



TAX BENEFITS AVAILABLE TO YOU

Farm Bill

- **Faster Depreciation for Yearlings**
- **New 3-year Schedule Replaces 7-year Schedule**
- **Write-off 62.5% of Original Cost in 2 Years**

Stimulus Bill

- **Expensing Allowance at \$250,000**
- **50% Bonus First-Year Depreciation**
- **Expires at end of 2009**

You may be able to combine these benefits!

Visit www.SupportHorseRacing.org for details!



Tax Benefits Available for Buyers Now

Higher Expense Allowance & Bonus Depreciation For 2009

2009 Stimulus Bill Tax Benefits

This year's Stimulus Bill allows for bonus depreciation and higher expensing through 2009. Both tax benefits expired at the end of 2008 but have been reinstated for purchases made in 2009.

Extension of Small Business Expensing

- Expensing allowance for horses, farm equipment and most other depreciable property remains at \$250,000
- Property must be placed in service in 2009
- Expense allowance reduced by one dollar for each dollar of eligible property purchased during the year that exceeds \$800,000
- Applies to new or used property
- Can be used to reduce taxable income derived from business of taxpayer
- Expense allowance reverts to \$128,000 (plus inflation adjustment) in 2010

Extension of Bonus Depreciation

- 50% bonus first-year depreciation returns
- Applies to horses and most other depreciable property with depreciation life of less than 20 years
- Property must be placed in service in 2009
- Full 50% bonus depreciation allowed regardless of when in 2009 eligible property is purchased and placed in service
- Property must be new - the original use of horse or other property must commence with taxpayer
- Can be used in conjunction with expensing allowance
- Applies unless taxpayer elects not to use it

Faster Depreciation For All Young Racehorses

The Farm Bill includes an important depreciation provision that benefits the equine industry:

Accelerated Depreciation

- New, uniform three-year depreciation schedule for all young racehorses
- Yearlings are included in new schedule
- After second tax year, 62.5% can now be depreciated compared to only 29.85% under previous, seven-year schedule
- Effective January 1, 2009

Comparing New and Old Schedule - \$100,000 yearling example

New 3-Year Schedule
for Racehorses 24 months and under
3-Year (4 tax years)

Yr.	Depreciation
1.	\$25,000 (25.0%)
2.	\$37,500 (37.5%)
3.	\$25,000 (25.0%)
4.	\$12,500 (12.5%)
	\$100,000 TOTAL

Old 7-Year Schedule
for Racehorses 24 months and under
7-Year (8 tax years)

Yr.	Depreciation
1.	\$10,720 (10.72%)
2.	\$19,130 (19.13%)
3.	\$15,030 (15.03%)
4.	\$12,250 (12.25%)
5.	\$12,250 (12.25%)
6.	\$12,250 (12.25%)
7.	\$12,250 (12.25%)
8.	\$6,120 (6.12%)
	\$100,000 TOTAL

TAX BENEFITS AVAILABLE FOR BUYERS



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.

<i>New 3-Year Schedule (2009-2013) for Racehorses 24 mos. and under</i>	<i>Old 7-Year Schedule for Racehorses 24 mos. and under</i>
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3-Year (4 tax years)

7-Year (8 tax years)

Yr Depreciation

1.	\$25,000	(25.0%)
2.	\$37,500	(37.5%)
3.	\$25,000	(25.0%)
4.	\$12,500	(12.5%)

\$100,000 TOTAL

Yr % of Original Cost

1.	\$10,720	(10.72%)
2.	\$19,130	(19.13%)
3.	\$15,030	(15.03%)
4.	\$12,250	(12.25%)
5.	\$12,250	(12.25%)
6.	\$12,250	(12.25%)
7.	\$12,250	(12.25%)
8.	\$6,120	(6.12%)

\$100,000 TOTAL

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 (see reverse), 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.

STIMULUS BILL BENEFITS

The Stimulus Bill that was signed into law in February keeps bonus depreciation and higher expensing in place through 2009. Both tax benefits expired at the end of 2008 but have been reinstated for purchases made in 2009.

Higher Expense Allowance – This tax benefit allows the purchaser of a horse to expense up to \$250,000 of the cost of a horse or of most other business property, even if the horse or other business property had been used previously. It need not be new. However, if the total purchases of all eligible property in 2009 reach \$800,000, the expense allowance goes down one dollar for each dollar spent on eligible property over \$800,000.

Bonus First Year Depreciation – This permits an owner to write off 50% of the cost of a horse purchased and placed into service in 2009 if the original use of the horse starts with the purchaser. The 50% write-off also applies to the cost of almost all other depreciable property that has a depreciation life of 20 years or less if the first use of the property starts with the purchaser. Regular depreciation is also taken on the property after the bonus depreciation has been subtracted.

To illustrate bonus depreciation and expensing, assume that in 2009, a business pays \$300,000 for two colts to be used for racing and \$50,000 for farm equipment, bringing total purchases to \$350,000. The young colts had never been raced or used for any other purpose before the purchase and the farm equipment was brand new. The business would be able to expense \$250,000 (as explained above), deduct another \$50,000 of bonus depreciation (50% x the \$100,000 remaining balance), and take regular depreciation on the \$50,000 balance. This could amount to a total deduction in year one of as much as \$312,500 of the cost of the two colts and the equipment.

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