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Benefits in the Economic Stimulus Act for Horse Industry

Increased tax write-offs for some horses and farm equipment will help equine professionals.

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President Barack Obama has signed the Economic Stimulus Act into law. The bill is intended to provide a jump-start to the U.S. economy.

“The new law contains two important tax incentives that would allow a much bigger write-off for horses and other depreciable property purchased and placed in service during 2009,” said Jay Hickey, President of the American Horse Council. “These provisions expired at the end of 2008, but their reinstatement should provide an additional incentive for people to purchase horses for racing, showing and breeding as part of their business activities.”

The first incentive continues the so-called $250,000 Section 179 expensing allowance for horses purchased and placed in service in 2009. This allowance also applies to farm equipment and most other property with a depreciable life of less than 20 years. Once total purchases of horses and other eligible depreciable property reach $800,000, the expense allowance goes down one dollar for each dollar spent on eligible property over $800,000.

“The horse industry almost lost the Section 179 expense deduction in 1996. The House of Representatives passed legislation taking this deduction away from the horse industry,” said Hickey. “But we were able to convince the Senate to remove this restriction before passing the final bill and the deduction was preserved. It was worth $17,500 then. Over the years it has been increased and will be $250,000 for 2009. That is a real benefit to horse owners.”

To illustrate the expensing allowance, assume a horse business purchases $750,000 of depreciable property in 2009, including $650,000 for horses. That business can write off $250,000 on its 2009 tax return and depreciate the balance. If instead, purchases were $900,000, the expense allowance would go down by $100,000.

In addition, bonus depreciation has also been reinstated for 2009 in the new Stimulus Bill. This second incentive allows a horse owner to take first-year bonus depreciation equal to 50% of the cost of horses and most other depreciable property purchased and placed in service during 2009. It does not apply to property that has a depreciation life of over 20 years.

As was the case last year and in 2003 and 2004 when bonus depreciation was first instituted, the property must be new, meaning that the original use of the horse or other property must begin with the purchaser for the property to be eligible. “Original use” means the first use to which the property is put, whether or not that use corresponds to the use of the property by the purchaser. “There is no limit on the amount of bonus depreciation that can be taken, as there is with the expense deduction,” noted Hickey.

To illustrate bonus depreciation, assume that in 2009 a business pays $500,000 for a colt to be used for racing and $50,000 for other depreciable property, bringing total purchases to $550,000. The young colt had never been raced or used for any other purpose before the purchase. The business would be able to expense $250,000, deduct another $150,000 of bonus depreciation (50% of the $300,000 remaining balance), and take regular depreciation on the $150,000 balance.

“The Stimulus Bill includes several other changes that may benefit horse owners, including allowing taxpayers a deduction for state and local sales and excises taxes paid on the purchase of new cars, light trucks, and recreational vehicles in 2009; a change in the net operating loss carryback period to five years for small businesses; and a reduction for 2009 in the required estimated tax payments for some small businesses,” said Hickey.

For more information, visit the American Horse Council's website.