



Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax

Purpose: This Informational Publication describes the procedures fishermen must follow to apply for a Commercial Fisherman Tax Exemption Permit and explains the purchases and leases that are exempt from sales and use taxes. The publication also describes the rules for fishermen to make estimated personal income tax payments and discusses special requirements for start-up fishermen and for fishermen purchasing an existing fishing business.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. §§12-412(18), 12-412(40), and 12-722.

Commercial Fisherman Exemptions: Conn. Gen. Stat. §12-412(18) exempts from sales and use taxes materials, rope, fishing nets, tools and fuel, or any substitute used directly in the fishing industry.

Conn. Gen. Stat. §12-412(40) exempts from sales and use taxes any vessel used exclusively in commercial fishing and any machinery or equipment used on a commercial fishing vessel if the purchaser qualifies for and has been issued a Fisherman Tax Exemption Permit by the Department of Revenue Services (DRS).

Definitions:

- **Fishing industry** means catching, gathering, and processing fish solely as a regular commercial business.
- **Commercial fisherman** means any person, firm, or corporation engaged in commercial fishing.
- **Commercial fishing** means taking or attempting to take any finfish, crustaceans, sea scallops, squid, horseshoe crabs, or bait species for commercial purposes or by the use of any commercial fishing gear.
- **Commercial fishing vessels** include any vessel with a certificate of documentation issued by the United States Coast Guard for coastwise fishery.

1. What items may I purchase tax free?

Items exempted under Conn. Gen. Stat. §§12-412(18) and 12-412(40) include but are not limited to:

- a. Twine items (fish netting, ropes, and similar items used in fish nets), trawls, traps, hooks, and lures;
- b. Dry or natural ice;
- c. Winches and deck equipment (tow wire, cable, tackle rope, links, shackles, nets, twine, rings, sweep ropes, and chain);
- d. Fasteners;
- e. Fuel (kerosene, gas, diesel oil, lube oil, grease, and LP gas);
- f. Propulsion (flax packing);
- g. Nets and underwater gear (needles);
- h. Tools (shovels and ice clippers);
- i. Accessories and miscellaneous (bands, rubber and friction tape, distilled water, knives, picks, scallop bags, and forks);
- j. Commercial fishing vessels including daily fishing party charter boats; **and**
- k. Fishing equipment for use on or in connection with the vessels including but not limited to equipment necessary for the propulsion or navigation of the vessel (engines, propellers, radar, loran, radio telephones, global positioning systems, and similar equipment) and fish tracking equipment.

Items **not** qualifying for exemption under Conn. Gen. Stat. §§12-412(18) and 12-412(40) include but are not limited to:

- Repair and replacement parts for vessels or equipment; **and**
- Raw materials (lumber, steel, etc.) to be used in the construction of vessels or equipment unless being constructed to be sold.

2. Who may apply for a fisherman tax exemption permit?

Any person engaged in commercial fishing as a trade or business is eligible for an exemption permit. The applicant must also meet one of the following requirements:

- A) For the immediately preceding taxable year or, on average, for the two immediately preceding taxable years, not less than 50% of the applicant's gross income as reported for federal income tax purposes was derived from commercial fishing;
- B) The applicant is a **start-up fisherman** as described in Question 3; **or**
- C) The applicant is a **purchasing fisherman** as described in Question 5.

3. Who qualifies as a start-up fisherman?

For fisherman tax exemption permit purposes, a *start-up fisherman* is a person who:

- Was not engaged in commercial fishing as a trade or business in the preceding taxable year; **or**
- For the immediately preceding taxable year or, on average, for the two immediately preceding taxable years, less than 50% of the fisherman's gross income as reported for federal income tax purposes was derived from commercial fishing.

4. Does a start-up fisherman have any special requirements to qualify for a fisherman tax exemption permit?

To qualify for a fisherman tax exemption permit, a start-up fisherman must satisfy the following requirements:

- A tax exemption permit as a start-up fisherman must not have been issued previously;
- The fisherman intends to carry on commercial fishing as a trade or business for at least two years after the exemption permit is issued; **and**

- For the second year or, on average, for the two years after the tax exemption permit is issued, not less than 50% of the fisherman's gross income as reported for federal income tax purposes will be derived from commercial fishing.

If the start-up fisherman does not meet all of these requirements, the fisherman is liable for the sales or use tax that would have been due without the exemption. The tax on the purchases made under the exemption during the two year start-up period is due and must be paid with the first sales and use tax return due following the end of the start-up period.

If the start-up fisherman does not meet the renewal requirements, the fisherman may **not** reapply for an exemption permit as a start-up fisherman.

5. Who qualifies as a purchasing fisherman?

For fisherman tax exemption permit purposes, a *purchasing fisherman* is a person who:

- In the immediately preceding taxable year less than 50% of the applicant's gross income as reported for federal income tax purposes was derived from commercial fishing; **and**
- In the current or immediately preceding taxable year, the applicant purchased a commercial fishing trade or business from a seller who at the time of the sale had a valid fisherman tax exemption permit.

6. Does a purchasing fisherman have any special requirements to qualify for a fisherman tax exemption permit?

To qualify for a fisherman tax exemption permit the applicant must satisfy the following requirements:

- During the current or immediately preceding taxable year, the applicant purchased a commercial fishing trade or business from a seller who at the time of the sale had a valid fisherman tax exemption permit; **and**
- The applicant intends to carry on commercial fishing as a trade or business during the period beginning with the purchase and ending two years after the date of purchase.

If the fisherman does not meet all these requirements, the fisherman is liable for the sales or use tax that would have been due without the exemption. The tax on the purchases made under the exemption during the two years after purchasing the fishing business is due.

The tax must be paid with the first sales and use tax return due following the two years after the purchase of the business.

7. How can I apply for a fisherman tax exemption permit?

You must complete and submit **Form REG-14, Application for Commercial Fisherman Tax Exemption Permit**. Submit your completed application and allow at least four weeks for DRS to process your application and mail your exemption permit. To avoid delays in processing your application:

- Complete the current Form REG-14 in full. The name(s) that appear on Form REG-14 must be the same as the name(s) on the federal return;
 - Enclose a copy of the applicant's federal income tax return and all accompanying schedules for the prior year or if you meet the 50% gross income requirement by using the average of the prior two years, federal income tax returns and all accompanying schedules for the prior two years; **and**
 - Attach copies of your (and your spouse's if you filed a joint federal return) W-2 and any Form 1099-G, 1099-INT, and 1099-MISC.
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8. Can I get a refund of sales tax paid on purchases made before my fisherman tax exemption permit was issued?

No. Sales tax will not be refunded for purchases made before a fisherman tax exemption permit is issued. You must present the exemption permit at the time the purchase is made to claim the exemption.

9. Do I have to renew the fisherman tax exemption permit?

Yes. Exemption permits must be renewed every two years. For example, an exemption permit issued in 2009 is valid from July 1, 2009, or the date it is issued (whichever is later) until June 30, 2011. Fishermen with a current exemption permit will receive a renewal package in 2010. To renew an exemption permit, follow the procedures in Question 7.

A start-up fisherman will initially be issued an exemption permit that is valid for two years from the date it is issued. When the fisherman renews the exemption permit for the first time, the fisherman may

be issued an exemption permit for a period of less than two years. This exemption permit will cover a short period until the next regular renewal.

10. What if my address changes or the location of the fishing business changes?

If you change your address or the location of the fishing business, you must notify the DRS Registration Unit in writing. Include your Connecticut Tax Registration Number, old address or location, and new address or location in your correspondence.

Mail to: Department of Revenue Services
Registration Unit
PO Box 2937
Hartford CT 06104-2937

11. May I transfer a fisherman tax exemption permit?

No. The exemption permit may not be transferred or assigned to anyone and is null and void upon termination of commercial fishing by the original applicant. You must return the exemption permit to DRS when you cease commercial fishing.

- If you transfer or sell your fishing business, the new owner must apply for a Fisherman Tax Exemption Permit.
- If you transfer the fishing business, including transfers to a family member, the new owner must apply for a new Fisherman Tax Exemption Permit. See Question 2.
- If the assets of the business are transferred as part of forming a new entity, the new entity must reapply in its own name even if the owner(s) of the new entity remain the same.

Example: A fisherman who operates his commercial fishing business as a sole proprietorship and holds a *Commercial Fisherman Tax Exemption Permit* forms a limited liability company (LLC) and transfers the business to it. The LLC must apply for a new *Commercial Fisherman Tax Exemption Permit*. To avoid delays, the applicant should also attach a written explanation of its relationship to the former permit holder.

12. If I hold a fisherman tax exemption permit and sell my fishing business, will DRS issue an exemption permit to the new fisherman?

Yes. If you sell the fishing business, the new owner may qualify for a permit. However, if the purchaser does not carry on the fishing business for at least two years from the date of purchase, the purchaser is liable for the sales or use tax otherwise due on purchases made during the period.

The purchaser of the fishing business, however, must reapply for a permit in his or her own name.

13. What documents must I provide to a retailer to show I am eligible for the exemption from sales and use taxes?

You must provide a copy of your exemption permit to the retailer at the time of each purchase or you may issue a blanket certificate for a continuing line of exempt purchases. A *blanket certificate*, which is a copy of the original exemption permit with the words *Blanket Certificate* written across the top, is valid from the date it is issued until September 30 of the year the exemption permit expires.

The retailer **must** collect applicable sales tax unless you provide a copy of the exemption permit at the time of purchase.

14. What are the estimated income tax requirements for fishermen?

If you are a fisherman who is required to make estimated tax payments, you must make one payment due on or before January 15 following the end of the taxable year. The required annual payment for fishermen is the lesser of:

- A. **66 2/3%** of the income tax shown on your **current year's** Connecticut income tax return; **or**
- B. **100%** of the income tax shown on your **prior year's** Connecticut income tax return if you filed a Connecticut income tax return for the prior year that covered a 12-month period.

If, on or before March 1 following the end of the taxable year, you file a Connecticut income tax return and pay the full amount of tax due, you will not be subject to interest for not paying estimated tax. An individual is a fisherman for any taxable year if the individual is a fisherman as defined in I.R.C. §6654(i)(2) for the taxable year.

Related Forms and Publications: For related publications see:

IP 2003(26), *Q & A on Sales and Use Taxes for a New Business*

IP 2009(16), *Getting Started in Business: Understanding Connecticut Taxes*

IP 2008(29), *Business Taxes*

IP 2006(12), *Q & A on Purchases of Vessels*

Form REG-1, *Business Taxes Registration Application*

Form REG-14, *Application for Fisherman Tax Exemption Permit*

Form AU-725, *Motor Vehicle Fuels Tax Refund Claim – Farm Use*

Effect on Other Documents: This Informational Publication modifies and supersedes **Informational Publication 2007(13)**, *Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax*.

Effect of This Document: An Informational Publication issued by Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

Select **Option 6** to speak to a representative.

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS website at **www.ct.gov/DRS** to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** or call **860-297-4753** (from anywhere).

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** to file a variety of tax returns and extensions, as well as to pay taxes or bills over the Internet. Visit the DRS website at www.ct.gov/DRS and select an option from the list on the *TSC* image.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer's withholding tax, *TSC-BUS* Online Filing Alerts, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select e-Alerts from the left navigation bar.

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