2021 Tax Reminders for Equine Industry Participants

As of March 28, 2022

It's tax time, whether we like it or not, and the United States 2021 tax filing deadline, this year falling on April 18, 2022 is rapidly approaching! Below are some helpful tax reminders for equine industry participants as they complete their 2021 tax returns.

– COVID-19 Related Economic Stimulus Programs

- The Paycheck Protection Program (PPP) ended on 5/31/21. If a PPP loan was forgiven before 2022, the loan forgiveness, which is non-taxable, should be reported on either a 2020 or 2021 tax return. There are also some 2021 additional reporting requirements for S corporations which previously reported the loan forgiveness on a 2020 tax return based on recent guidance issued by the IRS in 2022.
- Employee Retention Credits concluded as of 10/1/21 for most. Credits for voluntary employer-provided paid sick and family leave for various COVID-19 related reasons expired 9/30/21.
- For those who deferred the payment of 2020 employer payroll taxes, 50% of these were due by 12/31/21 with the remaining 50% due by 12/31/22.

– Depreciation

- 100% bonus depreciation is available on purchases of qualifying assets that were placed in service during 2021 and 2022. Examples of qualifying assets may include yearlings, racehorses, breeding stock, equipment, fencing, land improvements and barns. Bonus depreciation is most commonly used by industry participants since it is not limited to taxable income and may be used to create or increase a tax loss.
- Yearlings may use the 3-year depreciation life through 2021
- NEW farm equipment may use 5-year (versus 7-year) life

– Deductions

- Meals purchased at restaurants (including racetracks and at the sales) are 100% deductible in 2021 and 2022. These are normally only 50% deductible for tax purposes.
- Cash donated by individuals to public operating charities during 2021 may be eligible to offset up to 100% of adjusted gross income. This limitation returns to 60% in 2022.
- For profitable businesses owned by individuals, there may be a 20% qualified business deduction available.

– Other Items of Caution

- The excess business loss limitation returns for individuals, trusts and estates in 2021 and remains through 2026 under current law. This limits the 2021 net business loss to ($262,000) or ($524,000) if filing a joint return. The excess above this limitation is treated as a net operating loss (NOL) carryforward available to offset taxable income in future years, subject to the regular NOL carryforward rules.
- Attention should be paid to the hobby loss rules, which require that gross revenues be included in taxable income with no offset for any of the related expenses if an activity is treated as a hobby. The 100% bonus depreciation accelerates tax losses and tax losses sustained over a period of time may cause an IRS audit. Industry participants should employ good business practices and document the steps being taken to make a profit.
- There are some additional reporting requirements for individuals who participate in virtual currency transactions (including using the virtual currency to purchase goods or services or accepting virtual currency for goods or services), for partnerships to report gross revenues and expenses for foreign tax credit purposes (even if the partnership does not have any foreign activity), and some basis reporting forms for S corporation shareholders who report losses.

This summary addresses Federal tax reminders. State tax treatment may vary and many states have not adopted the more favorable Federal tax incentives noted above.

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