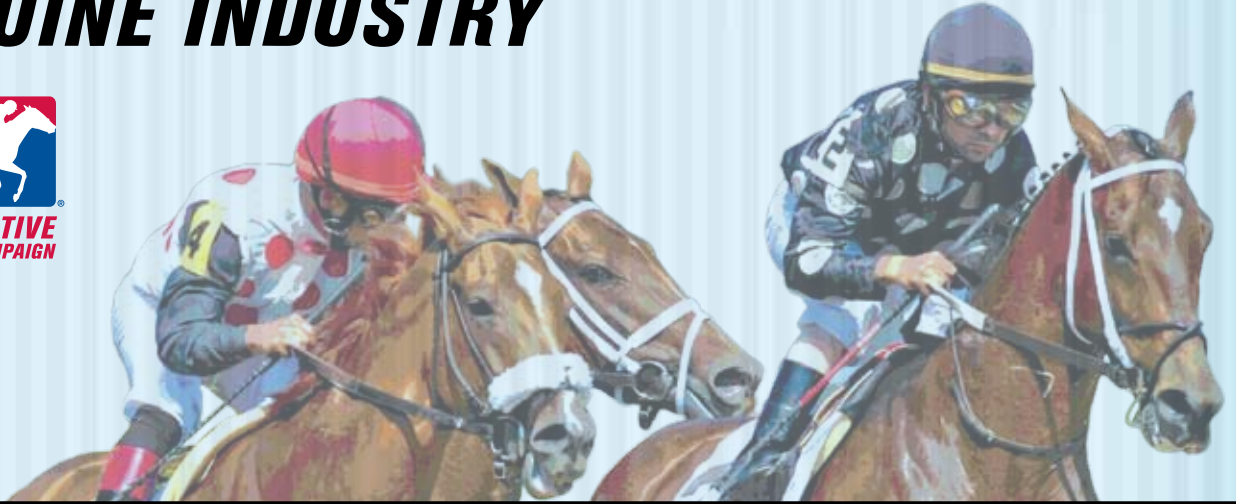


NEW LEGISLATION BENEFITS EQUINE INDUSTRY



FASTER DEPRECIATION FOR ALL YOUNG RACEHORSES

Under earlier tax laws, racehorses were depreciated over either three or seven years, depending on their age when “placed in service.” A horse is generally deemed to be placed in service when it begins training. Racehorses over the age of 24 months (from date of foaling) when placed into service are depreciated over three years; otherwise, they were depreciated over seven years. In a given crop of horses that make it to the track, about half will start as two-year-olds and the rest will start as three-year-olds. Most racehorses (except geldings) are off the track by age five, making a seven-year depreciation schedule anachronistic.

Legislation contained in the 2008 Farm Bill allows an owner to recover his/her costs over the period of time that the horse is likely to race. The new “three-year” depreciation schedule, which applies to yearlings and other racehorses 24 months old or younger, started on January 1, 2009 and sunsets on the last day of 2013 unless Congress extends it beyond that date. While it is a three-year depreciation period, the deductions are spread over four tax years since only six months of depreciation are allowed in the first year. The following chart illustrates the new and prior rates of depreciation.

***New 3-Year Schedule (2009-2013) Old 7-Year Schedule
for Racehorses 24 mos. and under* for Racehorses 24 mos. and under***

3-Year (4 tax years)

7-Year (8 tax years)

Yr % of Original Cost

- 1. 25.0%
- 2. 37.5%
- 3. 25.0%
- 4. 12.5%
- 100%**

Yr % of Original Cost

- 1. 10.72%
- 2. 19.13%
- 3. 15.03%
- 4. 12.25%
- 5. 12.25%
- 6. 12.25%
- 7. 12.25%
- 8. 6.12%
- 100%**

** These schedules assume the half-year convention applies, meaning all horses placed in service during the year are deemed to be placed in service on July 1. (If more than 40% of the cost of depreciable property placed in service during the year is placed in service in the last quarter of the year, a different rule applies.) The schedule uses 150% declining balance depreciation (200% may be available for some owners). The seven-year schedule applied until January 1, 2009 to racehorses 24 months old or younger when placed in service. Racehorses over 24 months when placed in service are now and will continue to come under the 3-year schedule.*

Note that under the 3-year schedule, 62.5% of a young racehorse can be written off by the end of the 2-year-old year, as compared to only 29.85% under the old schedule for these racehorses. Also, note that these horses also may be eligible for expensing the first year, which would mean an even higher percentage is written off by the time the horse reaches three years old. Expensing is taken before the depreciation deductions are taken.

The schedules below compare the depreciation deductions for a yearling racehorse purchased in 2009 for \$50,000 using the new, faster schedule and the depreciation deductions using the old seven-year schedule required for yearlings purchased prior to 2009.

<u>New 3-Year Schedule</u>		<u>Old 7-Year Schedule</u>	
<u>Yr</u>	<u>Depreciation</u>	<u>Yr</u>	<u>Depreciation</u>
1.	\$ 12,500	1.	\$ 5,360
2.	\$ 18,750	2.	\$ 9,565
3.	\$ 12,200	3.	\$ 7,515
4.	<u>\$ 6,250</u>	4.	\$ 6,125
	\$ 50,000	5.	\$ 6,125
		6.	\$ 6,125
		7.	\$ 6,125
		8.	<u>\$ 3,060</u>
			\$ 50,000

Livestock Losses

The Farm Bill also contains other provisions to assist members of the equine industry.

Horse breeders will be allowed two forms of federal emergency disaster relief: emergency loan eligibility and fund access. Horse breeders previously have not been eligible for emergency loans following disasters such as hurricanes, floods, ice and drought. Under the new Farm Bill, “equine ranchers and farmers” are included in a group of other livestock producers who have been eligible to apply for such loans in the past. Equine ranchers and farmers who suffer losses in areas that are declared disaster areas by the United States Department of Agriculture (USDA) also now may be able to receive relief funds under a new disaster assistance program. The program is designed to expedite funds to eligible producers who experience a disaster.

Available equine tax publications

Horse Owners and Breeders Tax Handbook (\$85 plus \$4.50 S/H)

A 1,000-page guide for horse owners and breeders explains the Internal Revenue Code as it pertains to the U.S. Horse Industry.

No one commercially involved with the horse industry can afford to be without this handbook.

Tax Tips for Horse Owners (\$10)

An 18-page booklet that includes, in outline form, the major tax issues affecting those involved with horses as a business.

Both publications by Thomas A. (Tad) Davis, Esq.

Order by visiting www.horsecouncil.org



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