TAX TIPS FOR EQUINE BUSINESSES

By Heidi Born-Smith

Horse owners and equine businesses will be preparing their annual tax returns shortly. For many, a number of expenses may actually be tax deductible. It only makes sense to look for every reasonable way to save money while not being audited. For most of us, breeding and selling our beloved Friesians is a hobby and we do not make a profit by selling our foals. However, for a few, this hobby can be turned into a business. **This article is written to be informative and not to be interpreted as tax advice.**

The Internal Revenue Service wants to see a profit every few years. Your intent is to make money and have a profit, or it's considered a hobby. If you are in business to make a profit, most of your expenses are deductible. Refer to the IRS publication 334, Tax Guide for Small Businesses. Track every business expense and comb over them with your accountant at the end of the year to ensure you only take legitimate deductions. This will help minimize your risk of audit and help to have the documentation you need in place in the event the IRS ever comes knocking. The best advice is be prepared in case, now and when you are audited. **Always consult with a tax accountant who works with farms or equine businesses.***

Often owners set up their equine business as an LLC or corporation. Your business may own a truck, trailer or other equipment. Even if you are a LLC or corporation, the personal portion of expenses will not be deductible.

You may be able to depreciate equipment, horses, barn, fencing, tack, etc. Depreciating these types of items is typically done over a period of years. However, in some cases you may be able to write off all of the business-related purchases in the first year. This is a prime example of why it's important to have a working relationship with an accountant who has experience in equine businesses. Treat your equine business as seriously as you would a "regular" job.

The IRS uses "hobby loss" factors when deciding if you are operating as a business or hobby. They look at your bookkeeping - is it accurate and complete. The IRS will review your profit-and-loss history to determine your intent. The agency expects you to have expertise in breeding, horses, training or boarding if that is what you do. They will look at the amount of time you devote to your equine activities and your past successes or failures to gauge whether you expect to run a profitable business. If your income outside the horse business is low, the IRS might consider your farrier service, boarding barn, breeding or tack shop as a way of increasing your earnings. Enjoying, owning or being involved with horses is common and acceptable as long as the IRS doesn't perceive your business as recreational. The IRS may decide that if your horse activities are a hobby they can recalculate your tax liability, make you pay back taxes, plus interest **and penalties** on the amount you underpaid.

Any business requires a "Business Plan." A good plan makes sure you thought through all of the details. Draft a business plan to show you are serious about your horse business and you expect to make a profit. Open an account that is entirely for your business. Mixing your personal finances with your business is not good sense. Managing an equine business requires paying attention to details.

Do you utilize a portion of your home as a business office; you may be able to deduct allowable expenses for use of your home. Expenses may include a portion of household utilities, homeowner's insurance, necessary repairs and annual depreciation. If you use your personal vehicle for both personal and business purposes, a portion of the mileage expense may be tax deductible. Keep a vehicle log for the business mileage. Other deductions include employee salaries, business interest and other taxes.

Professional services can be the largest category of deductible expenses for a business. The can include accountants, attorneys, farriers, veterinarians, feed suppliers, nutritionists, hay and straw suppliers, saddle fitters, etc. Payment to any professional who provides a service for a fee is included in this category and then becomes a tax-deductible service. Insist on receipts.

Repair and maintenance costs relating to any items that break or require routine maintenance are legitimate tax write-offs. Such items are tractors, washing machines, fencing, plumbing and vehicles. Travel if it is business related is tax deductible. If you are paying to transport a horse to a show, breeding facility, veterinary clinic or any other location, it can be a write-off. Expendable items which are purchased goods used to operate your business but not for personal use can be used as a write-off. This may include boarding, feed or supplements, bedding, etc.

Some deductions may only cover a percentage of your expense like a dinner with clients (usually 50 percent) or the home-office deduction which is based on the square footage of your office. When documenting, go beyond collecting receipts. If hiring your teenager as an employee, document their duties and hours. If traveling in a state that requires parking or tolls, write the destination and business reason right on the receipt.

Here are a few more areas that you may be able to find deductions for: accounting services, advertising, bad debts, banking fees, building repairs and maintenance, business association dues, business travel, charitable deductions based on your business, cleaning services, computer repairs/maintenance, consultation, continuing education, depreciation, employee wages, equipment, equipment repairs, family wages, home office, interest, legal, license, material, moving, office supplies and expenses, payroll tax for employees, stud fees, taxes, parking and tolls, postage, utilities and website expenses.

If you are in the unfortunate position to have your business audited, call your accountant first. They will be able to tell you what documents you may need and how to conduct yourself during the process.

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*Always check with your tax professional for advice for your particular situation.