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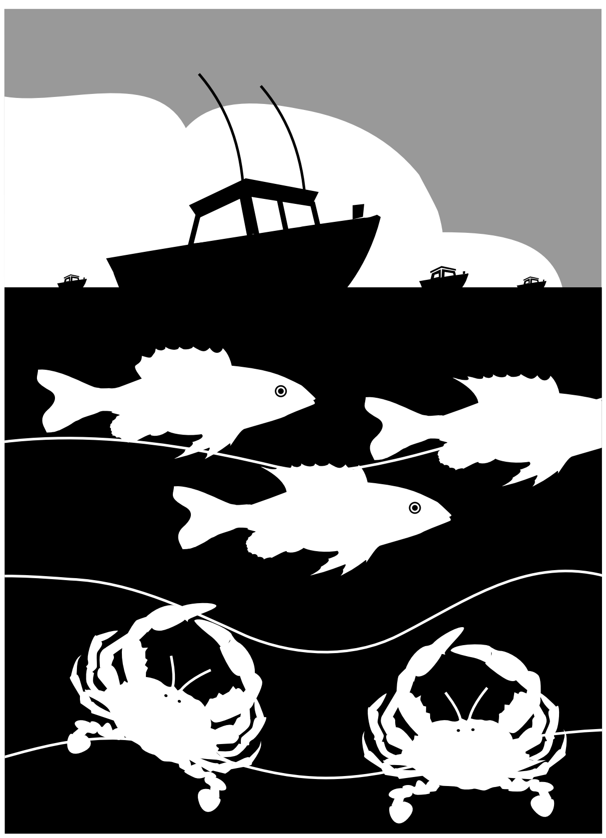
Tax Highlights for Commercial Fishermen

For use in preparing

1997 Returns



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Introduction

This publication highlights some special tax rules that may apply to individuals who have their own fishing trade or business. These individuals include:

1) Fishing boat owners or operators who use their boats to fish for profit,

2) Certain fishermen who work for a share of the catch, and

3) Other individuals who receive gross income from fishing.

These individuals will generally report their profit or loss from fishing on Schedule C or Schedule C–EZ of Form 1040. An example with a filled-in Schedule C shown near the end of this publication provides details on how to complete this form.

This publication does not contain all of the tax rules that may apply to your fishing trade or business. For general information about the federal tax laws that apply to individuals who file Schedule C or C–EZ, see Publication 334, *Tax Guide for Small Business.* If your trade or business is a partnership or corporation, see Publication 541, *Partnerships,* or Publication 542, *Corporations.*

RECORDS If you are just starting out in a fishing business or you need information on keeping books and records, also see Publication 583, *Starting a Business and Keeping Records.*

Please note that the term “fisherman” is used in this publication because it is the commonly accepted term in the fishing industry. In the following discussions it represents both men and women.

Important Change for 1998

Reporting certain purchases of fish. You need to keep additional records during 1998 if you:

- Are in the trade or business of purchasing fish for resale, and
- Pay $600 or more in cash during 1998 to a commercial fisherman for fish, shellfish (such as clams and mussels), crustacea (such as lobsters, crabs, and shrimp), or other forms of aquatic life.

Keep the records you will need to file Form 1099–MISC to report these cash payments. For more information, see the 1998 instructions for Form 1099–MISC.

Important Dates for 1998

This section highlights important due dates for fishermen for the 1998 calendar year. For other important dates, see Publication 509, *Tax Calendars for 1998.*

January 15

Fishermen. If at least two-thirds of your gross income for either 1996 or 1997 was from fishing, you may want to pay at least two-thirds of your 1997 tax by this date. This will allow you to wait until April 15 to file your 1997 Form 1040 and pay the rest of the tax without penalty. See *March 2,* later, if you do not pay two-thirds of your tax by this date.

February 2

Fishing boat operators. Fishing boat operators must give a 1997 Form 1099–MISC, *Miscellaneous Income,* to certain crew members who were self-employed.

March 2

Fishermen. If at least two-thirds of your gross income for either 1996 or 1997 was from fishing, you can file your 1997 Form 1040 by March 2 and pay your tax in full without penalty.

Fishing boat operators. Use Form 1096, *Annual Summary and Transmittal of U.S. Information Returns,* to send Copy A of Forms 1099–MISC to IRS.

April 15

Fishermen. If you have not filed your Form 1040, you should file it by April 15 and pay your tax in full. If you need more time to file, you can request an extension of time to file with Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.*

Useful Items

You may want to see:

Publication

- ☐ **15** Employer's Tax Guide
- ☐ **15–A** Supplemental Employer's Tax Guide
- ☐ **334** Tax Guide for Small Business
- ☐ **378** Fuel Tax Credits and Refunds
- ☐ **463** Travel, Entertainment, Gift, and Car Expenses
- ☐ **505** Tax Withholding and Estimated Tax
- ☐ **533** Self-Employment Tax
- ☐ **535** Business Expenses
- ☐ **583** Starting a Business and Keeping Records
- ☐ **946** How To Depreciate Property

Form (and Instructions)

- ☐ **Schedule C (Form 1040)** Profit or Loss From Business
- ☐ **Schedule C–EZ (Form 1040)** Net Profit From Business
- ☐ **1040–ES** Estimated Tax for Individuals
- ☐ **1099–MISC** Miscellaneous Income
- ☐ **2210–F** Underpayment of Estimated Tax by Farmers and Fishermen
- ☐ **4136** Credit for Federal Tax Paid on Fuels
- ☐ **8849** Claim for Refund of Excise Taxes

See *How To Get More Information,* near the end of this publication, for information about getting these publications and forms.

What Is Gross Income From Fishing?

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

Gross income from fishing includes amounts you receive from catching, taking, harvesting, cultivating, or farming any kind of:

1) Fish,
2) Shellfish (such as clams and mussels),
3) Crustacea (such as lobsters, crabs, and shrimp),
4) Sponge,
5) Seaweed, or
6) Other aquatic form of animal or vegetable life.

Wages. Wages you receive as an employee in a fishing business are not gross income from fishing. This includes wages you receive from a corporation even if you are a shareholder in the corporation.

If you work on a boat with an operating crew that is normally made up of fewer than 10 individuals, you may be considered a self-employed individual instead of an employee. As a self-employed individual you may receive gross income from fishing. For more information, see *Certain fishermen considered self-employed* under *Form 1099–MISC,* later.

Patronage dividends. Patronage dividends you receive from your fishing business activities are generally included in your gross income from fishing. However, do not include in gross income amounts that are used to adjust the basis of items you have purchased at the cooperative.

Fuel tax credits and refunds. You may have to include fuel tax credits and refunds you receive from your fishing business activities in your gross income from fishing. For more information, see *Including the Credit or Refund in Income* under *How To Claim Fuel Tax Credits and Refunds,* later.

Which Fishing Expenses Can You Deduct?

You can generally deduct your ordinary and necessary fishing expenses as business expenses in Part II of the Schedule C (Form 1040). An ***ordinary*** fishing expense is one that is common and accepted in a fishing trade or business. A ***necessary*** fishing expense is one that is helpful and appropriate for a fishing trade or business. An expense does not have to be indispensable to be considered necessary.

The following discussions give a brief overview of three types of business expenses that are of special interest to fishermen: depreciation, travel, and transportation expenses. Business expenses that are shared by most small businesses are listed in Part II of Schedule C. For more information on business expenses, see Publication 535. You may also find general information on specific business expenses in Publication 334.

Depreciation

If property you acquire to use in your business has a useful life of more than one year, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year. This method of deducting the cost of business property is called depreciation.

Publication 946 contains the rules you will use to depreciate certain property you use in your fishing business. The following list highlights items that are of special interest to fishermen.

- ***Fishing boats.*** You can generally depreciate a fishing boat you have placed in service after 1986 in your fishing trade or business as 7-year property using MACRS depreciation.
- ***Nets, pots, and traps.*** You can generally depreciate a net, pot, or trap you have placed in service after 1986 in your fishing trade or business as 7-year property using MACRS depreciation. However, if based on your own experience, you determine that any of these items will not be used for more than one year

in your business, you may be able to deduct the cost as a business expense.

Repairs and replacements. If a repair or replacement increases the value of your property, makes it more useful, or lengthens its life, you must depreciate its cost. If the repair or replacement does not increase the value of your property, make it more useful, or lengthen its life, deduct the cost as a business expense.

Travel and Transportation

This section briefly explains the rules for deducting travel and transportation expenses. For more information about travel and transportation expenses, see Publication 463. That publication also explains what records to keep.

Local transportation expenses. Local transportation expenses include the costs of getting from one workplace to another when you are traveling within your tax home.

Tax home. Generally, your tax home is your regular place of business, regardless of where you maintain your family home. It includes the ***entire city or general area*** in which your fishing business is located.

CAUTION ***Commuting expenses.*** *You* ***cannot*** *deduct the costs of traveling between your home and your main or regular place of business. These costs are personal commuting expenses. You cannot deduct commuting expenses no matter how far your home is from your regular place of business. You cannot deduct commuting expenses even if you work during the trip.*

Travel expenses. For tax purposes, travel expenses are the costs of traveling away from home for your business. You are traveling away from home if:

1) Your duties require you to be away from the general area of your tax home (defined earlier) substantially longer than an ordinary day's work, and
2) You need to get sleep or rest to meet the demands of your work while away from home.

Meals. You can usually deduct the cost of furnishing meals to either employees or self-employed individuals who provide services to your fishing trade or business. You can also deduct the cost of your own meals while you are traveling away from home for business. However, you can generally deduct only 50% of these costs. For some common exceptions to this 50% limit, see *Deduction limit on meals,* next.

Deduction limit on meals. You can generally deduct only 50% of the costs of meals. However, you can deduct the full costs of the following meals.

1) Meals that qualify as a de minimis fringe benefit as discussed in chapter 4 of Publication 535.
2) Meals where you include their value in an employee's wages. For more information, see chapter 3 in Publication 535.
3) Meals where you include their value in a nonemployee's income. You must generally include the value of meals you furnish to a self-employed individual who performs services for your business in the individual's income. To deduct 100% of these meals, you must report the value of the meals on any Form 1099–MISC you are required to file to report your payments for services. For more information, see *Form 1099–MISC,* later.
4) Meals you are required by federal law to furnish to crew members of certain commercial vessels (or would be required if the vessels operated at sea).

For more information, see Publication 463 and chapter 3 in Publication 535.

CAUTION *The federal law that generally requires meals to be furnished to crew members of commercial vessels does not apply to fishing vessels.*

What Forms Must You File?

If you have a fishing trade or business, you may need to file the following forms.

Schedule C (Form 1040)

Use Schedule C (Form 1040) to figure your net profit or loss from a fishing business you operate or a trade you practice as a self-employed individual. To figure your net profit or loss, you will subtract your deductible fishing expenses from your gross income from fishing. File Schedule C with your Form 1040. You may be able to use **Schedule C–EZ (Form 1040)** if you made a profit and had fishing expenses of $2,500 or less. For more information, see the Schedule C–EZ instructions.

Self-employed individuals. You are a self-employed individual if you own an unincorporated business or practice a trade by yourself. You do not have to carry on regular full-time business activities to be a self-employed individual. Your trade or business may consist of part-time work, including work you do on the side in addition to your regular job.

A ***trade or business*** is generally an activity that is your livelihood or that you do in good faith to make a profit. The facts and circumstances of each case determine whether or not an activity is a trade or business. Regularity of activities and transactions and the production of income are important elements. You do not need to actually make a profit to be in a trade or business as long as you have a profit motive. You do need, however, to make ongoing efforts to further the interests of your business.

If you work on a fishing boat and receive a share of the catch or proceeds from the sale of the catch, you may be considered a self-employed individual. For more information, see *Certain fishermen considered self-employed* under *Form 1099–MISC,* later.

Husband and wife partners. You and your spouse may operate a fishing business as a partnership. If you and your spouse join together in the conduct of a business and share in the profits and losses, you have created a partnership. You and your spouse must report the business income on a partnership return, Form 1065. For more information, see Publication 541, *Partnerships.*

However, if your spouse is not your partner, but your employee, you must pay employment taxes for him or her. For more information, see *Employment Tax Forms,* later.

CAUTION **Not-for-profit fishing.** *You must be fishing to make a profit for you to report your fishing income and expenses on Schedule C. You do not need to actually make a profit as long as you are making a good faith effort. If you are not fishing for profit, report your fishing income and expenses as explained under* Not-for-Profit Activities *in chapter 1 of Publication 535.*

Schedule SE (Form 1040)

Use Schedule SE (Form 1040) to figure your self-employment tax (SE tax). Most fishermen can use *Short Schedule SE* (Section A) to figure their SE tax. You must file Schedule SE with your Form 1040 if you were self-employed and your net earnings from self-employment were $400 or more.

TIP *Even if you do not have to file Schedule SE, it may be to your benefit to file it and use an optional method in Part II of Section B. For more information, see* Optional methods, *later.*

Self-employment tax. The SE tax is a social security and Medicare tax for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of wage earners.

Social security benefits. Social security benefits are available to self-employed persons just as they are to wage earners. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.

You must be *insured* under the social security system before you begin receiving social security benefits. You are insured if you have the required number of quarters of coverage. A “quarter of coverage” means a period of 3 calendar months during which you were paid a certain amount of income subject to social security tax.

For 1997, you receive a quarter of social security coverage, up to four quarters, for each $670 ($700 for 1998) of income subject to social security. Therefore, for 1997, if you had income of $2,680 that was subject to social security taxes (self-employment and wages), you will receive four quarters of coverage.

For an explanation of the number of quarters of coverage you must have to be insured, and of the benefits available to you and your family under the social security program, consult your nearest Social Security Administration office.

Optional methods. You can generally use one of the optional methods in Part II of Section B when you have a loss or a small amount of net income from self-employment and:

1) You want to receive credit for social security benefit coverage,

Table 1. **Employment Tax Treatment of Fishing and Related Activities**

Activity	Income Tax Withholding	Social Security and Medicare Taxes	Federal Unemployment Tax (FUTA)
a. Catching salmon or halibut.	Withhold unless *c.* applies.	Taxable unless *c.* applies.	Taxable unless *c.* applies.
b. Catching other fish, sponges, etc.	Withhold unless *c.* applies.	Taxable unless *c.* applies.	Taxable if vessel is more than 10 net tons and *c.* does not apply.
c. Individual is considered self-employed *(see Certain fishermen considered self-employed, on page 4).*	Exempt	Exempt	Exempt
d. Native Americans exercising fishing rights.	Exempt	Exempt	Exempt

2) You incurred child or dependent care expenses for which you could claim a credit (this method will increase your earned income, which could increase your child or dependent care credit), or

3) You are entitled to the earned income credit (this method will increase your earned income, which could increase your earned income credit).

Estimated tax. You may have to pay estimated tax. This depends on how much income and SE taxes you expect for the year and how much of your income will be subject to withholding tax. The SE tax is treated, and collected, as part of the income tax. For more information, see *When Do Fishermen Pay Estimated Tax and File Tax Returns?,* later.

Reporting self-employment tax. Figure your SE tax on Schedule SE. Then report the tax on line 47 of Form 1040, and attach Schedule SE to Form 1040. If you file a joint return and you both have SE income, each of you must complete a separate Schedule SE. However, you are both liable for the total SE tax due on the return.

Self-employment tax deduction. You can deduct one-half of your SE tax as a business expense in figuring your adjusted gross income. This is an income tax adjustment only. It does not affect either your net earnings from self-employment or your SE tax.

To deduct the tax, enter on Form 1040, line 26, the amount shown on the "Deduction for one-half of self-employment tax" line of the Schedule SE.

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

Form 1099–MISC

File Form 1099–MISC if you:

1) Pay a share of your catch (or a share of the proceeds from the sale of your catch) to an individual who is not your employee, ***or***

2) Pay at least $600 in rents, services, and other income payments in your fishing trade or business to an individual who is not your employee.

For more information, see the instructions for Form 1099–MISC.

Certain fishermen considered self-employed. Certain fishermen who work on a fishing boat are considered to be self-employed for purposes of employment and self-employment taxes. A fisherman is considered self-employed if he meets ***all*** of the following conditions:

1) He receives a share of the catch or a share of the proceeds from the sale of the catch,

2) His share depends on the size of the catch,

3) Any cash payments that are not part of his share of the proceeds from the sale of the catch are:

   a) Not more than $100 per trip,

   b) Paid only if there is some minimum catch, and

   c) Paid solely for additional duties (such as mate, engineer, or cook) for which additional cash payments are traditional in the fishing industry, and

4) He receives this share from a boat with an operating crew that is normally made up of fewer than 10 individuals. If the fishing operation involves more than one boat, the operating crew of each boat in the operation must meet this requirement. An operating crew is considered to be normally made up of fewer than 10 individuals if the average number of crew members on trips the boat made during the last 4 calendar quarters was less than 10.

Example 1. You hire a captain, a mate, an engineer, a cook, and six other crew members to work on your fishing boat. The proceeds from the sale of the catch offset boat operating expenses such as bait, ice, and fuel. You divide 60% of the balance between the captain, the mate, and the crew members. You divide the other 40% between yourself and the captain. The mate, the engineer, and the cook also each receive an extra $100 for each trip that brings back a certain minimum catch. The crew members do not receive any additional pay between voyages, but they must do certain work, such as repairing nets, splicing cable, and transporting the catch.

For purposes of employment and self-employment taxes, the captain, the mate, and the entire crew of the boat (including the mate, engineer, and cook) are considered self-employed individuals. You must file Form 1099–MISC to report amounts you pay to them.

Example 2. The facts are the same as in Example 1 except that the mate, the engineer, the cook, and the other six crew members all receive an extra $100 for each trip that brings back a certain minimum catch.

For purposes of employment and self-employment taxes, the captain, the mate, the engineer, and the cook are self-employed individuals. The other six crew members who receive this extra payment in addition to the proceeds from the sale of the catch are employees. They are employees because the $100 payment is not paid solely for additional duties for which additional cash pay is traditional in the fishing industry.

Employment Tax Forms

If you have employees, you will need to file forms to report employment taxes. For more information, see Publication 15. That publication explains your tax responsibilities as an employer.

To help you determine whether the people working for you are your employees, get Publication 15–A. That publication has information to help you determine whether an individual is an independent contractor or an employee. If you incorrectly classify an employee as an independent contractor, you can be held liable for employment taxes for that worker plus a penalty. An ***independent contractor*** is someone who is self-employed. You do not generally have to withhold or pay any taxes on payments to an independent contractor.

Individuals you employ to work on a boat that normally has an operating crew of fewer than 10 individuals may be considered self-employed. For more information, see *Certain fishermen considered self-employed* under *Form 1099–MISC,* earlier.

Table 1. See Table 1 for information on the special employment tax treatment of fishing and related activities.

When Do Fishermen Pay Estimated Tax and File Tax Returns?

When you must pay estimated tax and file your tax return depends on whether you receive at least two-thirds of your total gross income from fishing in the current or prior year. ***Gross income is not the same as total income*** shown on line 22 of Form 1040.

Gross Income

Your gross income is all income you receive in the form of money, property, and services that is not exempt from tax. On a joint return, you must add your spouse's gross income to your gross income. To decide whether two-thirds of your gross income for 1997 was from fishing, use as your gross income the total of the following ***income*** (not loss) amounts from your tax return.

1) Wages, salaries, tips, etc.
2) Taxable interest.
3) Dividends.
4) Taxable refunds of state and local taxes.
5) Alimony received.
6) Gross business income from Schedule C (Form 1040), line 7.
7) Gross receipts from Schedule C–EZ (Form 1040), line 1.
8) Capital gains from Schedule D (Form 1040). Losses cannot be netted against gains.
9) Gains on sales of business property from Form 4797.
10) Taxable IRA distributions, pensions, annuities, and social security benefits.
11) Gross rental income from Schedule E (Form 1040), line 3.
12) Gross royalty income from Schedule E (Form 1040), line 4.
13) Your taxable net income from an estate or trust, Schedule E (Form 1040), line 36.
14) Income from a REMIC reported on Schedule E (Form 1040), line 38.
15) Gross farm rental income from Form 4835, line 7.
16) Farm income from Schedule F (Form 1040), line 11.
17) Your distributive share of gross income from a partnership or limited liability company treated as a partnership.
18) Your pro rata share of gross income from an S corporation.
19) Unemployment compensation.
20) Other income reported on Form 1040, line 21, not reported with any of the items listed above.

Gross Income From Fishing

Gross income from fishing includes:

1) Gross fishing income from Schedule C (Form 1040), line 7.
2) Gross fishing receipts from Schedule C–EZ (Form 1040), line 1.
3) Gross fishing income from Schedule E (Form 1040), Parts II and III. See the instructions for line 41.

For more information, see *What Is Gross Income From Fishing?,* earlier.

Percentage From Fishing

Total your gross income from all sources as shown earlier. Then total your gross income from fishing. Divide your fishing gross income by your total gross income to determine the percentage of gross income from fishing.

Example 1. James Smith had the following total gross income and fishing gross income in 1997:

Gross Income

	Total	Fishing
Taxable interest	$43,000	
Dividends	500	
Rental income (Sch E)	1,500	
Fishing income (Sch C)	75,000	$75,000
Schedule D	5,000	
Total	$125,000	$75,000

Schedule D showed gains from the sale of a rental house carried over from Form 4797 ($5,000) in addition to losses from the sale of corporate stock ($2,000). Mr. Smith's gross fishing income is 60% of his total gross income ($75,000 ÷ $125,000 = .60). Therefore, he does not qualify to use special estimated tax and return due dates for 1997. However, he can still qualify for 1997 if at least two-thirds of his 1996 gross income was from fishing.

Example 2. Assume the same facts as in Example 1 except that Mr. Smith received only $23,000, instead of $43,000, taxable interest. This made his total gross income $105,000. He qualifies to use special estimated tax and return due dates since at least two-thirds of his gross income is from fishing [$75,000 ÷ $105,000 = .714 (71.4%)].

Due Dates for Qualified Fishermen

If at least two-thirds of your gross income for 1996 or 1997 was from fishing, you have only one payment due date for 1997 estimated tax—January 15, 1998.

For your 1997 tax, you may either:

1) Pay all your estimated tax (figured on ***Form 1040–ES***) by January 15, 1998, and file your Form 1040 by April 15, 1998, or
2) File your Form 1040 by March 2, 1998, and pay all the tax due. You are not required to make an estimated tax payment. If you pay all the tax due, you will not be penalized for failure to pay estimated tax.

TIP *If at least two-thirds of your gross income for 1997 or 1998 is from fishing, for your 1998 tax, you may either:*

1) Pay all your estimated tax by January 15, 1999, and file your Form 1040 by April 15, 1999, or

2) File your Form 1040 by March 1, 1999, and pay all the tax due.

Required annual payment. If at least two-thirds of your gross income for 1996 or 1997 was from fishing, the required annual payment due January 15, 1998, is the ***smaller*** of:

1) 66⅔% (.6667) of your total tax for 1997, or
2) 100% of the total tax shown on your 1996 return. (The return must cover all 12 months.)

TIP *If at least two-thirds of your gross income for 1997 or 1998 is from fishing, the required annual payment due January 15, 1999, is the **smaller** of:*

1) 66⅔% (.6667) of your total tax for 1998, or

2) 100% of the total tax shown on your 1997 return. (The return must cover all 12 months.)

Fiscal year fishermen. If you qualify to use these special rules but your tax year does not start on January 1, you may file your return and pay the tax by the first day of the 3rd month after the close of your tax year. Or you may pay your required estimated tax within 15 days after the end of your tax year. Then file your return and pay any balance due by the 15th day of the 4th month after the end of your tax year.

Due Dates for Nonqualified Fishermen

If less than two-thirds of your gross income for 1996 and 1997 was from fishing, you cannot use these special estimated tax payment and return due dates for your 1997 tax year. In this case, you generally must make quarterly estimated tax payments on April 15, June 16, and September 15, 1997, and on January 15, 1998. You must file your return by April 15, 1998.

TIP *If less than two-thirds of your gross income for 1997 and 1998 is from fishing, you cannot use these special estimated tax payment and return due dates for your 1998 tax year. In this case, you generally must make quarterly estimated tax payments on April 15, June 15, and September 15, 1998, and on January 15, 1999. You must file your return by April 15, 1999.*

For more information on estimated taxes, see Publication 505.

Estimated Tax Penalty for 1997

If you did not pay all your required estimated tax for 1997 by January 15, 1998, and do not file your 1997 return and pay the tax by March 2, 1998, use ***Form 2210–F,*** *Underpayment of Estimated Tax by Farmers and Fishermen,* to determine if you owe a penalty. If you owe a penalty but do not file Form 2210–F with your return and pay the penalty, you will get a notice from the IRS. You should pay the penalty as instructed by the notice.

If you file your return by April 15 and pay the bill within 10 days after the notice date, the IRS will not charge you interest.

Occasionally, you may get a penalty notice even though you filed your return on time, attached Form 2210–F, and met the gross income test. If you receive a penalty notice for underpaying estimated tax that you think is in error, write to the address on the notice and explain why you think the notice is in error. Include a computation, similar to the one in Example 1, showing that you meet the gross income test. Do not ignore a penalty notice, even if you think it is in error.

Other Filing Information for 1997

Payment date on holiday or weekend. If the last day for filing your return or making a payment falls on a Saturday, Sunday, or legal holiday, your return or payment will be on time if it is filed or made on the next business day.

Automatic extension of time to file Form 1040. If you do not choose to file your 1997 return by March 2, 1998, the due date for your return will be April 15, 1998. However, you can get an automatic 4-month extension of time to file your return. Your Form 1040 would then be due by August 17, 1998. To get this extension, file ***Form 4868,*** *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return,* by April 15, 1998. Form 4868 does not extend the time to pay the tax. For more information, see the instructions for Form 4868.

CAUTION

This extension does not *extend the March 2, 1998, filing date for fishermen who did not make an estimated tax payment and want to avoid an estimated tax penalty. Therefore, if you did not make an estimated tax payment by January 15, 1998, and you file your tax return after March 2, 1998, you will be subject to a penalty for underpaying your estimated tax, even if you file Form 4868.*

What Is the Capital Construction Fund?

The Capital Construction Fund (CCF) is a special investment program administered by the National Marine Fisheries Service (NMFS) and the Internal Revenue Service (IRS). This program allows fishermen to defer tax on certain income they invest in a CCF account and later use to acquire, build, or rebuild fishing vessels.

The following sections discuss CCF accounts and the types of funds that you can invest in a CCF account. They also discuss the tax treatment of CCF deposits, earnings, and withdrawals.

CCF Accounts

This section explains who can open a CCF account and how to use the account to defer tax.

Opening a CCF account. If you are a U. S. citizen and you own or lease an eligible vessel (defined later), you can open a CCF account. Before you open your CCF account, you must enter into an agreement with the Secretary of Commerce through the NMFS. This agreement will establish the following:

1) ***Your agreement vessels.*** (Which of your eligible vessels (defined later) will be the basis for the deferral of tax.)
2) ***Your planned use of withdrawals.*** (What kind of vessel you will acquire, build, or rebuild with the money in your CCF account.)
3) ***Your CCF depository.*** (Where you will set up your CCF account.)

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

CCF Program
Financial Services Division (F/SF2)
NOAA/National Marine Fisheries Service
1315 East-West Highway
Silver Spring, MD 20910–3282

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

Eligible vessel. An eligible vessel is a vessel that:

1) Was built or rebuilt in the United States,
2) Is owned by a U. S. citizen and has a home port in the United States (if it weighs between 2 and 5 net tons),
3) Is documented under the laws of the United States (if it weighs 5 net tons or more), and
4) Is used commercially in the fisheries of the United States.

A vessel operated in the foreign or domestic commerce of the United States that meets requirements (1) and (3) above is also an eligible vessel.

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

1) Making deposits to your CCF account,
2) Excluding deposits that are assigned to certain funds (discussed later) from tax,
3) Making withdrawals from your CCF account when you acquire, build, or rebuild fishing vessels, and
4) Reducing the tax basis of fishing vessels you acquire, build, or rebuild to “recapture” the amounts that were previously excluded from tax.

Types of Funds You Can Invest in a CCF Account

This section discusses the three types of funds you can invest in a CCF account. Your total CCF deposits and earnings for any given year are limited to the amount that can be attributed for that year to these funds.

Capital funds. Capital funds are amounts attributable to:

1) Allowable depreciation deductions for agreement vessels,
2) Any nontaxable return of capital from either:
   a) The sale or other disposition of agreement vessels, or
   b) Insurance or indemnity proceeds from agreement vessels, or
3) Any tax-exempt interest earned on state or local bonds in your CCF account.

Capital gain funds. Capital gain funds are amounts attributable to:

1) Any capital gain from:
   a) The sale or other disposition of agreement vessels held for more than 6 months, or
   b) Insurance or indemnity proceeds from agreement vessels held for more than 6 months, ***plus***
2) Any capital gain from assets held in your CCF account for more than 6 months, ***less***
3) Any capital losses from assets held in your CCF account for more than 6 months.

Ordinary income funds. Ordinary income funds are amounts attributable to:

1) Any earnings (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States,
2) Any capital gain from:
   a) The sale or other disposition of agreement vessels held for 6 months or less,
   b) Insurance or indemnity proceeds from agreement vessels held for 6 months or less, ***plus***
   c) Any capital gain from assets held in your CCF account for 6 months or less, ***less***
   d) Any capital losses from assets held in your CCF account for 6 months or less,
3) Any ordinary income (such as depreciation recapture) from either:
   a) The sale or other disposition of agreement vessels, or
   b) Insurance or indemnity proceeds from agreement vessels, or
4) Any interest (not including tax-exempt interest from state and local bonds), dividends, or other ordinary income earned on the assets in your CCF account.

Tax Treatment of CCF Deposits

This section explains the tax treatment of income that you use as the basis for CCF deposits.

Capital gains. Do not report on your federal income tax return any transaction that produces a capital gain if you deposit the net proceeds into your CCF account. These transactions include:

- The sale or other disposition of an agreement vessel, or
- The receipt of insurance or indemnity proceeds from an agreement vessel.

Depreciation recapture. Do not report on your federal income tax return any transaction that produces depreciation recapture if you deposit the net proceeds into your CCF account. These transactions include:

- The sale or other disposition of an agreement vessel, or
- The receipt of insurance or indemnity proceeds from an agreement vessel.

Earnings from operations. Report earnings from the operation of agreement vessels on your Schedule C or C–EZ (Form 1040) even if you deposit part of these earnings into your CCF account. Subtract any part of the earnings that you deposited into your CCF account from the amount that you would normally enter as taxable income on line 38 (Form 1040). In the margin to the left of line 38, write “CCF” and the amount of these deposits. Do not deduct these CCF deposits on Schedule C or C–EZ (Form 1040).

Instructions that refer to line 36 (Form 1040). If you deposit earnings from operations into your CCF account and you must complete other forms such as Form 6251 or the worksheets for Schedule D, you will need to make an extra computation. When the other form tells you to use an amount from line 36, Form 1040, do not use that amount. Instead, add lines 37 and 38, Form 1040, and use that amount.

Self-employment tax. You must use your net profit or loss from your fishing business to figure your self-employment tax. Do ***not*** reduce your net profit or loss by any earnings from operations you deposit to your CCF account.

TIP ***Partnerships.*** *The deduction for partnership earnings from operations that are deposited into a CCF account is separately stated on Schedule K (Form 1065), line 11 and allocated to the partners on Schedule K–1 (Form 1065), line 11.*

Nontaxable return of capital. Do not report on your federal income tax return any transaction that produces a nontaxable return of capital if you deposit the net proceeds into your CCF account. These transactions include:

- The sale or other disposition of an agreement vessel, or
- The receipt of insurance or indemnity proceeds from an agreement vessel.

Other ordinary income. Generally, do not report any other ordinary income (other than that discussed above) you deposit into your CCF account on your federal income tax return.

Tax Treatment of CCF Earnings

This section explains the tax treatment of the earnings from the assets in your CCF account.

Capital gains. Do not report on your federal income tax return any capital gains from the sale of capital assets held in your CCF account. This includes capital gains distributions reported to you on Form 1099–DIV or a substitute statement. However, you should attach a statement to your tax return to list the payers and the amounts and identify the capital gains as “CCF account earnings.”

Interest and dividends. Do not report on your federal income tax return any ordinary income (such as interest and dividends) you earn on the assets in your CCF account. However, you should attach a statement to your return to list the payers and the amounts and to identify them as “CCF account earnings.”

If you are required to file Schedule B (Form 1040), you can add these earnings to the list of payers and amounts on line 1 and identify them as “CCF earnings.” Then subtract the same amounts from the list and identify them as “CCF deposits.”

Tax-exempt interest. Do not report on your federal income tax return tax-exempt interest from state or local bonds you held in your CCF account. You are not required to report this interest on line 8b of Form 1040.

Tax Treatment of CCF Withdrawals

This section discusses the tax treatment of amounts you withdraw from your CCF account during the year.

Qualified Withdrawals

A qualified withdrawal from a CCF account is one that is approved by NMFS for use in:

1) Acquiring, building, or rebuilding fishing vessels, or
2) Making principal payments on the mortgage of a fishing vessel.

How to determine the source of qualified withdrawals. When you make a qualified withdrawal from your CCF account, the amount you withdraw is treated:

- First, as made from the capital fund,
- Second, as made from the capital gain fund, and
- Third, as made from the ordinary income fund.

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

Reducing the tax basis of acquired, built, or rebuilt vessels. You must reduce the depreciable basis of fishing vessels you acquire, build, or rebuild by the amount of a withdrawal that is treated as made from either the capital gain fund or the ordinary income fund. For more information, see *How to determine the source of qualified withdrawals,* and *Deferring tax on CCF deposits and earnings,* earlier.

Nonqualified Withdrawals

A nonqualified withdrawal from a CCF account is one that is not a qualified withdrawal. For more information, see *Qualified Withdrawals,* earlier.

Examples of nonqualified withdrawals are amounts from the ordinary income fund or the capital gain fund that:

- You do not withdraw after your agreement with NMFS is terminated.
- You withdraw and use to make principal payments on the mortgage of a vessel with a basis that has already been reduced to zero.
- Are determined by NMFS to cause your CCF account balance to exceed the amount that is appropriate to meet your planned use of withdrawals. (You will generally be given 3 years to revise your plans to cover this excess balance.)
- You leave in your account for more than 25 years. (There are percentages beginning with year 26 and later that determine the amount of the nonqualified withdrawal.)

How to determine the source of nonqualified withdrawals. When you make a nonqualified withdrawal from your CCF account, the amount you withdraw is treated:

- First, as made from the ordinary income account,
- Second, as made from the capital gain account, and
- Third, as made from the capital account.

Paying tax on nonqualified withdrawals. Nonqualified withdrawals that are treated as made from either the ordinary income fund or the capital gain fund are taxed separately from your other gross income at the highest marginal ordinary income or capital gain tax rate.

TIP ***Partnerships.*** *Taxable nonqualified partnership withdrawals are separately stated on Schedule K (Form 1065), line 24 and allocated to the partners on Schedule K–1 (Form 1065), line 25.*

Interest. You must pay interest on the additional tax due to a nonqualified withdrawal. The interest period begins on the last date for paying tax for the tax year in which you deposited the amount that was withdrawn in your CCF account. The period ends on the last date for paying tax for the tax year in which you make the nonqualified withdrawal. The interest rate on the nonqualified withdrawal is simple interest. The interest rate is subject to change annually. For more information on computing the interest, see Regulation 3.7(e).

The current interest rate can also be obtained by calling NMFS at (301) 713–2393.

Interest deduction. You can deduct the interest you pay on a nonqualified withdrawal as a trade or business expense.

Reporting the additional tax and interest. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest for the nonqualified withdrawal on line 53 of Form 1040. To the left of line 53, write the amount of tax and interest and “CCF.”

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

1) The portion that did not reduce your tax liability for any year prior to the withdrawal year is not taxed, and
2) An amount equal to that portion is allowed as a net operating loss deduction.

More Information

This section briefly discusses the CCF program. For more detailed information, see:

- Section 607 of the Merchant Marine Act of 1936, as amended (46 U.S.C. 1177),
- Part 259 of title 50 of the Code of Federal Regulations (50 C.F.R., Part 259),
- Part 3 of title 26 of the Code of Federal Regulations (26 C.F.R., Part 3), and
- Section 7518 of the Internal Revenue Code (IRC 7518).

The application kit you can obtain from NMFS at the address or phone number given earlier may contain copies of some of these sources of additional information.

How To Claim Fuel Tax Credits and Refunds

You may be eligible to claim a credit on your income tax return for federal excise tax you pay on certain fuels used for a nontaxable use. You may also be eligible to claim a quarterly refund of the fuel taxes during the year, instead of waiting to claim a credit on your income tax return.

Instead of paying the fuel tax and filing for a credit or refund, you may be able to buy certain fuel tax free. For more information, see *How To Buy Fuel Tax Free,* later.

Nontaxable Uses

This section discusses the nontaxable uses that are of particular interest to fishermen. For information about credits and refunds for fuels used for nontaxable uses not discussed in this section, see Publication 378.

Gasoline and special fuel used in commercial fishing boats. You may be eligible to claim a credit or refund of excise tax included in the price of gasoline or special fuel used in a commercial fishing boat.

Commercial fishing boats include only watercraft used in taking, catching, processing, or transporting fish, shellfish, or other aquatic life for commercial purposes, such as selling or processing the catch, on a specific trip basis. They include boats used in both fresh and salt water fishing. They do not include boats used for both sport fishing and commercial fishing on the same trip. Fuel used in aircraft to locate fish is not fuel used in commercial fishing.

Diesel fuel used in boats. You may be eligible to claim a credit or refund of excise tax included in the price of diesel fuel used in any type of boat.

Off-highway business use. You may be eligible to claim a credit or refund of excise tax included in the price of fuel if you use the fuel in an off-highway business use.

Off-highway business use is any use of fuel in a trade or business or in any income-producing activity. It does not include use in a highway vehicle registered for use on public highways. Do not consider any use in a boat as an off-highway business use.

Examples. Off-highway business use includes fuels used:

1) In stationary machines such as generators, compressors, and similar equipment, and
2) For cleaning purposes.

How To Claim a Credit or Refund

This part tells you when and how to claim a credit or refund of excise taxes included in the price of fuels you use for a nontaxable use.

Claiming a Credit

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

When to claim a credit. You can claim a fuel tax credit on your income tax return for the year you used the fuels. Also, you may be able to claim a fuel tax credit on an amended return for that year. You must file the claim within the time prescribed by law. Ordinarily, you must file an amended return by the ***later*** of 3 years from the date you filed your original income tax return or 2 years from the time you paid the income tax. A return filed early is considered to have been filed on the due date.

How to claim a credit. As an individual, you claim the credit on line 59 of Form 1040. Check box b on line 59. If you would not otherwise have to file an income tax return, you must do so to get a fuel tax credit. See the instructions for Form 1040.

Claiming a Refund

You may be eligible to claim a refund during the tax year rather than waiting until you file your income tax return for the year to claim a credit.

Form 8849. If you meet the quarterly amount requirements, you can use Form 8849 to file a claim for refund. Fill out the appropriate lines and follow the line instructions for additional information you need to include with your claim for refund.

Quarterly amount requirements. You can file a quarterly refund claim for any of the first three quarters of your tax year for which you qualify. To qualify for a quarterly refund, you must claim the following amounts for fuel used during the quarter:

1) At least $1,000 for ***gasoline*** used for a nontaxable use.
2) At least $1,000 for ***special motor fuels*** and ***compressed natural gas*** used for a nontaxable use.
3) At least $750 for ***diesel fuel*** used for a nontaxable use.

These quarterly amount requirements apply to the first three quarters of your tax year. You must meet the requirement for each category for which you are making a refund claim. Generally, you cannot claim a refund if you do not meet the requirement for the quarter. To claim the amount, you must file a claim for credit on Form 4136.

If you do not meet the quarterly amount (at least $750) for the third category, carry the amount to the next quarter to determine if you can claim at least $750 for that quarter.

Fourth quarter claims. You cannot file a quarterly claim for refund for the fourth quarter of your tax year. File claims for the fourth quarter as a credit on your income tax return.

When to file a quarterly claim. You must file a quarterly claim by the last day of the quarter following the end of the quarter for which the claim is being filed. If you file your claim late, you are not allowed a refund. Instead, you add the disallowed refund amount to any claim for credit and claim it on your income tax return, as explained earlier.

Including the Credit or Refund in Income

Include any credit or refund of excise taxes on fuels in your gross income if you deducted the taxes as an expense that reduced your income tax liability.

If you use the cash method of accounting and file a claim for ***refund,*** include the refund in your gross income for the tax year in which you receive the refund. If you claim a ***credit*** on your income tax return, include the credit in gross income for the tax year in which you file Form 4136. If you file an ***amended return*** and claim a credit, include the credit in gross income for the tax year in which you receive it.

Example. Ed Brown, a cash basis fisherman, filed his 1996 Form 1040 on March 1, 1997. On his Schedule C, Ed deducted the total cost of gasoline (including $110 of excise taxes) used in his commercial fishing vessel. Then, on Form 4136, Ed claimed the $110 of excise tax paid on the gasoline as a credit. Ed reports the $110 as additional income on his 1997 Schedule C.

How To Buy Fuel Tax Free

Instead of paying the fuel tax and filing a claim for credit or refund when the fuel is used for a nontaxable use, you may be eligible to buy it tax free.

Diesel fuel. You can buy dyed diesel fuel tax free for a nontaxable use such as use in a boat or use in an off-highway business use. However, if you use dyed diesel fuel for a taxable use, such as in a registered diesel-powered highway vehicle, you may be subject to the excise tax and a substantial penalty.

Note. In Alaska you may be able to buy ***undyed*** diesel fuel tax free for use for a nontaxable use.

Gasoline. Your supplier may be able to sell you gasoline at a tax-free price only for use in a ***vessel employed in commercial fishing.***

Your supplier may be eligible to claim a credit or refund of the excise tax on the gasoline sold to you at a tax-free price. Refer your supplier to Publication 510 for details.

To buy gasoline at a tax-free price, give your supplier a signed certificate identifying you and stating how you will use the gasoline. You do not need to renew the certificate as long as the information it contains continues to be correct.

Exemption certificate. The following is an acceptable exemption certificate:

Date ______________________________

The undersigned ("Buyer") hereby certifies that Buyer bought or will buy for use in a vessel employed in commercial fishing

(Check the applicable type of certificate)

____The (quantity)_______ of gasoline, or

____ALL the gasoline it buys

at a price that does not include the excise tax from:

Name of seller: ____________________

Address of seller:

____

If the gasoline is not used as specified above, Buyer will so notify the person to whom Buyer gives this certificate. Buyer has not and will not claim a refund or credit under section 6421 of the Internal Revenue Code for the excise tax on this gasoline.

Buyer understands that Buyer or any other party may, for fraudulent use of this certificate, be subject to a fine or imprisonment, together with the costs of prosecution.

Name ____________________________

Title _____________________________

TIN ______________________________

Address __________________________

Signature _________________________

Schedule C Example

This section gives an example of how to fill out Schedule C (Form 1040). The example uses the situation of Frank Carter who owns and operates a fishing boat. His completed return is at the end of this section.

Frank Carter is a sole proprietor who owns and operates a fishing boat. He uses the cash method of accounting and files his return on a calendar year basis. He keeps his business records with a single-entry bookkeeping system, similar to the sample record system illustrated in Publication 583.

Frank has two crew members, Bill Brown and Joe Green, who are considered self-employed for social security, Medicare, and federal income tax withholding purposes. After certain boat operating expenses are paid, the proceeds from the sale of the catch are divided 76% to Frank and 12% to each crew member.

Frank figures his net profit or loss from his fishing business by subtracting his fishing expenses from his gross income from fishing on Schedule C. He then reports the net profit or loss on ***line 12, Form 1040.***

Schedule C (Form 1040)

First, Frank fills in the information required at the top of Schedule C. On line A, he enters "Fishing, commercial" and on line B, he enters 2246, the 4-digit business code for commercial fishing. He then completes items C through H.

Part I—Income

Frank figures his gross income from fishing in Part I.

Line 1. Frank had sales of $60,288 for the year. This includes all the fish he caught and sold during the year. He enters his total sales on line 1.

Line 3. Because Frank did not have any returns and allowances to report on line 2, line 3 is the same as line 1.

Line 5. Because Frank did not have any cost of goods sold to report on line 4, line 5 is the same as line 3.

Line 6. Frank's entry of $712 represents a $612 patronage dividend he received from his local cooperative and a $100 fuel tax credit he claimed on the 1996 Form 1040 he filed on March 3, 1997. The patronage dividend was reported to him on Form 1099–PATR, *Taxable Distributions Received From Cooperatives.*

Line 7. Frank's gross income from fishing includes his gross profit from line 5 and his other income from line 6.

Part II—Expenses

Frank enters his fishing expenses in Part II.

Line 10. Frank used his truck 80% for business during the year. He spent a total of $505 for gas, oil, insurance, tags, repairs, and upkeep. He can deduct $404 (80% × $505) on line 10.

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

Line 15. Frank's $3,291 deduction is for insurance on his business property (80% of his truck insurance is included in line 10). The deduction is only for premiums that give him coverage for the year.

Line 16b. Frank had borrowed money to buy his fishing boat. The interest on this loan was $800 for the year.

Line 20b. His rent for his mooring space was $50 a month, or $600 for the year.

Line 21. He spent $3,600 for vessel repairs and $993 for gear repairs for a total cost of $4,593.

Line 22. He spent $1,713 for galley supplies and $4,751 for bait and ice for a total cost of $6,464.

Line 23. Frank renewed his fishing license. He enters the $35 state fee on this line.

Line 26. Frank paid his crew members total crew shares of $10,992 for the year. He does not include any amount he paid to himself or withdrew from the business for his own use.

Line 27. Frank enters the total of his other fishing expenses on this line. These expenses are not included on lines 8–26. He lists the type and the amount of the expenses separately in Part V of page 2 (not shown), and carries the total entered on line 48 to line 27. His only entry on this line is the $6,367 he spent on fuel for his fishing boat.

Line 28. Frank adds all his expenses listed in Part II and enters the total on this line.

Line 29. He subtracts his total expenses (line 28) from his gross income from fishing (line 7). Frank has a tentative profit of $20,920.

Line 30. Frank did not use any part of his home for business, so he does not make an entry here.

Line 31. Frank has a net profit of $20,920 (line 29 minus line 30). He enters his net profit here, on line 12 of Form 1040, and on line 2, Section A of Schedule SE (Form 1040) (not shown).

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

▶ **Partnerships, joint ventures, etc., must file Form 1065.**

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

OMB No. 1545-0074

1997

Attachment Sequence No. **09**

Name of proprietor: FRANK CARTER

Social security number (SSN): 111 00 1111

A Principal business or profession, including product or service (see page C-1): FISHING, COMMERCIAL

B Enter principal business code (see page C-6) ▶ 2246

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

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

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

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

G Did you "materially participate" in the operation of this business during 1997? If "No," see page C-2 for limit on losses . ☑ **Yes** ☐ **No**

H If you started or acquired this business during 1997, check here . . . ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution:** *If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here* . . . ▶ ☐	1	60,288
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	60,288
4	Cost of goods sold (from line 42 on page 2)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	60,288
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-2)	6	712
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	61,000

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-4):		
				a	Vehicles, machinery, and equipment	20a	
10	Car and truck expenses (see page C-3)	10	404	b	Other business property	20b	600
				21	Repairs and maintenance	21	4,593
11	Commissions and fees	11		22	Supplies (not included in Part III)	22	6,464
12	Depletion	12		23	Taxes and licenses	23	35
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-3)	13	6,534	24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Meals and entertainment		
15	Insurance (other than health)	15	3,291	c	Enter 50% of line 24b subject to limitations (see page C-4)		
16	Interest:						
a	Mortgage (paid to banks, etc.)	16a		d	Subtract line 24c from line 24b	24d	
b	Other	16b	800	25	Utilities	25	
17	Legal and professional services	17		26	Wages (less employment credits)	26	10,992
18	Office expense	18		27	Other expenses (from line 48 on page 2)	27	6,367

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns . ▶	28	40,080
29	Tentative profit (loss). Subtract line 28 from line 7	29	20,920
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3. • If a loss, you MUST go on to line 32.	31	20,920

32 If you have a loss, check the box that describes your investment in this activity (see page C-5).
• If you checked 32a, enter the loss on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
• If you checked 32b, you MUST attach **Form 6198.**

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

How To Get More Information

You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services.* It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

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