$$

Figure 12 shows the financial statement found in the "Waterman's Record Book" and also gives you an idea

of the many things which should be included in the listing. You will also notice that space has been provided so that the financial statements for several years can be added to the one page. This allows you to compare your business' performance over several years. By looking at the net worth figure, you can see how your holdings have increased over the years.

Where Are You Headed?

At this point, with a good record of your past and an understanding of how your business works, its strong and weak points, the next logical step is to plan your future. Without an idea of your heading, you may wander like a landsman lost in a night fog on the bay. What are your long term goals—a certain size boat, a certain income figure, a good retirement or something for your children? Whatever it is, put it down in writing and describe it as completely as you can. Then decide what must be done to reach your goal. Use your records, especially your net worth figures for several years, and find out if you can reach your goal by con-

tinuing to operate your business as you do now. Will your present rate of growth allow you to reach your goal on time? If not, use your records to help you decide what changes must be made, and then make plans to achieve the necessary changes.

Success in business, especially a business like a waterman's, is defined in a different way by every person involved with the water; however, unless you define success as the rewards of blind fate, you must realize that true success means reaching a planned goal. Under this definition, success becomes a manageable project to be undertaken on personal terms. Just like setting a net, your personal success project must be planned with a knowledge of past progress and periodically checked for proper progress at present. Should the business begin to shift from its planned course, then changes can be made and, if necessary, additional resources can be brought in to help get your business machine back on target.

Use your business records to squeeze every hidden profit in your business out into your hands where you can use it. Then, define your idea of success, and use your records like a compass to keep you headed toward your goal.

Figure 12 - Financial Statement

Line	19____	19____	19____	19____	19____
ASSETS					
1	Cash and Checking Accounts				
2	Savings Accounts				
3	Money Owed to You This Year				
4	Inventory				
5	Total Current Assets (sum of Lines 1 - 4)				
6	Land				
7	Buildings, Furniture				
8	Vessels and Gear				
9	Life Insurance				
10	Autos, Trucks				
11	Mortgages You Hold on Others				
12	Other Long Term Assets				
13	Total Long Term Assets (sum of Lines 6 - 12)				
14	Total Assets (sum of Lines 5 & 13)				
LIABILITIES					
15	Suppliers				
16	Banks				
17	Others				
18	Total Current Liabilities (sum of Lines 15 - 17)				
19	Mortgages				
20	Other Long Term Debt				
21	Total Long Term Liabilities (sum of Lines 19 & 20)				
22	Total Liabilities (sum of Lines 18 & 21)				
23	Net Worth (Line 14 minus Line 22)				

NOTES

NOTES

Publications you might need at the beginning of the year:

1. "Withholding Guide for Maryland Employers"
write: Comptroller of the Treasury
Income Tax Division
Annapolis, Maryland 21401
2. "State of Maryland Income Tax Withholding Tables"
write: Same as #1.
3. "Employers Tax Guide" (Circular E)
write: Department of the Treasury
Internal Revenue Service

Publications you might need at the end of the year:

1. "Tax Guide for Commercial Fisherman" (Publication 595)
write: Department of the Treasury
Internal Revenue Service
2. "Tax Information on Investment Credits" (Publication 572)
write: Same as #1.