Fishing Information Newsletter

News You Can Use from the Internal Revenue Service

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Message from the Coordinator

The articles in the August/September issue of Fishing Information News generated several comments from our readers. The content of this newsletter is largely dependent upon your questions. Please send us your topic ideas and questions and we will make certain they are addressed in future issues.

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Please send us your topic ideas and questions….

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More on Fish Nets and Depreciation Issues

This question was submitted by one of our readers:

Last month's issue stated that fishing nets used in a fishing business are expected to last more than one year and require depreciation treatment. I thought that if experience shows the nets to last less than one year they can be expensed.. I have both gillnet and seine gear and realize a clear difference between the two in regards to how long they will last. Gillnet fishermen will initially purchase new gear and then often re-hang new webbing each year on the same cork and lead lines. Should the rather small value of the two lines (about two hundred dollars for each unit) be depreciated while the webbing is expensed?

Whether an asset must be capitalized and depreciated depends upon whether the asset is expected to last more than one year. In other words, it must have a useful life that extends substantially beyond the year it is placed in service. Both gill and seine nets are types of net that are expected to last substantially beyond the year the nets are placed in service and must be capitalized and depreciated. Generally all nets, pots, and traps actually last substantially beyond the year they are placed in service. Therefore, they are expected to last substantially beyond the year they are placed in service.

A brief discussion of how nets and net repairs are handled may be helpful. When a taxpayer initially begins fishing, complete nets (for example, webbing, cork, buoys, lead lines, etc. - everything that goes into a complete fishing net) are acquired either by 1) outright purchase, 2) self-construction, or 3) through a contractual construction. The entire cost of the net must be capitalized and depreciated over 7 years. The individual components of the net (the webbing, cork, buoys, lead lines, etc.) are not separately identified and depreciated. The composite total cost of all of these items are capitalized and depreciated simply as the cost of the net. The amount to depreciate is obvious when a complete net is purchased; the costs of the individual components of nets that are constructed must be accumulated to determine the amount to depreciate.

In addition, throughout a taxpayer's fishing business complete new nets or replacement nets may be purchased/constructed. Whenever this occurs, the complete cost must again be capitalized and depreciated.

After initial purchase of nets, net repairs may be performed each year. The cost of incidental repairs which neither materially add to the value of the property nor appreciably prolong its life, but keep it in an ordinarily efficient operating condition, may be deducted as an expense.

You stated that a "Gillnet fishermen will initially purchase new gear and then often re-hang new webbing each year on the same cork and lead lines. When the new net is initially purchased, the entire cost will be depreciated over 7 years. The entire cost includes the entire purchase price if purchased, or the cost of all of the components, as discussed above, if self-constructed. If, as you say in your question, the webbing is replaced each year, the cost of the replacement webbing is a deductible expense each year. However, the initial cost of the complete net, which includes the initial webbing, will continue to be depreciated over 7 years. Only when the entire net system (webbing, cork, buoys, lead lines, etc.) is discarded will the remaining undepreciated cost of the net be deductible in the year of disposition as discussed in the Aug/Sep newsletter article.

The issue regarding depreciation vs. current year expense isn't whether an item "will not be used for more than one year in your business". Capitalization is required if the USEFUL LIFE of the item is expected to last substantially beyond the year it is placed in service. MOST nets, pots, & traps are expected to last longer than the year they are placed in service. However, if it is a taxpayer's experience that all pots purchased in a year are discarded at the end of the fishing season, and new pots are purchased at the start of the next fishing season, and this occurs yearly, then the cost of the pots would be deductible in the year placed in service. However, if only some of the pots are discarded and some are retained for use in the next fishing season, then pots in general are not deductible in the current year. They must be depreciated. However, the cost of the actual pots that are discarded in the same year they are placed in service will be deductible in that year. The same will apply to traps and nets and other fishing gear. However, when applying this to nets, remember the prior discussion. It is only if an entire net (webbing, buoys, cork, lead lines, etc.) is discarded in the same year it is placed in service that its cost will be deductible in that year same year. If some component is retained for use in the next year, the entire cost of the net must be depreciated.

Alternative Payment Options

Taxpayers who are not able to pay their entire tax liability in full can enter in to a written agreement with the IRS and agree to pay their taxes in installments.

You will be charged a $43 fee if your request is approved. Do not include the fee with Form 9465. After approving your request, we can deduct the fee from your first payment unless you choose direct debit (see below). You will be charged interest and may be charged a late payment penalty on any tax not paid by its due date, even if your request to pay in installments is granted. To limit interest and penalty charges, file your return on time and pay as much of the tax as possible with your return. Before requesting an installment agreement, you should consider other less costly alternatives, such as a bank loan.

If we approve your request, we will send you a letter. It will tell you how to pay the fee and make your first payment. By approving your request, we agree to let you pay the tax you owe in monthly payments instead of immediately paying the amount in full. In return, you agree to make your monthly payments on time, and pay all your future tax liabilities. This means you must have adequate withholding or estimated tax payments so that your tax liability for future years is paid in full when you timely file your return.

Form 433-D is required to initiate direct debit payments from your bank account. Check the box on line 13 of Form 9465 if you want your monthly payments automatically deducted from your bank account. If your installment agreement request is approved, we will send you the Form 433-D, *Direct Debit Enrollment*, and you must pay the $43 fee when you return it.

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