



American Horse Council Washington Update

Equine Equity Act Re-Introduced

Senators Mitch McConnell (R-KY), Jim Bunning (R-KY) and Blanche Lincoln (D-AR) have re-introduced the Equine Equity Act (S. 1251). The bill has been referred to the Senate Finance Committee.

The bill would end the disparate treatment of the horse industry versus other businesses under the federal tax code. Specifically, the legislation would: (1) make horses eligible for capital gains treatment after twelve months, similar to other business assets; and (2) place all race horses in the three-year category for depreciation purposes.

Reduction of Capital Gains Period

Under the federal tax code, gains from sales by individuals of property used in a trade or business, including horses, qualify for long-term capital gains and are subject to the maximum capital gains tax rate of 15%. Since the individual tax rate can go as high as 35%, the lower rate is a real advantage.

Unfortunately, horses held for breeding, racing, showing or draft purposes generally qualify for the 15% capital gains rate only if they are held for 24 months. All other business assets (except cattle) qualify if held for 12 months. Passage of this legislation would end this discriminatory treatment of horses under the tax code and allow horse owners to enjoy the reduced rate upon sale after holding the horse for 12 months, rather than twenty-four.

Reducing the holding period by half would give these horse owners and breeders more flexibility to sell and market their horses. It would mean that every sale of a horse which is held for at least twelve months will qualify as a capital gain or loss unless that horse is held primarily for sale.

Making All Racehorses Eligible for Depreciation over Three Years

Presently race horses are 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, which is usually at the end of its yearling year. Race horses over two when placed in service are depreciated over three years; if under two, they are depreciated over seven years. (A horse is deemed to be “over two” for tax purposes twenty-four months and a day after it is foaled.)

Current law provides that racehorses that begin training at the end of their yearling year are depreciated over seven-years, even though most will not actually race for seven years.

The legislation introduced by Senators McConnell, Bunning and Lincoln recognizes the unreality of this requirement by changing the tax code to allow owners to depreciate all their race horses over three years, rather than seven, regardless of when they are placed in service. The change would provide for a more equitable depreciation schedule for race horses, one that better matches the realities of the situation.

The change would allow an owner to depreciate 62.5% over the first two years a horse is in training or races, rather than 29.85%. More importantly, this allows an owner to more accurately recover his/her costs over the period that the horse is likely to race.