When Horse Deals Lead to Tax Bills: Understanding Sales and Use Tax Risks

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The equine industry includes a wide range of activities—breeding, training, racing, boarding, and sales—which can create unexpected sales and use tax obligations. With more than 10,000 taxing jurisdictions across the U.S., and rules that vary widely by state and locality, understanding these requirements is critical for compliance.

Sales and Use Tax Basics

Sales tax applies to the sale of taxable goods or services and is typically collected by the seller. Use tax applies when sales tax is not paid at the time of purchase and is generally the buyer's responsibility. Horses are considered tangible personal property, meaning their sale is usually taxable unless a specific exemption applies. Increasingly, states are also taxing services, adding further complexity.

Private Sales

Private horse sales are not automatically exempt. Sellers may be required to collect sales tax unless an "occasional sale" exemption applies, which is often narrowly applied and varies by state. If sales tax is not collected, the buyer may owe use tax. Taxability generally depends on where the horse is delivered or the buyer takes possession.

Interstate Activity and Nexus

Equine activities frequently cross state lines, which can create "nexus" (a taxable connection) and trigger tax obligations. Nexus may arise from physical presence—such as attending shows, racing, or boarding horses in another state—or from exceeding economic thresholds (commonly $100,000 in sales). Once nexus is established, sellers may be required to collect and remit sales tax in that state.

Breeding, Boarding, and Services

Breeding and service-related income can be treated differently depending on the state. Stud fees, stallion seasons, boarding, and training services may all be taxable in certain jurisdictions. Additionally, bundling taxable and non-taxable services may negatively impact the taxability of the entire transaction.

In the Real World

How do sales and use taxes come into play in real world equine transactions? Let’s review a couple of examples.

Suppose a horse owner in Kentucky sells a Thoroughbred yearling to a Kentucky resident in a private sale. If the seller has sold at least two other horses in private sales during the past twelve months, the seller is required to collect Kentucky sales tax. However, a slight change in the facts can change the outcome. What if the buyer is a California resident? In that case, the sale fits within Kentucky’s exemption for the sale of a horse less than two years old to a nonresident of Kentucky.

Several factors can affect whether a private sale is subject to sales or use tax. These include the state where the horse is delivered, how the horse will be used (for racing, showing, or breeding), and whether the seller has engaged in other equine transactions throughout the year. Sales of shares in horses also may be taxable. For example, if a horse owner buys 100% of a racehorse and then sells 50% of the horse to another party in a separate transaction, the sale of the 50% interest could have tax implications.

What if, instead of selling a horse, the owner of a stallion regularly sells stallion seasons that grant mare owners the right to breed their mare to his stallion? If the breeding takes place in Kentucky, the sale of the stallion seasons is taxable. The answer may be different in other states.

As these examples illustrate, sales and use taxes are highly fact-specific, and the rules differ greatly depending on the state and locality. Because equine transactions often come with a high price tag, noncompliance can be costly, leading to tax, interest, and penalties.

How We Can Help

Sales and use tax rules are complex—especially in a geographically diverse industry like equine. Dean Dorton’s SALT professionals help clients identify risks, maintain compliance, and plan proactively through:

- Sales and use tax analysis
- Multistate nexus studies
- Structuring transactions and breeding arrangements, accordingly
- Guidance on exemptions and documentation

With the right planning, equine businesses can minimize exposure and avoid costly surprises.