

Key Tax Provisions for Equine Industry Participants Included in the New Legislation



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As promised, President Trump signed the One Big Beautiful Bill Act (OBBBA) on July 4th. It has been an interesting few weeks tracking proposed changes in both the House and Senate and providing feedback to clients and industry groups on how these proposals may impact horse and farm owners. It was also nice to see teamwork in action to successfully address some of the primary concerns raised during this process, and we now have clarity which should allow ample time for effective tax planning in 2025.

This article highlights the key tax provisions that may specifically impact horse and farm owners versus addressing general tax changes that may apply to a broader group.

Depreciation Updates:

One of the biggest tax enhancements included in the OBBBA is permanent 100% bonus depreciation. Industry groups, particularly the NTRA, have advocated for this enhanced 100% bonus amount to be made permanent. Before the OBBBA, the 2025 bonus depreciation percentage was 40%. The increased 100% applies to qualified property purchased and placed in service (i.e., available for its intended use) after January 19th, 2025. Qualifying property, which must be used predominantly in the United States, includes equipment, fencing, land improvements, barns, and most horse purchases (with some exceptions). Bonus depreciation may be used to create or increase a tax loss, is not limited to a specific dollar amount annually, and is not prorated based on the purchase date, so it is typically the most valuable tax depreciation incentive available to industry participants.

In addition to enhanced bonus depreciation, Section 179 expensing was increased to an annual amount of \$2.5M (up from \$1M) on up to \$4M (up from \$2.5M) of qualifying purchases, effective for taxable years beginning after December 31, 2024. These thresholds are adjusted annually for inflation. Section 179 expensing is limited to taxable income and begins to phase out once qualifying purchases exceed \$4M, so is often less valuable to horse and farm owners than bonus depreciation.

General Business Tax Updates:

For those who fund business operations with debt, there is an annual limitation on how much business interest is deductible, unless you elect out of bonus depreciation. This limitation, initially included with the Tax Cuts and Jobs Act passed in late 2017, is 30% of a defined income amount. Any excess is carried forward indefinitely until you are under the annual threshold. Initially, depreciation was added back when determining the income amount, which helped to

increase this annual interest limitation. However, since 2022, depreciation is subtracted, reducing the amount of interest expense which may be claimed. The OBBBA restores the more beneficial calculation to add back depreciation, thereby allowing business owners to not be penalized for the increased tax depreciation claimed while incurring interest expense to fund operations. This provision in the OBBBA applies to taxable years beginning after December 31, 2024.

The qualified business income (QBI) deduction, generally 20% of the business income generated via sole proprietorships, partnerships, or S corporations, including LLCs taxed as flow-through entities, is now permanent (it previously was scheduled to expire at the end of 2025).

The excess business loss (EBL) limitation applies to individual, trust, and estate business owners (including the related pass-through entities) and caps the total annual business loss, both equine, and non-equine, at \$250k (\$500k if married), adjusted annually for inflation. Before the OBBBA, the 2025 limitation was \$313k (\$626k if married) and the EBL limitation was effective through the 2028 calendar year. Any excess business loss above the annual limitation carries over as a net operating loss, eligible to offset up to 80% of taxable income (business and non-business) in future years. The OBBBA makes this EBL limitation permanent and will slightly reduce the amount of annual business loss limitation due to updating the inflation start period from 2017 to 2024. However, earlier drafts in the House and Senate included a much more restrictive provision where the excess business loss was separated and would only be allowable to the extent of future business income, potentially permanently eliminating the ability to deduct these losses. Maintaining the EBL carryover as a net operating loss carryover is hugely important to many industry participants.

Personal Tax Loss Updates:

The January 2025 wildfires impacted many industry participants who reside in California, and specific counties in California were declared both Federal and state disaster areas in early 2025. A casualty loss may be claimed for the loss of personal-use property (such as homes) due to an unexpected event like a fire, but before the OBBBA, the casualty loss of 2025 Federal disaster areas was subject to a 10% of adjusted gross income (AGI) floor before being deductible. The 10% floor does not apply to certain casualty losses meeting the definition of a “qualified disaster loss.” The OBBBA expands the definition of a “qualified disaster loss” to additional Federally declared disasters, including the January 2025 California wildfires. Taxpayers can claim a casualty loss deduction for qualified disaster losses in the current year or may elect to claim the loss in the preceding tax year.

Reporting Updates:

For those who are required to issue those pesky Forms 1099 to applicable vendors on an annual basis, the OBBBA provides some reprieve by increasing the minimum reporting thresholds from \$600 to \$2,000. It also adds an inflation adjustment for calendar years after 2026 which will increase this minimum reporting amount going forward and would also apply to back-up withholding. These updates apply to payments made after December 31, 2025. Not all of the changes are positive, but for most industry participants, it seems the good outweighs the bad.

Limitations Included:

Hobby is a dirty word for income tax purposes – a heads-I-win, tails-you-lose proposition for the government. Before 2018, expenses incurred in a hobby endeavor could be deducted as a miscellaneous itemized deduction, but only to the extent of revenue generated by the hobby activity. Beginning in 2018, these hobby expenses were no longer deductible through 2025, and the OBBBA has now made these permanently non-deductible.

The deduction for wagering losses incurred is limited to 90% of these losses and is only allowable to the extent of gains from wagering transactions. Previously, the only limitation was that wagering losses were allowable to the extent of wagering gains. This update applies to tax years beginning after December 31, 2025.

From purely an income tax perspective, the OBBBA provides enhanced tax incentives to industry participants with some minimal reductions in tax benefits that will hopefully continue to spur growth for horse and farm owners.

If you have questions about how these potential changes could impact you and your business, please [contact your Dean Dorton advisor](#).

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