MAJOR TAX BENEFITS FOR BUYERS

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BY THOMAS A. (TAD) DAVIS

At the end of last year, the President signed into law the high profile tax bill that extended the current income tax rates and many other tax benefits that were expiring at the end of 2010. Two of the most important benefits for horse owners are the continuation of generous bonus depreciation and a higher expense allowance in 2011. The write-offs for horses in 2011 are better than they have ever been.

Bonus depreciation was increased to 100% for eligible horses or farm equipment placed in service in 2011. In other words, the entire cost of eligible horses or farm equipment purchased and placed in service in 2011 can be entirely written off that year. The rate goes down to 50% for eligible horses and other property placed in service during 2012.

As has been true in the past, to be eligible for bonus depreciation the original use of the eligible property must commence with the purchaser. Any prior use, personal or business, disqualifies the property. This, in effect, limits bonus depreciation to the purchase of young horses that have not been raced or previously used in any way, including personal use. There is no limit on the number of properties that can be written off using bonus depreciation, the amount of the write-off on any one property, or the aggregate total of the write-off as long as each horse or other property qualifies.

To illustrate bonus depreciation, assume an individual in the horse business purchases a yearling at a sale for $1 million in 2011 and places the yearling in service that year. The purchaser can write off (depreciate) the entire $1 million on his or her 2011 tax return. If the individual also bought a new tractor in 2011 for $50,000 and placed it in service in 2011, he or she could also write off the entire purchase price of the tractor.

The expense allowance currently in effect allows the purchaser to write off up to $500,000 of the cost of horses or farm equipment purchased and placed in service in 2011 if the total of all purchases of depreciable property during the year do not exceed $2 million. If purchases exceed $2 million, the expense allowance goes down one dollar for every dollar that purchases exceed $2 million.

An individual who purchases a yearling for $1 million in 2011 and places the yearling in service that year can write off the entire $1 million on his or her 2011 tax return.

Unlike bonus depreciation, the expense allowance applies to all horses or farm equipment regardless of whether they have been previously used for some purpose by someone else. The expense allowance is scheduled to go down to $125,000 in 2012.

To illustrate the expense allowance, assume in 2011 that an individual in the horse business buys a race horse for $250,000, buys a broodmare for $200,000 and a tractor that cost $50,000 and places all of property in service in that year. The individual makes no other purchases of horses or other business property during the year. The individual can expense (write off) the entire $500,000 in 2011. If purchases were over $500,000, the excess amount would be depreciated using the depreciation rules.

Expensing and bonus depreciation are not mutually exclusive. In fact, there are situations where both can apply to the same property. With 100% bonus depreciation, there is little or no difference whether expensing is used or bonus depreciation is used on the first $500,000 of cost, assuming the property qualifies under both provisions. That will not be the case when bonus depreciation is less than 100%. And, as of now, bonus depreciation is scheduled to go from 100% to 50% in 2012. After that it will expire altogether unless extended by Congress.

Thomas A. (Tad) Davis is the author of the 2011 Horse Owners and Breeders Tax Handbook *and tax counsel for the National Thoroughbred Racing Association and the American Horse Council. Readers are urged to consult their tax advisor for additional information.*

TAX BENEFIT SUMMARY

Bonus Depreciation

- 100% bonus depreciation
- Applies to horses, farm equipment and most other depreciable property
- Property must be purchased and placed in service by 12/31/2011
- Property must be new - original use of property must commence with taxpayer
- Rate reverts to 50% bonus depreciation for 2012

High Expense Allowance

- Expense allowance for horses, farm equipment and most other depreciable property is $500,000
- Property must be placed in service in 2011
- Applies to new or used property
- Expense allowance is reduced by one dollar for each dollar of eligible property purchased that exceeds $2 million
- Expense allowance drops to $125,000 for 2012

HELPFUL EQUINE TAX PUBLICATIONS

- ***The 2011 Horse Owners and Breeders Tax Handbook*** by Thomas A. (Tad) Davis

  A two-volume guide for horse owners and breeders explains the Internal Revenue Code as it pertains to the U.S. horse industry.

  Available in muliple media formats.

  Order by visiting www.horsecouncil.org.
- ***Tax Tips for Horse Owners*** by Thomas A. (Tad) Davis

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

  TOBA members receive a booklet with their membership or order by visiting www.horsecouncil.org.
- ***2011 Equine Sales & Use Tax Review*** produced by Leigh McKee of Dean Dorton Allen Ford and Laura D'Angelo of Wyatt Tarrant & Combs

  A guide to help you navigate the sales and use tax rules in your state. Additional states will be added to the seven that are now included.

  Download a complimentary copy at www.ddafcpa.com or www.wyattfirm.com.

For more information contact Joe Bacigalupo, NTRA director of membership development, (800) 792-6872, ext. 677 or visit www.SupportHorseRacing.org.

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