



# Bonus Depreciation Update and FAQ for Horse Owners

**What is Bonus Depreciation?** The One Big Beautiful Bill Act that became law in July 2025 allowed the return of 100% bonus depreciation and made it permanent, starting with purchases made on January 20, 2025. This investment incentive permits taxpayers to write off the entire cost of qualifying assets in the year of purchase if the asset was also put into service. (For qualifying asset purchases made after January 1, 2025, and before January 20, 2025, a 40% bonus depreciation rate applies).

## What Qualifies for Bonus Depreciation?

- **Eligible Assets:** Horses purchased and predominantly used in the U.S. for business purposes (e.g., racing, breeding) are generally eligible.
- **Other Qualifying Assets:** Equipment and fencing used in farming and placed in service within the tax year may also qualify.

## What Does “Placed in Service” Mean?

- **Racing Prospects:** Typically placed in service by fall of their yearling year or when training starts.
- **Breeding Stock:** Considered in service when they are ready for or engaged in breeding activities.

## Benefits of 100% Bonus Depreciation

- **Tax Deduction:** Allows horse owners and businesses to deduct 100% of the asset cost from taxable income.
- **Cash Flow Advantages:** Provides significant first-year tax savings, aiding cash flow.
- **Encourages Investment:** Creates incentives for investing in the horse racing and breeding industry, potentially benefiting the economy and industry competitiveness.

## Example Calculation for a Racehorse Owner (when bonus depreciation is less than 100%)

Suppose a racehorse owner buys a yearling for \$100,000 and places it in service within the same tax year. Under the 40% bonus depreciation rule that was in place from January 1 through January 19, 2025, the owner can deduct \$40,000 in the first year and can spread the balance over 8 tax years:

- **First-Year Depreciation (if at 40%)**  $\$100,000 \times 40\% = \$40,000$
- **Remaining Depreciation (60%):** \$60,000 spread over 8 tax years, using IRS-defined percentages:

• Year 1: 14.29%	• Year 3: 17.49%	• Year 5: 8.93%	• Year 7: 8.93%
• Year 2: 24.49%	• Year 4: 12.49%	• Year 6: 8.92%	• Year 8: 4.46%

Under 100% bonus depreciation, **the entire \$100,000 can be deducted in the first year**, resulting in significant cash flow advantages for the racehorse owner. In the above example, that's a first-year deduction of \$60,000 more than what is permitted when bonus depreciation is at 40 percent.

For more in-depth questions, we recommend consulting with your preferred equine tax expert.

