



# 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.

## What Qualifies for Bonus Depreciation?

**Eligible Assets:** Horses purchased and predominately used in the U. S. for business purposes (e.g., racing, breeding) are generally eligible.

## What does “Placed in Service” Mean?

**Racing Prospects:** Typically placed in service by fall of their yearling year or when training starts.

## 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 saving, aiding cash flow.
- **Encourages Investment:** Creates incentives for investing in horse racing and breeding industries, 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 them in service within the same tax year. Under the prior 40% depreciation rule, the owner could deduct \$40,000 in the first year and spread the balance out over 8 tax years.

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

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

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

