

Fishing Information Newsletter

News You Can Use from the Internal Revenue Service

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Message from the Coordinator

I would like to take this opportunity to publicly acknowledge Bill Haas, Internal Revenue Service group manager in Bangor, Maine, for the outstanding job he has done to provide technical support for taxpayers involved with commercial fishing. He has, over the past several years, offered high quality customer service through a variety of means. This newsletter exists today because Bill believed the Internal Revenue Service could do a better job providing tax help for those individuals working in, or affiliated with, the commercial fishing industry.

Bill recognized that taxpayers within this industry could benefit from input provided by Internal Revenue Service resources throughout the country. Consequently, this is the first *Fishing Information Newsletter* to be published outside of the New England District. It is our desire to continue to provide you, the reader, with pertinent information that will help you better understand some of the tax law complexities that find their way in to the commercial fishing industry.

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Trading Up.....Saving Taxes

Poor fish prices may be taking some of the profit out of fishing but they haven't diminished most fishermen's dreams of buying a bigger boat or investing in another fishery. After years of planning and saving toward that end, many are shocked to learn that much of the proceeds from the sale of the old boat and permit will be soaked up in taxes. In fact, as much as a third of the value of the item sold typically ends up in the coffers of federal and state treasuries.

There exists a perfectly legal way to defer the income tax liability that results from the disposal of business property through what is known as a "like-kind exchange". This is a transaction where items classified as business property are traded for similar items rather than being sold for cash.

Any time fishermen sell their vessels, gear, permits, or other business property for more than the current adjusted value (purchase price plus improvements minus claimed depreciation), they incur a tax liability. For example, if Captain Fisher buys the F/V Enterprise for \$100,000 in 1992 and sells it in the year 2000 for \$150,000, he must pay taxes on the \$50,000 capital gain. If the vessel is fully depreciated, he would also be liable for taxes on the \$100,000 ordinary gain

The salvation of the fisherman's investment equity resides in Internal Revenue Code Section 1031. This code section says that owners may defer the gain on the disposal of business property if, rather than selling for cash, they **trade** it for another item of business property of a similar type. The tax liability is not eliminated; it is deferred until the sale of the newly acquired item. This means, for example, if Captain Fisher original \$100,000 boat has a current value of \$150,000 and he trades it for another one, he can defer the payment of tax on the \$50,000 capi-

tal gain and \$100,000 ordinary gain (if fully depreciated) until he sells the new boat.

To qualify for a non-taxable exchange:

- The property must be business or investment property.
- The property must not be property held for sale (acquired specifically for resale).
- There must be an exchange of property.
- Tangible personal property can be either “like-kind” or “like-class”.
- Intangible personal property must be “like-kind”.
- You must identify the property to be received within 45 days after the date you transfer the property given up in the exchange.
- The exchange must be completed within 180 days.

You must report the exchange of like-kind property on Form 8824. The instructions for the form explain how to report the details of the exchange. Report the exchange even though no gain or loss is recognized. This form and its instructions can be downloaded from the internet through www.irs.gov and then clicking *forms and publications*.

You can use a “qualified intermediary” to help you facilitate the transfer of property. This person enters into a written exchange agreement with you to acquire and transfer the property you give up and to acquire the replacement property and transfer it to you.

Despite potential complications, most fishermen will benefit from the tremendous savings offered by Internal Revenue Code Section 1013.

(Portions of this article were excerpted from a paper drafted by Terry Johnson, Alaska Sea Grant, Marine Advisory Program and have been reprinted with the permission of the author.)

For more information, check out these publications.....

544 – Sales or Other Dispositions of Assets
595 - Tax Highlights for Commercial Fishermen
334 - Tax Guide for Small Business

Frequently Asked Questions ~ FAQs

Q *I am a self-employed fisherman. Can I deduct the cost of travel from my principal residence to the port where my boat is moored?*

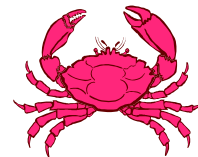
A The general rule is that, if a taxpayer’s major source of income is from fishing and the taxpayer maintains a personal residence at a location other than the home port of the fishing vessel, travel expenses from the residence to the home port and meals and lodging while in that port are not deductible expenses.

Need Back Issues?

Back issues of the FIN are available. Please feel free to request them by Month or Volume Number through any of the FIN e-mail addresses shown below.

Next Month.....

Tax Home....What travel expenses are allowed when “away from home?”



Remember - Don't Be "Selfish"

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