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SIXTH DISTRICT, KENTUCKY

COMMITTEE ON FINANCIAL SERVICES

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Chairman Dave Camp
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Camp,

Thank you for the time and considerations you have afforded me during the 113th Congress as it pertains to tax provisions important to my constituents and the signature industries of central and eastern Kentucky. I truly appreciate your willingness to meet with me personally to discuss these provisions, as well as your leadership as Chairman of the Ways and Means Committee.

As the 113th Congress draws to a close, the House may consider legislation to extend, both permanently and temporarily, certain tax provisions critical to our constituents and to overall economic growth. Among the provisions expected to be considered are an extension and increased limit for Section 179 expensing, extending bonus depreciation, and other measures which have all passed the House with strong bipartisan support.

As the Representative for the Horse Capital of the World, I would like to once again draw your attention to a provision that is of the utmost importance to the constituents of Kentucky's Sixth District, maintaining the three-year depreciation schedule for racehorses. As it stands now, the existing provision allowing for all racehorses to be depreciated over a three-year schedule is set to expire at the end of the 2014 calendar year. Without an extension, equine assets would once again be subject to a seven-year depreciation schedule if they begin training prior to turning two-years of age. Should the three-year schedule not be extended, or made permanent, the horse industry, and the 1.4 million direct and indirect jobs supporting the industry will be directly threatened. Unfortunately, a seven-year depreciation schedule – and the accompanying "placed in service" condition – does not accurately reflect the realities of modern training and racing practices.

Maintaining the current three-year schedule is vital for a number of reasons. As you well know, the purpose of depreciation is to allow the owner of an asset to recover the cost of capital over the course of the "useful life" of the asset. When defining the "useful life" of equine assets, it is important to highlight a few key statistics. Nearly one-third of all foal crops, which consists of all colts and fillies born in one foaling season, never make it to the races. Without a racing career and a proven record as a racehorse, the value of an equine asset sharply decreases, and only mares that transition to broodmares maintain any substantial economic value. Further, when aggregating data on the average racing career of racehorses, statistics indicate that nearly three-quarters of racehorses race for four years or less. As someone who has followed horseracing personally for many years, I can personally attest to the rarity of coming across a racehorse older than five years of age.

Second, under modern training practices, horse trainers frequently place racehorses into service, or begin their training, nearing the end of the yearling year between 18 and 20 months. This practice places each of these young colts and fillies into the seven-year depreciation category, rather than the preferred three-year schedule. Clearly, a reversion to the seven-year depreciation schedule – and accompanying "placed in service" condition – would not be an accurate reflection of the typical career of a racehorse nor would it mirror the useful life of the asset.

I have been encouraged by my conversations with both you and your staff regarding this issue, and especially the inclusion of a three-year depreciation schedule for all racehorses within your draft tax reform proposal released in February 2014. Given the horse industry's considerable economic impact and the large number of other agriculture industries that rely on it for the survival of their business, this provision has a significant jobs impact across the country.

Additionally, I want to highlight that the three-year depreciation schedule for racehorses was included in tax extender legislation introduced by Finance Committee Chairman Ron Wyden in April 2014. Section 121 of the bipartisan EXPIRE Act extends the classification of racehorses as three-year property for yet another year. While a permanent change to the tax code is preferable, I am nonetheless pleased with its consideration and ultimately its inclusion in the current Senate proposal.

As the House, and importantly the House Ways and Means Committee, continues to debate the merits and significance of targeted tax relief extensions, I ask that you give the three-year depreciation schedule every consideration as a critical component of the larger legislative package. Investing in racehorses exposes individuals to significant financial risk and a short window of opportunity to obtain a return on investment. If we are to preserve and protect this $26.1 billion industry and all of its great tradition, I believe extending the three-year depreciation schedule remains a necessity for maintaining investment and sustained interest in the horse industry.

I sincerely appreciate your attention to this matter. Please do not hesitate to contact me or Eric Bunning on my staff at eric.bunning@mail.house.gov should you or your staff require additional information about this critical provision or the legislation I introduced, H.R. 2212, the Race Horse Cost Recovery Act, to codify this change into law.

Sincerely,

Andy Barr

Andy Barr
Member of Congress