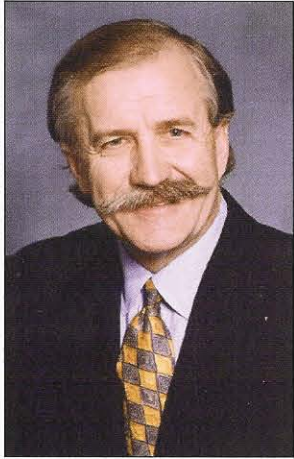


# horse expenses deductible?



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**C**LEARLY, IF YOU ARE IN A HORSE RELATED BUSINESS, YOU ARE ENTITLED TO deduct the reasonable expenses of operating your business. However, the Internal Revenue Service will sometimes question whether your horse activity is a business or whether it is really a hobby. If the horse activity is really a hobby, the expenses can still be deducted from any horse related income, but only to the extent of the income from the hobby. In other words, you cannot deduct any of the hobby expenses from other unrelated income, such as salary or investment income.

On the other hand, if it is shown that the horse activity is truly a business, there is no problem with applying losses against unrelated income. Obviously, the difference can be quite significant.

If your horse activities show a profit for at least two of seven consecutive years, there is a presumption of an intent to make profit. The IRS can rebut that presumption with evidence that demonstrates a lack of profit motive. If the IRS demonstrates that your horse activity is a hobby, it can recalculate your prior taxes and require payment of additional taxes, plus interest and penalties.

How does the IRS determine whether an activity is a hobby? It is not whether you made a profit or loss, but whether you intended to make a profit. However, the IRS applies an objective standard, taking into account all of the facts and circumstances of each case. In determining whether an activity is engaged in for profit, greater weight is given to objective facts than to the taxpayer's mere statement of his intent.

IRS regulations list nine factors to be considered in deciding whether an activity is a hobby or a business. The list is not exhaustive or exclusive and the weight to be given to any one factor will depend on the circumstances of each case.

1. The manner in which the taxpayer carries on the activity. The horse related activity should be operated in a businesslike manner. Personal and business finances should not be intermingled.

2. The expertise of the taxpayer or his advisers. It is important to show that you are not a complete novice in the horse related activity.

3. The time and effort expended by the taxpayer in carrying on the activity. Demonstrating that you devote a substantial amount of time to the horse related activity would be helpful. Or, if you don't, that you employ others that do.

4. The expectation that the assets used in the activity may appreciate in value. There should be a demonstrable and reasonable expectation that your income and appreciation of your assets will be profitable over time.

5. The success of the taxpayer in carrying on other similar or dissimilar activities. Demonstrating that you have a track record of operating other successful business ventures would be helpful.

6. The taxpayer's history of income or losses with respect to the activity. Although losses are not unusual during the initial years of a business activity, a record of profitable years would evidence a profit motive.

7. The amount of occasional profits. The amount of profits compared to the amount of losses may be indicative of the profit motive.

8. The financial status of the taxpayer. Many of the cases questioned by the IRS involve situations where the taxpayer has substantial income from non-horse activities.

9. The elements of personal pleasure or recreation involved in the activity. These elements may suggest a lack of a profit motive.

If you have any questions or concerns about your tax situation you should consult with an experienced and knowledgeable accountant or tax attorney.

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