

Horse \$ense

Tax, Business and Economic Considerations

Dr. Curt Lacy

Extension Economist-Livestock

Overview

- Are you in the equine business?
- What records do you need?
- Developing a business plan.



Is this a “hobby” or business?

- IRC Section 183
- IRS uses several criteria to determine if an enterprise is a “legitimate business”
 - Review of Tax returns → 9 relevant factors
 - Reporting on Schedule C or F
 - History of losses → “Activities that pertain to the breeding, training or showing of horses should observe a profit in 2 or more of the taxable years in a period of 7 consecutive taxable years.” Everything else is 3 out of 5.
 - Large, unusual or questionable items
 - Gross receipts
 - Other substantial income sources

So what does IRS look for?

1. Do you operate it like business?
 1. Books and records used in the activity
 1. Separate checking accounts from personal living expenses
 2. Are you using the records to operate the activity and make decisions or changes?
 2. Business Plan
 1. Goals/objectives
 2. Budgets
 3. Projected income or cash flow statements

So what does IRS look for?

2. What do you or your advisors know about horses?
 1. What expertise do you have?
 2. Who are your advisors? (extension agent, consultants, veterinarian, etc.)
 3. Do you follow their advice? Why or why not?
3. How much time do you spend at this? (“work”, seminars, reading magazines, journals, etc.)
4. Will anything here appreciate in value?

So what does IRS look for?

5. How successful are you in other activities?
6. How often do you show a profit?
 1. 2/7 – breeding, training or showing horses
 2. 3/5 – everything else
7. When you make a profit how much do you make?
8. How much money do you make outside of this venture?
9. Is this fun?

What records/information do I really need?

1. Are you keeping records for tax purposes or for management decisions?
2. Ability to separate personal/business income and expenses
 1. Farm record-keeping books
 2. Computerized programs (Quicken, Quickbooks, equine programs, etc.)
3. Business plan
 1. Objectives
 2. Budgets
 3. Projected income statement
 4. Projected cash flow

Examples of records

- Boarding/training agreements
- Invoices to customers
- Schedule of fees
- Copies of advertisements
- Feed Records
 - Animal/stall assignments
 - Feed or hay fed x Stall
- Vet/farrier records
 - Treatment records for specific animals
 - Receipts for vaccines, de-wormers, etc.
- Bills

F A R N A M



EQUINE

HEALTH CARE RECORD



| | |
|---|---------------------------|
| HORSE'S NAME _____ | VETERINARIAN _____ |
| FOALING DATE / LOCATION _____ SEX _____ | PHONE _____ |
| WEIGHT _____ REGISTRATION NUMBER _____ | TRAINER _____ |
| TATTOO / BRAND _____ BREED _____ | PHONE _____ |
| MARKINGS _____ | FARRIER _____ |
| DAM _____ SIRE _____ | PHONE _____ |
| OWNER _____ | |
| PHONE _____ | |
| ADDRESS _____ | |
| CITY _____ STATE _____ ZIP _____ | |

Mare Breeding Record

3916-4

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 |
|------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| DEC. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JAN. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| FEB. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MAR. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| APR. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MAY | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JUNE | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JULY | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Tease Codes:

- 1 - resistant
- 2 - indifferent
- 3 - interested
- 4 - winks vulva, urinates
- 5 - profuse urination and vulvular activity

Symbols:

| | |
|--------------|---------------|
| A - arrived | P - palpate |
| D - departed | B - bred |
| F - foaled | Ov - ovulated |
| S - speculum | PR - pregnant |
| T - treated | C - casticks |

Year _____

Results of last year's breeding _____

Mare Booked to _____ Mare Owner _____

Mare _____ Color _____ Age _____ Farm Number _____

Developing a business plan

Doesn't have to be fancy. But it should include some or all of the following.

- Objectives – Where do you want this venture to be in 1, 5 or 10 years?
- Budgets – What will it cost for the different components of this enterprise.
- Projected income statement – Includes depreciation and inventory adjustments, or
- Projected cash flow – Projections of real dollars coming and going (excludes depreciation).

Components of a Budget

- Income - Cash and non-cash returns
 - Product Sales
 - Boarding
 - Training
 - Breeding
 - Miscellaneous sales



Components of a Budget

- Expense
 - Variable – also called Direct Expenses, these change with the number or horses
 - Feed
 - Seed
 - Fertilizer
 - Vet
 - Labor
 - Operating Interest

Components of a Budget-cont'd

- Expense
 - Fixed – Those expenses that occur regardless of how many horses you have.
 - Total Cost Budget
 - Machinery Depreciation
 - Machinery Interest
 - Machinery Taxes and Insurance
 - Land Charge
 - Profit or Return to Management
 - Cash Flow Budget
 - Principal & Interest Payments
 - Machinery Taxes and Insurance
 - Real Estate Taxes
 - Miscellaneous Overhead
 - Family Living



Example Boarding Horse Budget

6-stall budget

Practical Considerations

- When considering “going public”
 - Can you keep track of what is for profit and what is personal?
 - Can you charge enough to cover the additional expenses (labor, repair, utilities, etc.)
 - Can you allocate overhead items (facilities, equipment, etc.)?
 - Avoid the temptation to spend money because you can write it off. Remember – you have to spend \$3-\$5 to get a \$1 break on taxes!!

Summary

- In order to qualify as a business you have to run it like a business.
- Keep good records on personal and business matters.
- Develop a business plan
 - Objectives/Mission Statement
 - Budgets
 - Projected income or cash-flow statements
 - Comparisons of projections to actuals

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