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UNITED STATES
HOUSE OF REPRESENTATIVES

May 28, 2013

Via Hand Delivery

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

Chairman Frank Lucas
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

Dear Chairman Camp & Chairman Lucas:

Thank you both for taking the time to discuss with me on the House floor recently the three-year depreciation schedule for race horses that is set to expire with the 2008 Farm Bill, as well as the capital gains holding period for equine assets.

The United States' horse industry contributes $112 billion annually to our nation's economy and provides over 1.4 million full-time direct and indirect jobs to Americans. Over $101 billion of this revenue, and nearly 27 percent of these jobs, are directly attributed to horse racing. Other job creators that rely on the horse industry for business work in the hay, corn and grains, horse transportation, fencing, and other agriculture-related industries.

Prior to 2008, the U.S. tax code subjected all race horses to a seven-year tax depreciation schedule. Section 15344 of the 2008 Farm Bill altered this tax provision, allowing <u>all race horses</u> to be depreciated on a three-year schedule. Unfortunately, Section 15344 also specified that, beginning January 1, 2014, these conditions will change and <u>only race horses "placed in service" (beginning training) after the age of two will be eligible for the three-year depreciation schedule.</u>

Unfortunately, these looming changes do not reflect the realities of the horse racing industry. Many race horses begin training before the age of two as one year-olds. Moreover, the average racing career of race horses is three years. For instance, only three year-old race horses are eligible to run in the Kentucky Derby, the most preeminent and coveted race in the industry. Despite these realities, starting next year, many of our nation's race horses will be subjected to a seven-year depreciation schedule— a depreciation schedule that is double the length of the average racing career.

As you both know, depreciation allows a taxpayer to recover the cost of property, including race horses. The depreciation of race horses is generally conducted through deductions of portions of a horse's cost over a period of years. This "recovery period" approximates the estimated utility or economic life of the property. As previously stated, the average career, and the average economic life, of race horses is roughly three years. Therefore, the incoming 2014 changes clearly will not allow for an accurate recovery of costs that reflect the true economic life and utility of race horses.

Given the equine industry's considerable economic impact and the large number of other agriculture industries that rely on it for the survival of their business, I have introduced H.R. 2212, the Race Horse Cost Recovery Act, which would make permanent the three-year depreciation schedule for all race horses. A permanent, three-year depreciation schedule for race horses will allow all horse owners to more accurately recover costs over the period that their horses will actually race.

I would also like to highlight another legislative priority, H.R. 998, the Equine Tax Parity Act. Specifically, this legislation lowers the capital gains holding period on equine sales from 24 months to 12 months, so that sellers may use the capital gains tax rate as opposed to the ordinary income tax rate, which can be as high as 36.9 percent. As you both know, the vast majority of other capital asset sales—including the sale of real property, stocks and antiques—utilize a 12 month holding period to qualify for capital gains tax treatment. My bill brings parity to the tax code for horse owners and facilitates investment and jobs in the industry.

As you move forward with comprehensive tax reform and the Farm Bill I strongly encourage you both to support H.R. 2212, the Race Horse Cost Recovery Act, and H.R. 998, the Equine Tax Parity Act, and consider an appropriate legislative vehicle in which you can include these two important tax changes. Both H.R. 2212 and H.R. 998 are supported by the American Horse Council (AHC), the National Thoroughbred Racing Association (NTRA), the Kentucky Thoroughbred Association (KTA) and the Thoroughbred Owners and Breeders Association (TOBA).

My staff has been in contact with staff of both of your committees over the past two weeks. It is my understanding they will be meeting in the coming weeks to discuss these two tax measures.

I look forward to working with you both on these measures that are critical to Kentucky's signature industry. Please do not hesitate to contact Tate Bennett on my staff at tate.bennett@mail.house.gov or at (202) 225-4706 if either of you wish to receive any additional information.

Sincerely,

Andy Barr
Member of Congress

cc: Ms. Jennifer Safavian, Staff Director, House Ways and Means Committee
cc: Ms. Nicole Scott, Staff Director, House Committee on Agriculture