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Racehorse no different than copy machine to IRS

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Scott E. Bakka couldn't believe his luck. One race in June put the first-time racehorse owner and his partners in the black. They had paid \$10,000 for their 5-year-old gelding Rupert's Rose Morn just three weeks before at a claim race.

The winning purse at the Charles Town race — \$14,000.

There is no hint of buyer's remorse in his voice.

"He has raced one time [since the purchase] so, for us, he's perfect."

Most stables would say there is nothing more important than picking a good horse and trainer when it comes to making money off a racehorse. But financial consultants say a little tax advice can help.

"If you're getting into it just to race horses, it is a pretty big gamble," said Mark King of Naden/Lean LLC, an accountant who specializes in tax consulting for the horse industry. "The biggest thing is simply planning in advance to know what you're getting into."

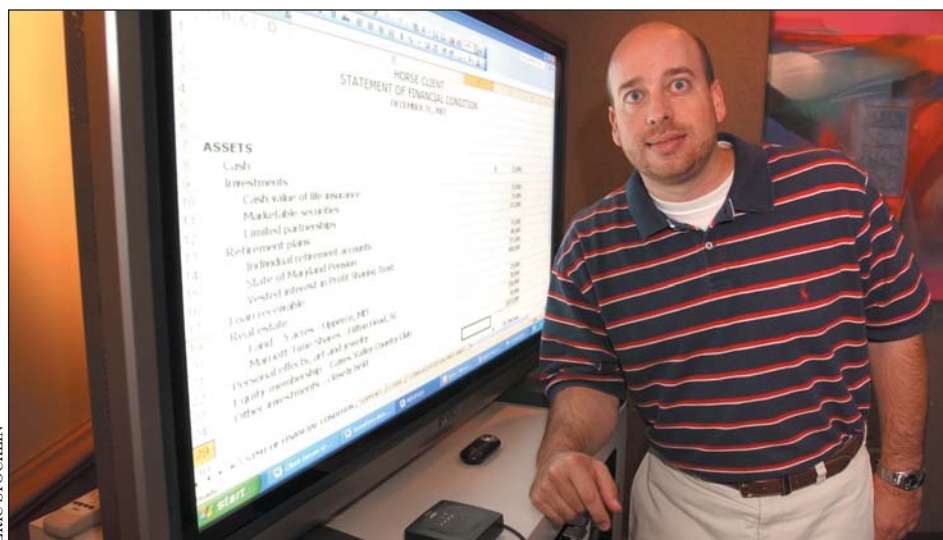
For Bakka, there was a bit of planning and fortune.

As Bakka and his partners were picking trainers to interview at a West Virginia race, Bakka told his partners he'd talk to whatever trainer won the next event — the Beer Belly race.

The group hired that trainer. Chance helped Bakka's Regulator Racing Stable again when no one else bid on Rupert at the claims race. The other horse they eyed had about 10 bids.

"I guess it is all luck and being able to find someone you like," Bakka said.

But before they ever visited with Rose and before they bought Rupert, the group



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met King of the Timonium-based accounting firm.

The firm has been hosting events to educate horse owners on the financial aspects of the business. In August, it held one in Laurel Park about how to run a successful horse business. Bakka met King at a similar event last year.

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But King said owners have to show they intend to make a profit.

"That is one of the big hurdles you have to get over to be considered an active business," he said.

Prospective stable owners also have to spend at least 500 hours a year on their business, or they must wait to collect the tax deduction until the stable is sold or it finally makes money, according to King.

"The more things I can do to show that I am a business the better," King said, adding such steps were necessary to avoid an audit.

But once the stable is set up as a business, a valuable tax deduction for business equipment becomes available to the owners.

To the government then, the horse is like a copy machine or any other kind of office equipment a more traditional business might own. That copy machine has a limited lifetime use. And businesses can deduct the costs over the Internal Revenue Service's proscribed life of the item.

For racehorses, a business owner can deduct the cost of the purchase over three years. The cost of buying other horses is spread over a longer period — seven years.

But a small-business program that President George W. Bush signed into law can speed those tax deductions up through 2005.

The law would allow a stable business to deduct up to 50 percent of the purchase during the first year.

King said the temporary program returns valuable dollars to owners' pockets more quickly.

Owners could also get tax breaks through pledging their land to a conservation easement program. The pledge means the land can't be developed in the future which reduces a property's sale value.

But the government pays the owner for the loss. And the donation can be claimed as a charitable contribution, according to King.

It's a one-time gimme, he said.

But the gimme could prove valuable.

One of King's clients who had no intention to sell his farm to townhouse developers made the pledge.

"He ended up with \$100,000 for not doing anything," King said.

The sum is far from what Bakka could deduct for the purchase of Rupert. But Bakka and his co-workers and family members who chipped in to buy the horse don't have such high expectations.

"We just hope it doesn't become a money pit. But we're hopeful with our planning it will work out," he said.

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