



Legislative Update

NEW DEPRECIATION SCHEDULE FOR HORSES

New rules, signed into law on March 9, 2002, allow a 30% bonus depreciation in the year of purchase and regular depreciation on the balance. To qualify for the new rules, these requirements must be met:

- The horse must be purchased during the three-year period from September 11, 2001, to September 11, 2004, and be placed in service during the period from September 11, 2001, to January 1, 2005.
- The original use of the horse must commence with the purchaser.

NOTE: The second requirement appears to exclude horses that have already been raced at time of purchase. It remains unclear whether a horse that has been raced but never bred would qualify if purchased for breeding. The NTRA is seeking clarification on this issue with its tax counsel in Washington, D.C., and will provide industry updates as they are available. It is, however, quite clear that an unraced horse, purchased for racing and placed into service as a racehorse, qualifies for the new bonus write-off.

Below are the old and new depreciation schedules, with the depreciation deduction expressed as a percentage of the horse's original cost:

Racehorses *Two Years Old or Younger* When Acquired and Placed in Service*

New Rules			Pre-Sept. 11 Rules		
Year	%	Cumulative %	Year	%	Cumulative %
1	37.5	37.5	1	10.7	10.7
2	13.4	50.9	2	19.1	29.8
3	10.5	61.4	3	15.0	44.8
4	8.6	70.0	4	12.3	57.1
5	8.6	78.6	5	12.3	69.4
6	8.6	87.2	6	12.3	81.7
7	8.5	95.7	7	12.2	93.9
8	4.3	100.0	8	6.1	100.0

Racehorses *Over Two Years of Age* When Acquired and Placed in Service*

New Rules			Pre-Sept. 11 Rules		
Year	%	Cumulative %	Year	%	Cumulative %
1	47.50	47.50	1	25.0	25.0
2	26.25	73.75	2	37.5	62.5
3	17.50	91.25	3	25.0	87.5
4	8.75	100.00	4	12.5	100.0

* A racehorse is more than two years old when the foaling date was more than 24 months prior.

The depreciation figures in the two charts above would be slightly lower if more than 40% of the cost of all purchases of depreciable property made during the year were made in the last quarter of the year.

NATIONAL THOROUGHBRED RACING ASSOCIATION

2525 Harrodsburg Road, P.O. Box 4230, Lexington, KY 40544
Tel: 859.223.5444 Fax: 859.223.3945 ntra.com

Advertising space courtesy of The Blood-Horse, Inc., a Champion Member of the NTRA