



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

November 12, 2002

Number: **200308033**
Release Date: 2/21/2003

CC:PSI:B02
PRENO-145461-02

UILC: 721.00-00; 731.00-00; 351.00-00; 1366.00-00

MEMORANDUM FOR Associate Area Counsel
CC:SB:7:SEA:1

FROM: Carolyn Hinchman Gray
Senior Counsel CC:PSI:2
Heather Faught
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SUBJECT: Reporting of Settlement Proceeds

This Chief Counsel Advice responds to your memorandum dated August 19, 2002. In accordance with I.R.C. § 6110(k)(3), this Chief Counsel Advice should not be cited as precedent.

ISSUE

What are the tax consequences to taxpayers of the payment of settlement proceeds for lost fishing income, devaluation of an owner's fishing permit, and devaluation of fishing boats when the fishing activity is conducted by a corporation or partnership formed either before or after these damages occurred?

CONCLUSIONS

More fact development is necessary to adequately address the tax consequences of the settlement proceeds for lost fishing income, devaluation of an owner's fishing permit, and devaluation of fishing boats when the fishing activity is conducted by a corporation or partnership formed either before or after these damages occurred?

FACTS

A qualified settlement fund has begun distributing settlement payments to taxpayers. Compensatory damages are for lost fishing income, devaluation of an owner's fishing permit, and devaluation of fishing boats. Punitive damages are paid in proportion to the compensatory damages.

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Under state law, the fishing permit may only be owned by an individual. Fishing activities are frequently carried on through a partnership or a corporation, where a partner or a shareholder remains the legal owner of the fishing permit.

CASE DEVELOPMENT, HAZARDS AND OTHER CONSIDERATIONS

In order to answer your questions as to the effect of the settlement proceeds we need to have more information. In particular:

[REDACTED]

This writing may contain privileged information. Any unauthorized disclosure of this writing may have an adverse effect on privileges, such as the attorney client privilege. If disclosure becomes necessary, please contact this office for our views.

Please call if you have any further questions.

HEATHER C. MALOY
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By: _____
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