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President Obama has signed into law the Stimulus Bill, which is intended to provide a jump-start to the U.S. economy. The Stimulus Act continues the bigger write-off for horses and other property purchased and placed in service during 2009. These benefits were part of the 2008 Tax Stimulus bill, but expired at the end of 2008. The Stimulus Bill also includes a few other provisions that may impact horse owners.

Expensing Allowance

The first incentive allows an owner who purchases a horse or other business property and places it in service in 2009 to expense up to \$250,000 of the cost. This so-called "Section 179" expensing allowance applies to horses, farm equipment and most other depreciable property. Once total purchases of horses and other eligible property reach \$800,000, the expense allowance goes down one dollar for each dollar spent over \$800,000.

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 either case, the amount of the purchases not expensed may also be eligible for bonus depreciation, as explained below.

Bonus Depreciation

The second incentive continues the 50% first-year bonus depreciation for horses and most other depreciable property purchased and placed in service during 2009. It applies to any property that has a depreciable life of 20 years or less. Also, the property must be new, meaning that the original use of the horse or other property must commence with the taxpayer. For a horse to be eligible, it cannot have been used for any purpose before it is purchased.

To illustrate expensing and bonus depreciation, assume that in 2009 an owner 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 horse business would be able to expense \$250,000 (as explained above), deduct another \$150,000 of bonus depreciation (50% of the \$300,000 remaining balance), and take regular depreciation on the \$150,000 balance.

Other Provisions

State and Local Sales Taxes. The Stimulus Bill provides all taxpayers with a deduction for state and local sales and excises taxes paid on the purchase of new cars, light trucks, and recreational vehicles through 2009. The deduction phases-out for taxpayers with adjusted gross incomes of \$125,000 and \$250,000 for taxpayers filing a joint return.

NOL Carryback. Current law permits net operating losses (NOLs) to be carried back to the two years before the operating loss occurs and carried forward to the twenty years after the loss. For 2008, the bill would extend the maximum NOL carryback period to five years for small businesses with gross revenue of \$15 million or less.

Estimated Tax Payment Relief. The Stimulus Bill reduces the 2009 required estimated tax payments for some small businesses.

Please call the AHC if you have any questions.

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