DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

Thoroughbred Business Year in Review 2017

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Located in Kentucky, known for its world-class horse farms, racing, and sales, our firm has provided accounting, tax, and business consulting services to the horse industry for over 35 years. Our clients cover a broad spectrum of organizations involved in the horse industry, from small boarding farms to large multidepartmental farms involved in boarding, breeding, selling, and stallion management; from racing stables to a racetrack; from bloodstock agents to equine veterinary firms; and from industry associations to equine insurance agencies.

Not all of our clients are based in Kentucky; horse industry clients from other parts of the country and from outside the United States also gain comfort from having our industry specialists work with them.

As a firm, we endeavor to know the business of horses, not just accounting and tax rules relating to the industry. We accomplish this in a number of ways, including, most usefully, by working with our many clients in the industry on their business matters.

We perform a variety of services, many of which are listed on the next page, for our equine industry clients. And we welcome inquiries, whether from new participants in the industry who want assistance in properly structuring and administering their stables or farms or from longtime industry participants seeking to improve the performance and administration of their operations.

Members of our Equine Industry Group will be pleased to answer questions you may have regarding this publication. See the Equine Industry Group Leaders page for contact information.

The Thoroughbred Business Year in Review is published by Dean Dorton's Equine Industry Group. We hope you find the information we present regarding the Thoroughbred business to be interesting and helpful.

Dean Dorton also periodically conducts and reports results of surveys of horse farm metrics and practices, mainly centered on pay rates, employee benefits practices, and client billing rates and practices. Our team also co-authors the Equine Sales & Use Tax Review. Please visit deandorton.com/publications to view recent publications, or contact Shannon Abbott at 859-255-2341 or sabbott@deandorton.com if you would like to be placed on our list to receive these publications in the future.

Equine Industry Group Services

The unique attributes of the equine industry demand accounting services with the particular depth of experience and expertise that Dean Dorton delivers. When equine industry participants enlist Dean Dorton to provide services, they can be confident they are engaging a firm with in-depth industry experience and know-how. We are interested in our clients' businesses, know the industry, and can provide a wide range of valuable services designed to both optimize savings opportunities and avoid unanticipated problems. Among our team's services are:

Tax

- Developing strategies to use the optimum forms of organization
- Reducing exposure to the hobby loss rules
- Structuring transactions to avoid or minimize sales and use taxes
- Avoiding or managing the potential impact of the passive activity loss rules
- Using current and deferred trades of farms to avoid or postpone income taxes
- Developing policies to expense or capitalize costs which are in compliance with current tax regulations
- Using the involuntary conversion tax rules to defer income taxes on insurance recoveries related to horse and farm casualties
- Estate planning designed to use special-use valuation and family farm conservation incentives, family limited partnership strategies, and deferred tax payments
- Handling multistate tax issues
- Helping foreign owners and breeders to minimize exposure to U.S. income and estate taxes and comply with filing requirements
- Developing tax accounting systems to comply, where required, with rules requiring capitalization of preproductive period costs
- Representing clients with federal and state tax audits
- Taking advantage of unique tax depreciation rules

Accounting and Assurance

- Directly performing many accounting, payroll, and clerical functions for smaller enterprises
- Designing and implementing farm accounting and management information systems
- Performing audit, review, and compilation services on client financial statements
- Performing risk assessments and tailored internal audit functions
- Providing outsourced basic transaction processing, mid-level controller, and CFO services

Business Consulting

- Developing financial and business plans for farms, breeding operations, and racing stables
- Assessing farm accounting and financial management procedures and practices
- Providing litigation support and forensic accounting services
- Providing a wide range of technology solutions, e.g., complete managed services, network design and support, technology assessments, software consulting, accounting software solutions, and business application training.

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Executive Summary

Dollars spent at North American public auctions of Thoroughbreds in 2017 increased by 10% over 2016, breaking out of a stalled recovery from the sharp declines experienced in 2008-2010. Even with 2017's increase, dollars invested remained at levels well below those reached during the middle of the last decade. Average prices paid for racing prospects—yearlings, weanlings, and two-year-olds—which all declined in 2016, all increased in 2017, as did the average price of broodmares. *See pages 2-5.*

Amounts available to Thoroughbred breeders from yearling sales proceeds—after recovering stud fees, sales commissions, and mare and foal board costs—generally increased in 2017, following general declines in 2016. *See pages 6-8.*

The 2017 ratios of yearling and weanling sales prices to stud fees in relation to four-year averages and to 2016 varied by stud fee range. Some stallions which had stud fees in 2015 (the breeding year for 2017 yearling sales) in the $30,000-$49,999 range had gained significant values by 2017, e.g. CURLIN and INTO MISCHIEF. *See pages 9-10.*

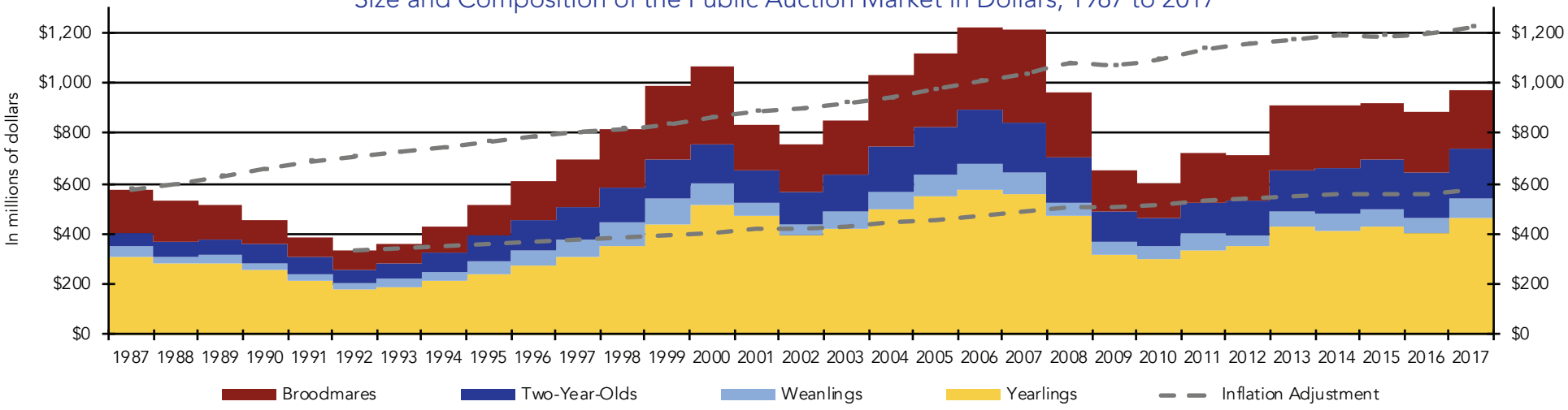
Thoroughbred breeders' main costs are those relating to their mare and stud fees. Except at the high end of the market, stud fees are stable to declining, but the cost of owning broodmares is increasing. Stronger yearling sales in 2017 are helping breeders' margins. *See pages 11-12.*

Average race purses per runner increased slightly again in 2017. Average starts have remained stable over the last 10 years after a long period of declines. *See pages 13-14.*

The economics of breeding and racing Thoroughbreds, though not where industry participants would want them to be, improved in 2017. For owners participating just in racing, average costs to purchase their racing prospects increased in 2017, while their opportunities for racing purses, based on averages, improved only marginally.

Graph I

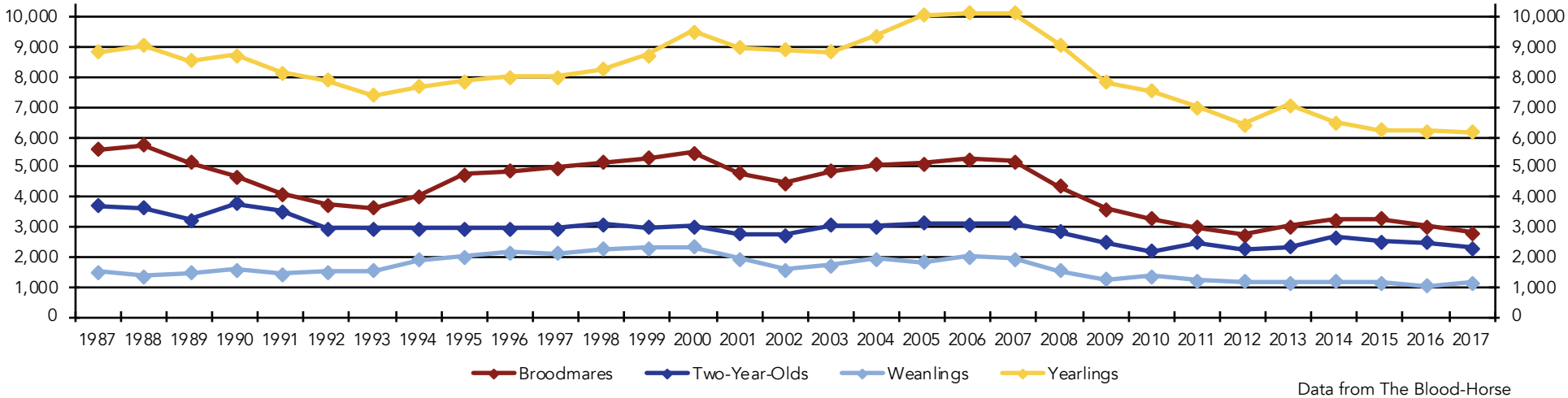
Size and Composition of the Public Auction Market in Dollars, 1987 to 2017



Data from The Blood-Horse

Graph II

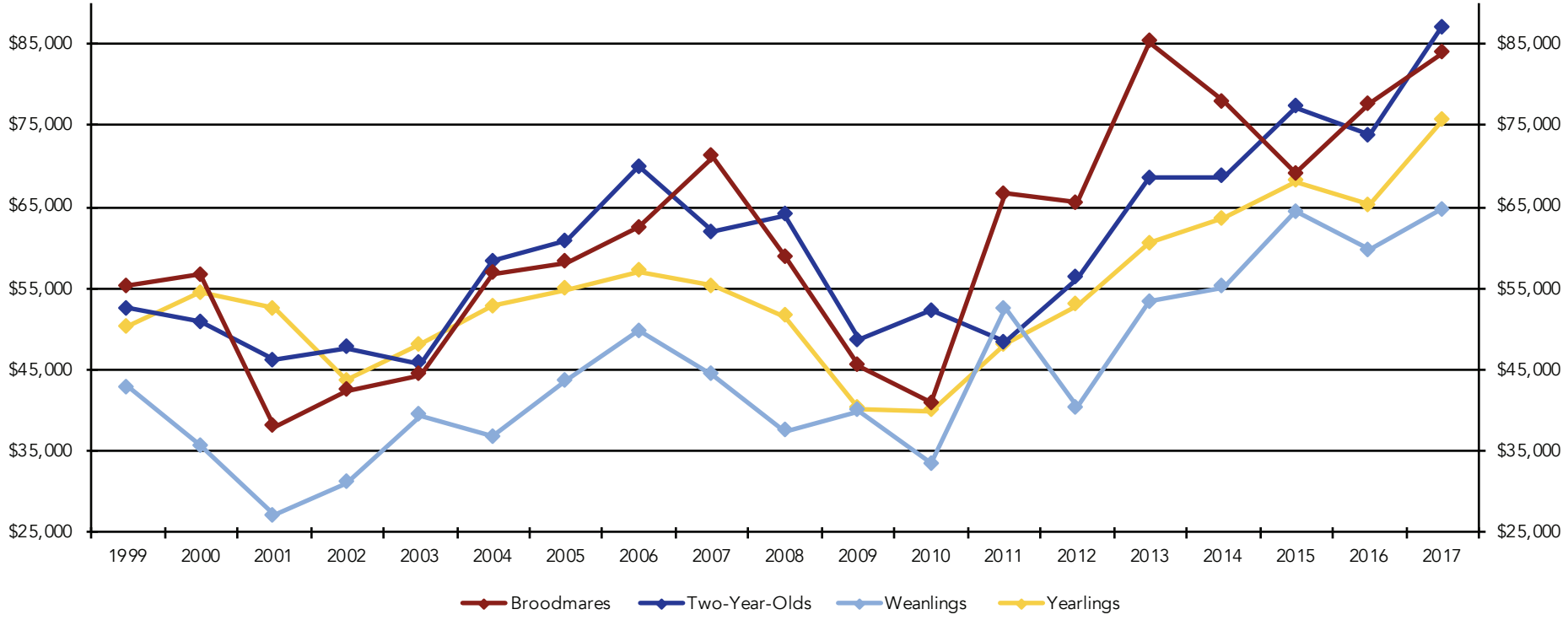
Number of Horses Sold at Public Auction by Type of Horse, 1987 to 2017



Data from The Blood-Horse

Graph III

Average Price at Public Auction by Type of Horse, 1999 to 2017



Commentary on Graphs I,II, and III

After the precipitous declines in the amounts spent at North American sales in 2008 and 2009 and a less severe decline in 2010, the Thoroughbred horse market recovered some ground in 2011 and 2012, followed by a significant increase in 2013 (27%). The market remained at about the same level in 2013-2016, then increased 10% in 2017, the largest increase since 2013, as shown on Graph I.

For 2017, Graph I shows an increase in total dollars invested from 2016 (10%), with results in the different categories as follows:

Broodmares	No change
Two-year-olds	+9%
Yearlings	+15%
Weanlings	+20%

From the peak of $1.226 billion in 2006, to 2017, dollars expended at public auctions dropped by 21%, to $974 million.

If we observe trends shown in Graph I over the full 31-year period shown, we see that:

- Dollars invested in Thoroughbreds at North American public auctions decreased steadily from 1987 to 1992 (post-1986 federal tax law impacts), then increased steadily and impressively from 1993 to 2000.
- The sharp drops in 2001 and 2002 (post-"dot.com bust" and September 11, 2001 terrorist attacks in the U.S.) were then followed by steady increases from 2003 through 2006.
- This growth leveled off in 2007 (down 1.2%), though dollars invested continued to surpass the $1.2 billion level.
- The declines of 20% in 2008 and 32% in 2009 (housing bubble burst and ensuing recession) were dramatic; 2010's decline was 9%.
- The 2011 increase (21%) was the first increase since 2006.
- After pausing at about the same level in 2012, 2013 results were up 27%
- Public auction dollars then remained steady through 2016, before increasing 10% in 2017.

On an inflation-adjusted basis, to be on par with the approximate $600 million level of public auction dollars in 1987 (the first year of our analysis), auction sales in 2017 would have to have been $1.226 billion. But, at $974 million, sales lagged well below. After adjusting for inflation, 2017's auction sales substantially exceeded the low point (1992) of this 31-year period.

Sales by category (in dollars) as a percentage of the total auction market are as follows in the last several years:

	2010	2011	2012	2013	2014	2015	2016	2017
Broodmares	22.6%	27.6%	26.0%	28.3%	27.8%	24.5%	26.6%	24.1%
Two-Year-Olds	19.2%	16.8%	18.4%	17.5%	20.0%	21.3%	20.8%	20.4%
Yearlings	50.7%	46.7%	48.7%	47.4%	45.0%	46.3%	45.7%	47.8%
Weanlings	7.5%	8.9%	6.9%	6.8%	7.2%	7.9%	6.9%	7.7%

Commentary on Graphs I,II, and III
(continued)

From its peak in 2006, the number of each type of Thoroughbred sold at public auction has dropped significantly through 2017 (Graph II):

Broodmares	-47%
Two-year-olds	-26%
Yearlings	-39%
Weanlings	-44%

For each category except weanlings, the change in number sold declined from 2016 to 2017. The number of yearlings sold in 2017 declined only 0.1% from 2016.

Five percent of the 2017 North American foal crop sold at 2017 public auctions as weanlings, and 27% of the 2016 North American foal crop sold at public auctions in 2017 as yearlings. The following shows the consistency of these numbers over the last eight years:

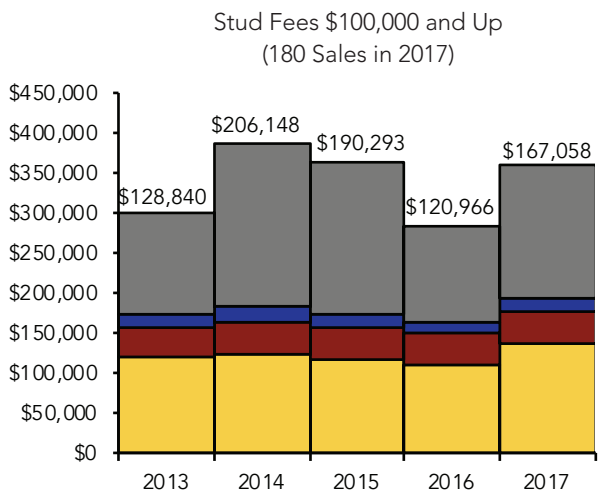
	2010	2011	2012	2013	2014	2015	2016	2017
Weanlings	5%	5%	5%	5%	5%	5%	5%	5%
Yearlings	24%	26%	25%	32%	28%	28%	28%	27%

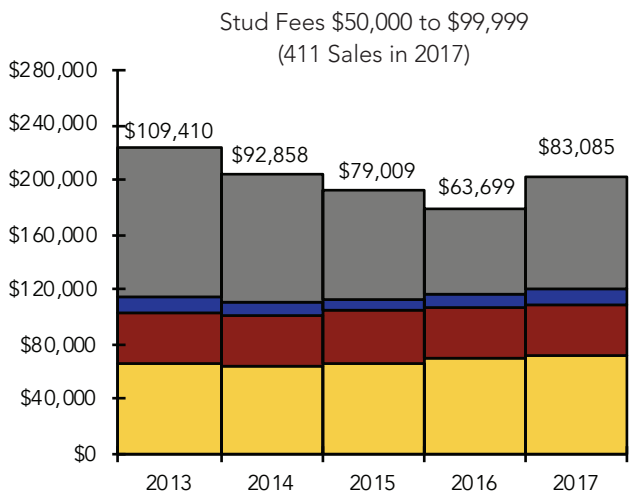
From Graph III, we can see substantial increases in average prices for each category in 2013, mixed results in 2014 through 2016, and substantial increases in each category in 2017:

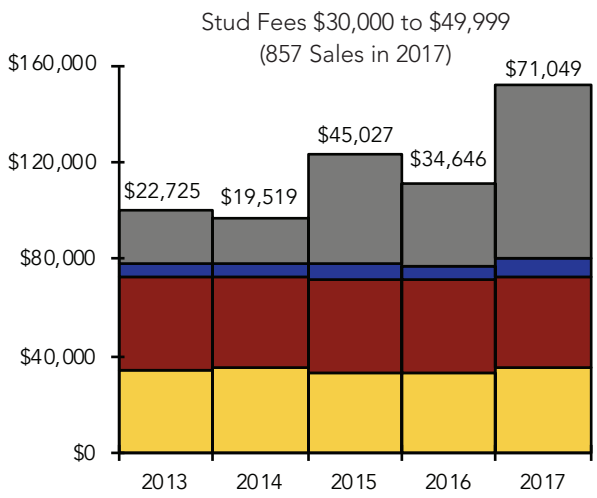
	2013	2014	2015	2016	2017
Broodmares	+30%	-9%	-11%	+12%	+8%
Two-year-olds	+22%	0%	+12%	-4%	+18%
Yearlings	+14%	+5%	+7%	-4%	+16%
Weanlings	+32%	+3%	+17%	-7%	+8%

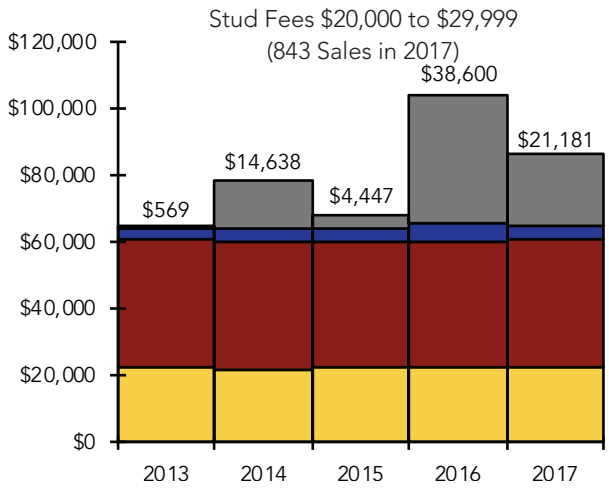
Graph IV

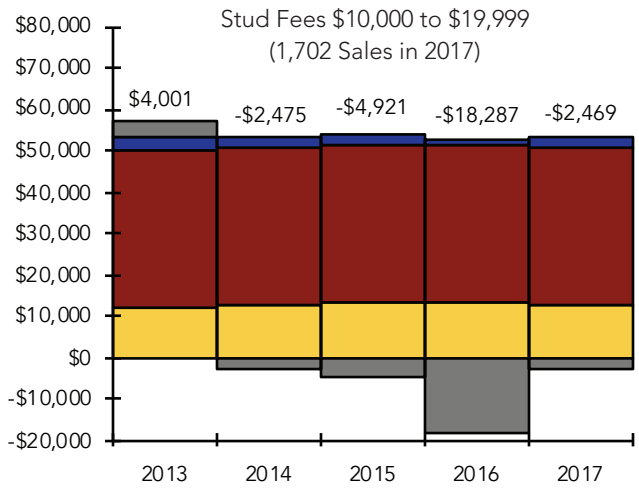
Breakdown of Sale Price of Yearlings into Cost Components
(Stud Fees, Sales Commissions, and Mare and Foal Board and Incidental Expenses)
Balance Available to Cover Cost of Mare and Profit
YEARLINGS — By Stud Fee Range, 2013 to 2017











Balance after other costs to cover cost of mare and profit

Sales commissions

Mare and foal board and other incidental expenses

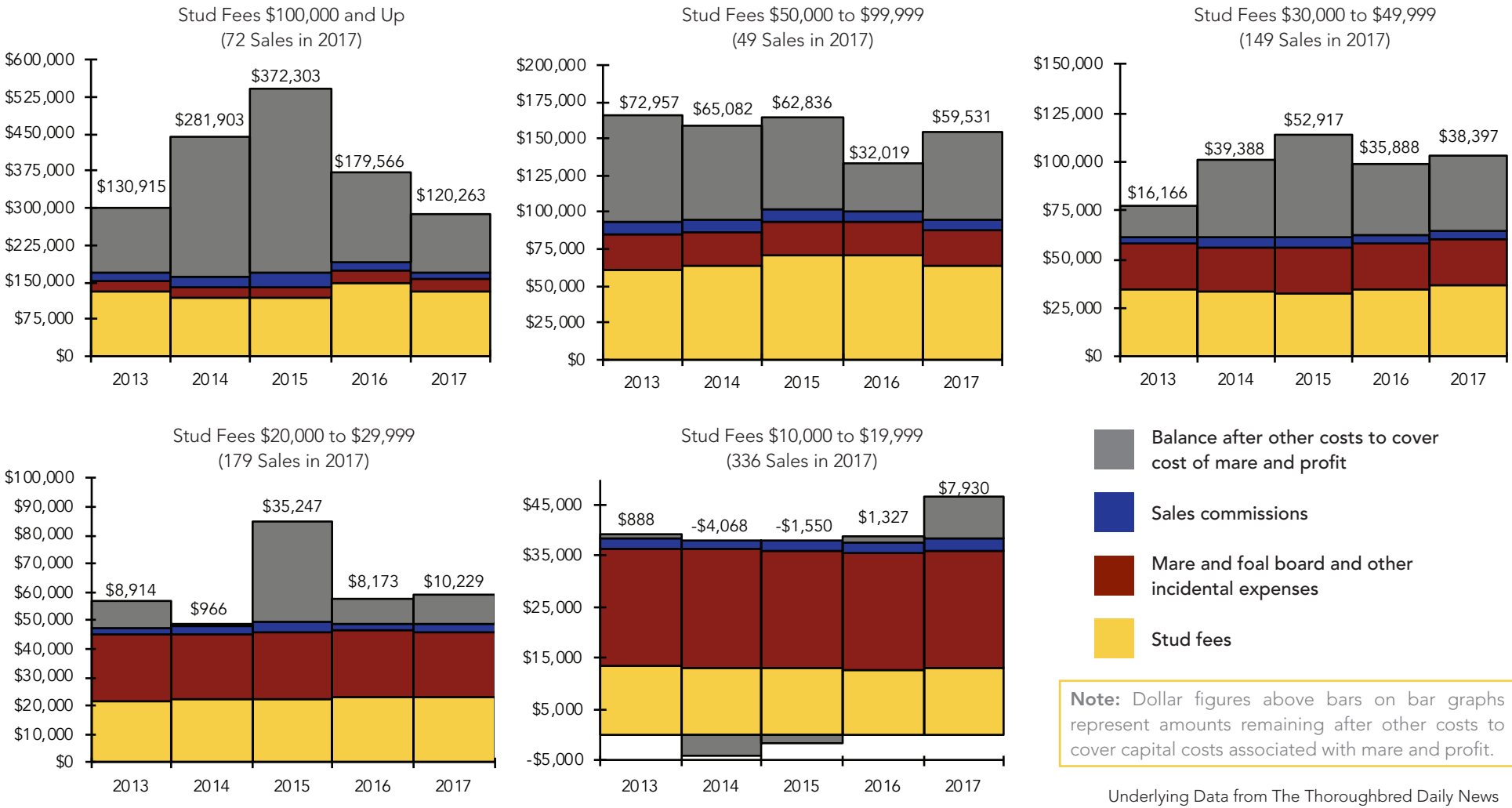
Stud fees

Note: Dollar figures above bars on bar graphs represent amounts remaining after other costs to cover capital costs associated with mare and profit.

Underlying Data from The Thoroughbred Daily News

Graph V

Breakdown of Sale Price of Weanlings into Cost Components
(Stud Fees, Sales Commissions, and Mare and Foal Board and Incidental Expenses)
Balance Available to Cover Cost of Mare and Profit
WEANLINGS — By Stud Fee Range, 2013 to 2017



Note: Dollar figures above bars on bar graphs represent amounts remaining after other costs to cover capital costs associated with mare and profit.

Underlying Data from The Thoroughbred Daily News

Commentary on Graphs IV and V

We have analyzed data which shows the relationship of North American yearling (Graph IV) and weanling (Graph V) sales results to stud fee costs over 2013 to 2017, segmented by stud fee ranges for the breeding year. These graphs show the portion of average sales price consumed by related stud fees, and add two other significant components of cost: a 5% sales commission and the estimated cost of boarding and caring for the mare for one year and her foal until assumed sale dates (November for weanlings and September for yearlings). For this latter cost, primarily board and veterinary care, we used $38,000 and $23,000 for yearlings and weanlings, respectively. We have not included sales tax on stud fees because not all states tax stud fees and because stallion owners who use their own seasons are not subject to this tax. The balance of average sales prices not consumed by the specific costs outlined above is available principally to cover the cost of using the mare for a year to produce the foal and, hopefully, to provide a profit to the breeder. Note that this analysis does not take into account costs associated with barren mares and lost foals. Further note, by using a cutoff of $10,000 stud fee for this analysis, our analysis does not cover the entire yearling and weanling markets.

For purposes of this analysis, we are treating as weanlings those yearlings that are sold in January following their foaling year.

The table below shows the dollar and percentage changes from 2016 to 2017 in the amount of selling price available to cover the cost of using the mare and to produce a profit, broken down by the stud fee ranges shown in the graphs.

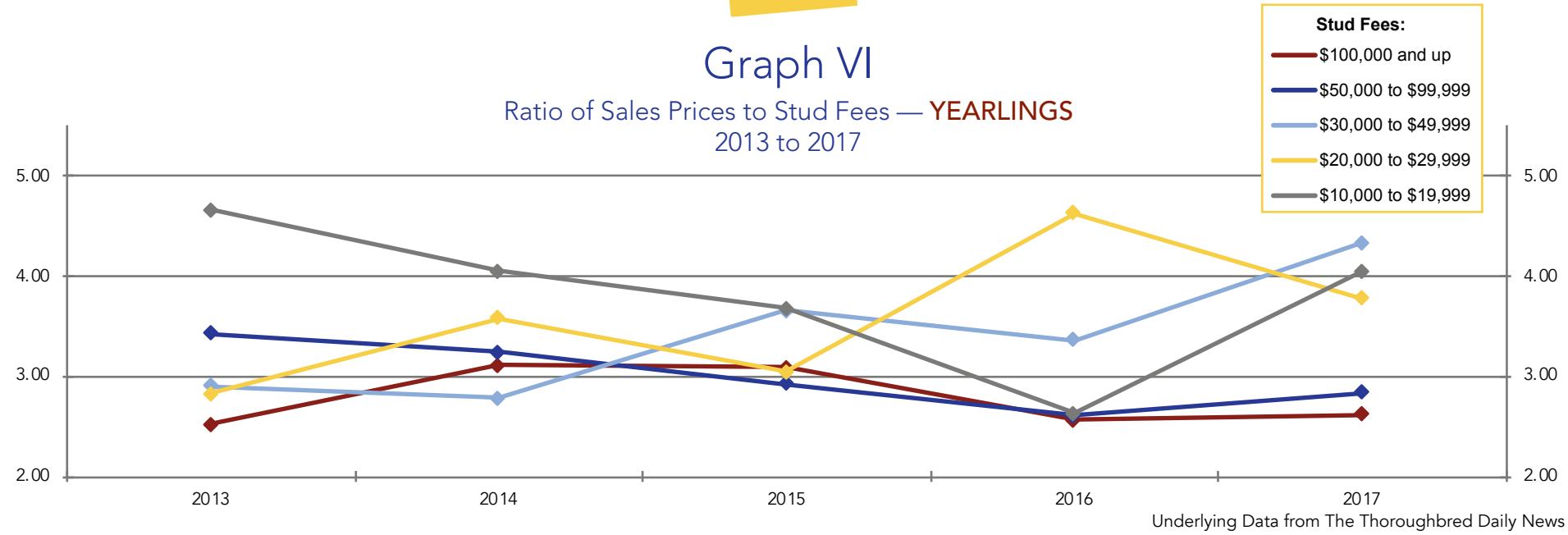
Changes from 2016 to 2017 in Selling Price Available for Mare Cost and Profit

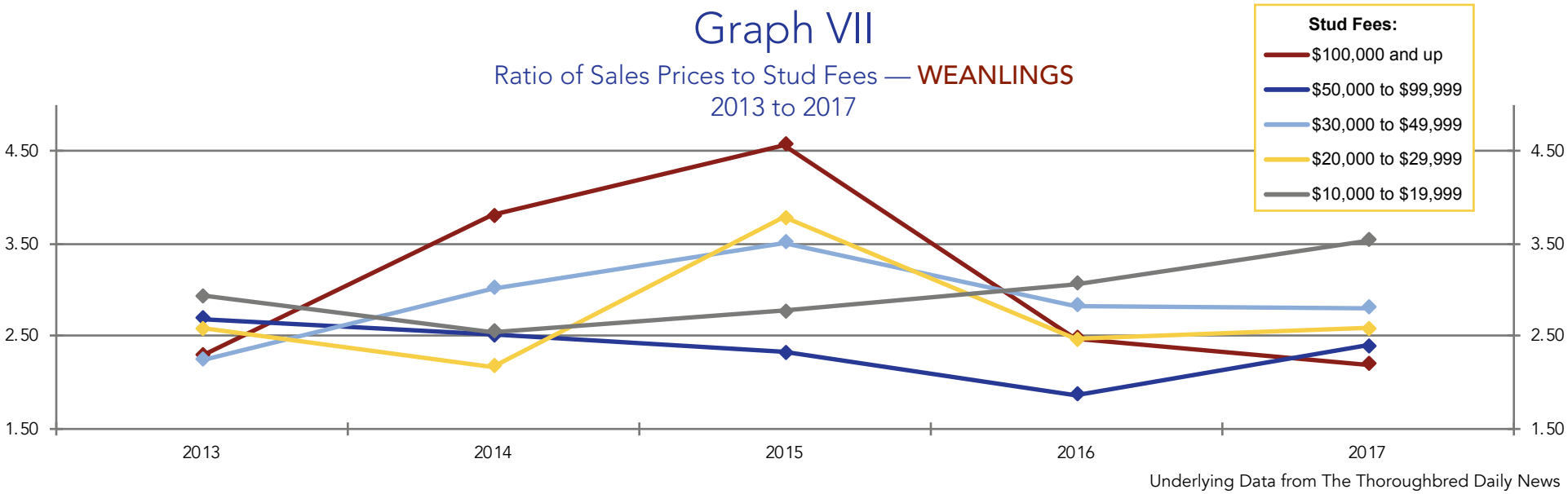
	Yearlings				Weanlings			
Stud Fee Range	**Increase <Decrease>**	**% Change**	**2017**	**2016**	**Increase <Decrease>**	**% Change**	**2017**	**2016**
$100,000 and up	$46,092	+38%	$167,058	$120,966	<$59,303>	-33%	$120,263	$179,566
$50,000 to $99,999	$19,386	+30%	$83,085	$63,699	$27,512	+86%	$59,531	$32,019
$30,000 to $49,999	$36,403	+105%	$71,049	$34,646	$2,509	+7%	$38,397	$35,888
$20,000 to $29,999	<$17,419>	-45%	$21,181	$38,600	$2,056	+25%	$10,229	$8,173
$10,000 to $19,999	$15,818	NM	-$2,469	-$18,287	$6,602	+497%	$7,930	$1,327

NM = not meaningful

In Graph IV (regarding yearlings), in what we loosely call "profitability," substantial increases occurred, except in the $20,000 to $29,999 stud fee range, which had an extraordinarily high increase the prior year.

In Graph V (regarding weanlings), contributions to mare cost recovery and profit margin increased in 2017 in relation to 2016 in each stud fee range shown, except for weanlings out of mares bred to the most expensive stallions, those whose breeding fees were in the $100,000 or higher range.


Graph VI
Ratio of Sales Prices to Stud Fees — YEARLINGS
2013 to 2017
Stud Fees:
$100,000 and up
$50,000 to $99,999
$30,000 to $49,999
$20,000 to $29,999
$10,000 to $19,999
5.00
4.00
3.00
2.00
2013
2014
2015
2016
2017
Underlying Data from The Thoroughbred Daily News


Graph VII
Ratio of Sales Prices to Stud Fees — WEANLINGS
2013 to 2017
Stud Fees:
$100,000 and up
$50,000 to $99,999
$30,000 to $49,999
$20,000 to $29,999
$10,000 to $19,999
4.50
3.50
2.50
1.50
2013
2014
2015
2016
2017
Underlying Data from The Thoroughbred Daily News

Commentary on Graphs VI and VII

Considerable published data is available to breeders on stud fee multiples (sales price of yearling or weanling as a ratio of related stud fees) on a stallion-by-stallion basis. We have taken the data that groups stallions by stud fee ranges and looked in Graphs VI and VII at trends over time and relationships among different stud fee ranges. In doing this analysis, the stud fees are from the breeding year, not the sales year. The sales data again includes January yearling sales as if these young yearlings were weanlings.

The following table shows stud fee multiples for **yearlings** sold in 2014 through 2017, by stud fee range:

Stud Fee	2014	2015	2016	2017	4-year average
$100,000 and up	3.1	3.1	2.6	2.6	2.9
$50,000 to $99,999	3.2	2.9	2.6	2.8	2.9
$30,000 to $49,999	2.8	3.7	3.4	4.3	3.6
$20,000 to $29,999	3.6	3.0	4.6	3.8	3.8
$10,000 to $19,999	4.0	3.7	2.6	4.0	3.6

2017 multiples generally aligned with the four-year averages, except the multiple for stallions with stud fees in the $30,000 to $49,999 range substantially exceeded the four-year average.

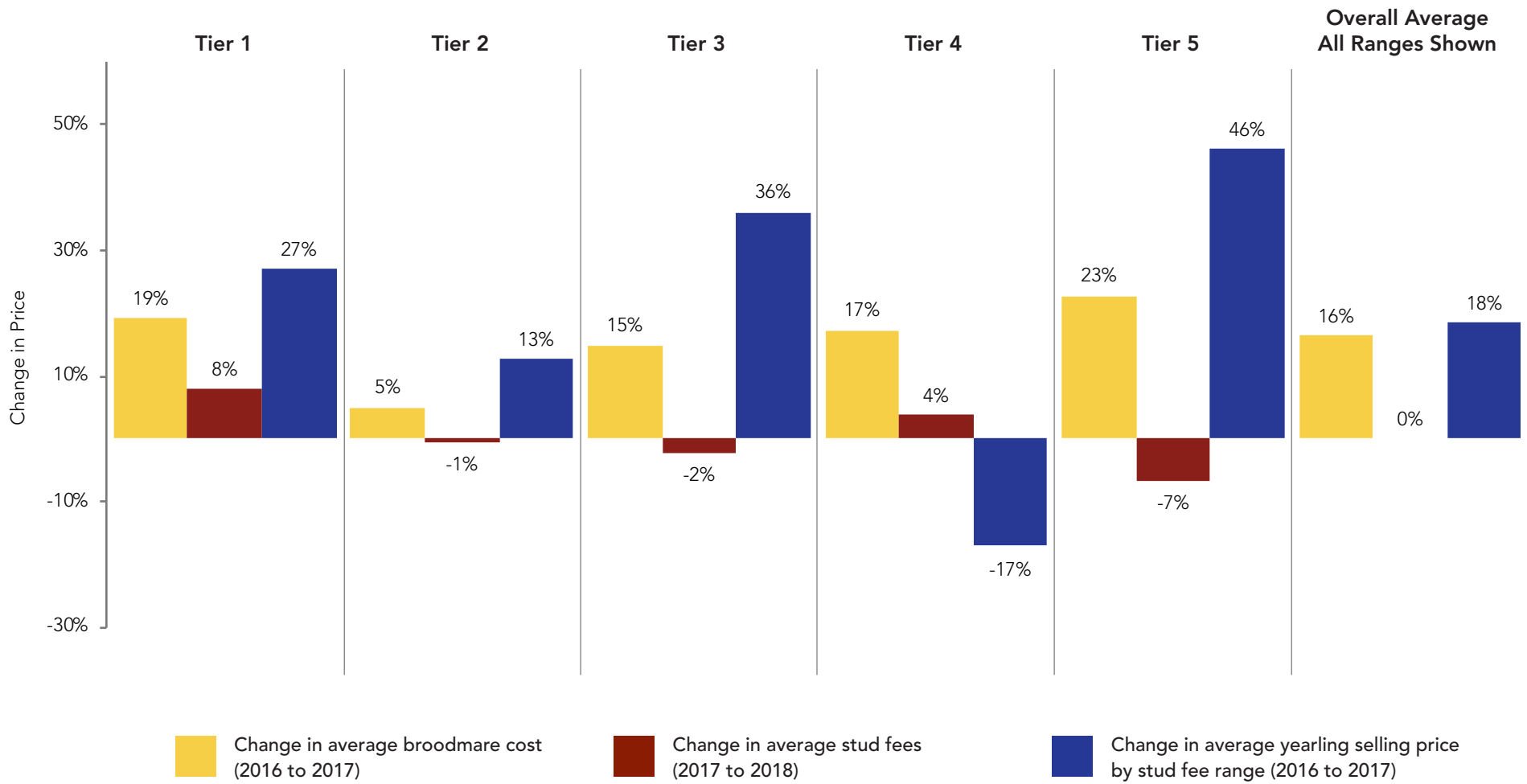
The table below shows stud fee multiples for **weanlings** sold in 2014 through 2017, by stud fee range:

Stud Fee	2014	2015	2016	2017	4-year average
$100,000 and up	3.8	4.6	2.5	2.2	3.3
$50,000 to $99,999	2.5	2.3	1.9	2.4	2.3
$30,000 to $49,999	3.0	3.5	2.8	2.8	3.0
$20,000 to $29,999	2.2	3.8	2.5	2.6	2.8
$10,000 to $19,999	2.6	2.8	3.1	3.5	3.0

The 2017 multiple was materially below the four-year average multiple for the highest stud fee range. Contrasting this result, the 2017 multiple for our lowest stud fee range substantially exceeded the four-year average.

Graph VIII

Changes in Production Costs and Yearling Selling Prices for Breeders by Stud Fee and Mare Cost Ranges



Data from The Blood-Horse, Keeneland, Fasig-Tipton, and The Thoroughbred Daily News

Commentary on Graph VIII

In Graph VIII, we provide insight into a critical question for breeders:
Are your production costs increasing at a higher or lower rate than the prices you're receiving for your products?

For costs of production, we focus on the two major elements: broodmare costs — based on public auction prices — and stud fees. For sales prices of breeders' products, we examine auction prices of yearlings (excluding January sale yearlings, which are more like the prior year November weanling sales than the September yearling sales).

The analysis is based on current production costs and current sales prices and does not attempt to correlate sales prices with the costs of producing these foal crops. In other words, we are focusing on current costs (replacement costs) and current sales prices.

Specifically, we are measuring changes in stud fees by the change in published stud fees by stallion from 2017 to 2018. For broodmares, we are measuring the change in this cost by reference to changes in average auction prices from 2016 to 2017. Similarly, the change in sales price of yearlings is measured by reference to average auction prices from 2016 to 2017.

We recognize that by using published stud fees, we may not be capturing actual fee data as accurately as we would prefer, but we believe that our use of published fees year to year should reasonably capture annual price-level changes.

We segment our analysis into five tiers:

Tier	Stallion cost — stud fees of:	Mare cost — prices for reported 2017 sales at public auction:	Sales prices — yearlings sold at public auction and produced from stallions with these fees (in the breeding year):
1	$100,000 +	Top decile	$100,000 +
2	$50,000-99,999	2nd decile	$50,000-99,999
3	$30,000-49,999	3rd decile	$30,000-49,999
4	$20,000-29,999	4th decile	$20,000-29,999
5	$10,000-19,999	5th decile	$10,000-19,999

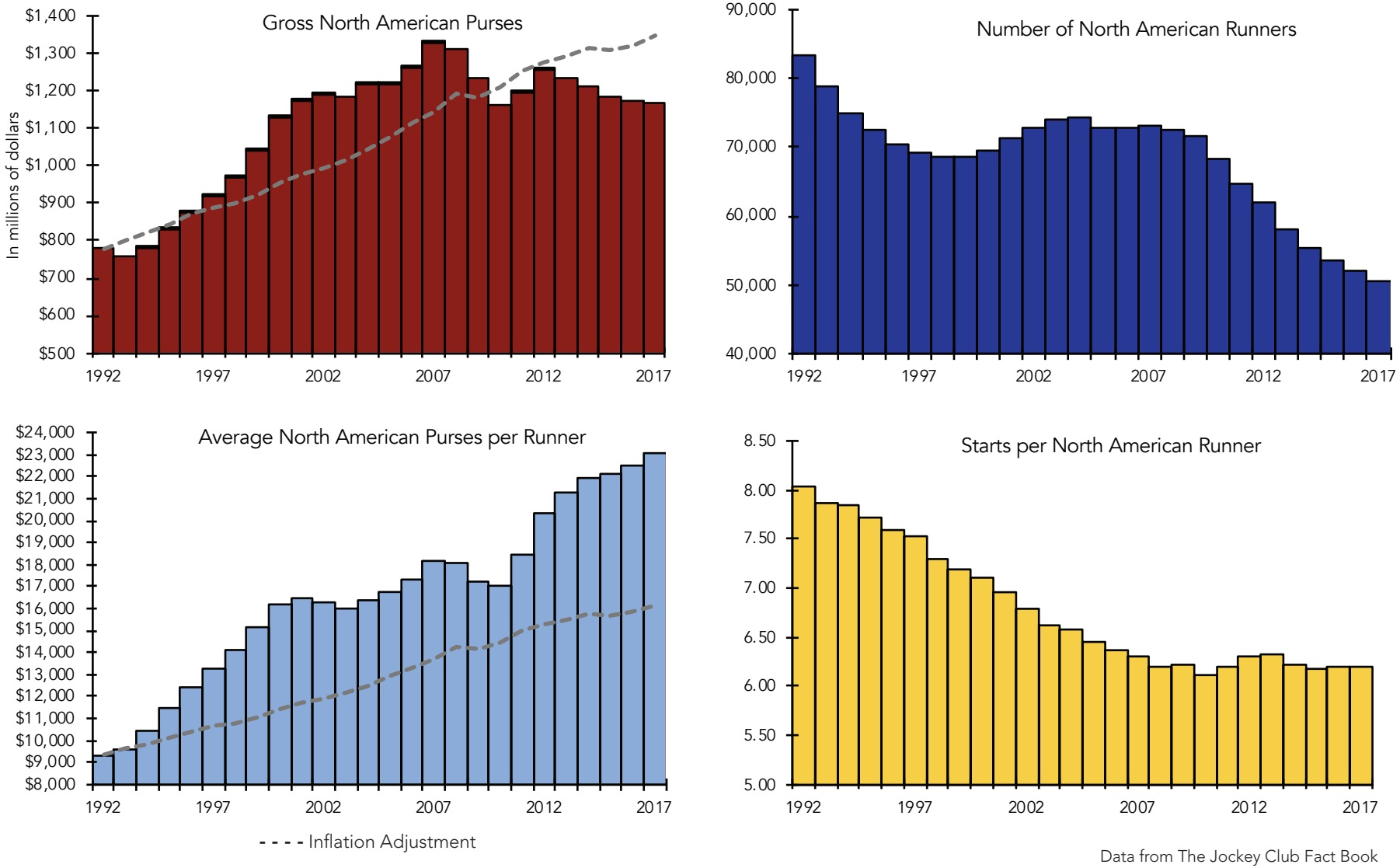
We also show the aggregate changing cost and price levels for all five tiers we analyzed.

Our analysis shows that capital costs associated with buying or retaining broodmares generally are increasing (16% overall for the market segments we analyzed), and stud fee costs are stable. Yearling prices, though, increased 18%. The overall trend is generally positive for breeders.

Graph IX

Racing Purses and Number of Horses Racing

1992 to 2017



Data from The Jockey Club Fact Book

Commentary on Graph IX

For the fifth consecutive year, gross purses declined in 2017, though the decline was slight (0.5%). Note the generally favorable upward trend from the early 1990s through 2007. None of the post-2007 amounts have reached the 2007 level.

The number of runners (number which started in at least one race in the year) was relatively stable from 2001 through 2008, but has declined steadily from 2009 through 2017, including a 2.8% decline from 2016 to 2017. From 1992 to 2017, the number of runners declined 39% (from 83,433 to 50,638).

From 1992 to 2007, average purses per runner increased 95%, from $9,300 to $18,200. But, in 2008 through 2010, the declines in gross purses and the smaller relative declines in number of runners resulted in a decline in average purses per runner of 6% from 2007 to 2010. However, with still fewer runners competing in 2011 and 2012 for more purse money, the 2011 average purse per runner increased to $18,500, followed by a 2012 increase to $20,300. Then, although gross purses decreased in 2013 through 2017, the relatively greater decreases in number of runners pushed the 2013 through 2017 average purses per runner to $21,200, $21,900, $22,200, $22,500, and $23,000, respectively.

Average purses per runner from 1992 to 2017 have increased 146%, much less than the 232% increase in the average cost of purchasing yearlings, the 305% increase in the average cost of purchasing weanlings, and the 358% increase in the cost of purchasing two-year-olds over the same period.

Starts per runner remained stable in 2017. Note the clear decreasing trend from the early 1990s. In 1992, the highest of the 25 years considered, average starts per runner were just over eight; in 2017, the average was 6.2. The number of starts per runner has stabilized over the last 10 years, staying within a range of 6.1 (2010) to 6.3 (2013).

For gross purses and average purses per runner, we show inflation lines starting with 1992, the earliest year we show. Gross purses for 2017 continue below the inflation-adjusted amount. Average purses per runner have exceeded the inflation-adjusted base throughout the period we show.

Qualified Business Income Deduction Under the Tax Cuts and Jobs Act

Thomson Reuters, a major resource provider for tax professionals, recently stated: "Few provisions in the recently enacted Tax Cuts and Jobs Act are likely to have a greater impact or create more confusion than the new Code Section 199A deduction for noncorporate taxpayers for qualified business income." In very general terms, the qualified business income deduction (QBID) is an economic-growth provision which will have the impact of reducing taxes on income earned by many businesses operating in partnerships, S corporations, and sole proprietorships. The deduction first applies for tax years beginning after 2017. Computing the deduction, particularly applying the limitations, will be very complex in many cases. If TCJA was intended to simplify our tax code, the QBID provisions are counter-productive. Hopefully, the economic growth impact will outweigh the complexity.

When it is available, the QBID is 20% of business income, subject in certain cases to a complex array of limitations. Individuals, estates, and trusts can take the deduction; C corporations, now beneficiaries of a much-reduced tax rate (35% to 21%), cannot. For pass-through entities (partnerships and S corporations), the deduction is taken at the partner or shareholder level. The deduction is computed for each separate business in which one is an owner.

This article is not intended to cover many aspects and impacts of the QBID, but hopefully will provide readers with an understanding of the basic concepts.

Let's start with a very simple example:

Qualified business income (QBI)	$200,000
Nonbusiness interest income	10,000
Net capital gains	10,000
Itemized deductions	<30,000>
Taxable income before QBID	$190,000
Tentative QBI deduction ($200,000 x 20%)	$40,000
Applicable limitation*	$36,000
QBID	$36,000
Taxable income ($190,000 – 36,000)	$154,000

*20% of taxable income, excluding net capital gains and before the QBID (or $180,000)

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This example, as can be seen, shows the overall limitation: 20% of taxable income, reduced by net capital gains and computed before the QBID. The other limitations, discussed below, do not apply if taxable income (again, before the QBID) does not exceed $157,500 for a single filer or $315,000 for a joint filer (in both cases adjusted for inflation after 2018). Referencing the example above (taxable income before the QBID of $190,000), if a joint return is being filed, the computation of the QBID is complete. If a single status return is being filed, two additional limitations must be considered.

One of the additional limitations concerns what types of business qualify for the QBID:

- Any trade or business qualifies **other than**:
  - A **specified service** trade or business:
    - Includes services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investment management, and brokerage services, and
    - Also includes any trade or business in which the principal asset is the reputation and skill of one or more employees or owners.
  - Performing services as an employee.

Keeping in mind that we have no IRS regulations, rulings, or other guidance available yet, and can only rely on the statutory language and underlying legislative branch committee reports, here are initial impressions of how some different businesses involving horses may fare under these rules:

Likely Qualifying:

- Horse breeding operations
- Horse racing or other performance horse operations
- Horse boarding farms
- Horse tack stores
- Feed suppliers

Likely Not Qualifying:

- Equine veterinarians (specified service)
- Farm real estate brokers (specified service)

Perhaps Unclear:

- Bloodstock agents (brokerage service or principal asset is reputation?)
- Equine insurance (financial service or principal asset is reputation?)
- Horse trainers (principal asset is reputation?)
- Farriers (principal asset is reputation?)

Hopefully, future guidance will mitigate some of the uncertainty. Expect some controversy with tax authorities over whether certain businesses will qualify for the QBID. Remember that whether or not your business qualifies is relevant only if your taxable income exceeds the threshold amounts.

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The second additional limitation applicable when taxable income exceeds the thresholds is quantitative. The 20% of QBI deduction is limited to the greater of:

1. 50% of the owner's share of W-2 compensation paid to employees of the qualifying business, or
2. The sum of 25% of such wages and 2.5% of the cost of the business' depreciable business assets.

An example may help:

- Taxable income (before the QBID and excluding net capital gains) $600,000
- Two qualified businesses conducted: A with QBI of $200,000 and B with QBI of $300,000
- Joint filing status
- Allocated W-2 expense: A $50,000 and B $20,000
- Cost of depreciable business assets: A $100,000 and B $600,000

		Business A	**Business B**
A.	QBI	$200,000	$300,000
B.	Tentative QBID (20% of QBI)	$40,000	$60,000
C.	W-2 wage limitation (50%)	$25,000	$10,000
D.	Alternative W-2 wage limitation (25%)	$12,500	$5,000
E.	Property limitation (2.5%)	$2,500	$15,000
F.	Wage + property limitation (D + E)	$15,000	$20,000
G.	Limitation (greater of C or F)	$25,000	$20,000
	QBID, before taxable income limitation (lesser of B or G)	$25,000	$20,000

The combined QBID from the two businesses ($45,000) is less than the overall taxable income limitation of $120,000 ($600,000 x 20%), so the QBID in this example is $45,000.

The qualified business and quantitative limitations for those with taxable income exceeding the afore-mentioned thresholds based on filing status are fully applicable when taxable income exceeds $207,500 single and $415,000 joint. These limitations reduce the QBID pro rata when taxable income is between $157,500 and $207,500 single and $315,000 and $415,000 joint.

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Following are several other QBID features:

- Whether or not the owner is active or passive in the business is not relevant to the QBID.
- Investment income, whether reported directly or through a pass-through entity, is not QBI.
- W-2 compensation received is not QBI.
- Income from REIT dividends and business income reported by publicly-traded partnerships receives QBI treatment.
- If a person has multiple trades and/or businesses, some with negative QBI and others with positive QBI, the new rules effectively require a netting of the positive and negative QBI amounts. The negative QBI amounts will offset the positive QBI amounts and reduce the QBID amounts otherwise computed on the trades or businesses with positive QBI. If the netting results in a combined negative QBI, the net negative QBI is carried over to the following year.
- The QBID does not reduce self-employment income.
- The QBID is not separately computed in the alternative minimum tax calculation.
- The QBID does not increase a net operating loss.
- The taxable income threshold amount for estates and trusts is the same as for a single individual.

For business owners with taxable income below the lower end of the threshold amounts, computing the QBID is not too involved. For those above, the disqualification of many primarily service businesses and the complex limitations will knock many persons out of the deduction or will reduce the deduction's benefit for others.

To close, I remind readers that this article is not intended to be a complete coverage of this important part of TCJA. IRS guidance, hopefully issued sooner rather than later, may answer some of many questions currently unresolved.

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This article was written for an American Horse Council Tax Bulletin.

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