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GUIDELINES FOR BUSINESS VS HOBBY

1. THE MANNER IN WHICH TAXPAYER CARRIES ON THE ACTIVITY

- a. Keep separate and accurate books and records, separate checking and bank accounts.
- b. Seek advice from professional trainers, breeders and others established in the industry. Keep notes.
- c. Keep timely records of events, which affect current or future income (death of animals, disease, slipped foals, drought, extreme weather conditions requiring unusual expenditures).
- d. Make necessary changes in operating methods, adopting new techniques or abandoning unprofitable methods, following the practices of the industry.
- e. Become involved in your industry - attend seminars, meetings, subscribe to trade journals, etc.
- f. Use advertising - show programs, newspapers, horsemen's magazines, word of mouth, etc.
- g. Have a plan showing where profits are expected. Be able to show a profit potential. Revise and update this plan.
- h. Keep detailed notes on business activities - history, date of events, location, programs, performance of horses, medical records, deviations, any and all pertinent information.
- I. Consider obtaining a resale number.
- j. Register your name DBA (doing business as) with the proper authorities.

2. THE EXPERTISE OF THE TAXPAYER OR HIS ADVISORS

- a. In preparation for this activity did you make a study of its accepted business, economic, and scientific practices, or consult with those who are expert in your field. Notes and documentation should be maintained.
- b. Continue to engage and consult professional trainers, breeders and other specialists. Maintain formal or informal notes and documentation.
- c. What organizations do you belong to; what type of books and magazines do you subscribe to? Have you attended seminars or educational courses for the horse industry? Maintain accurate notes and documentation.
- d. Know your potential market and bloodlines. Maintain good records.
- e. Seek advice from experts on ways to increase profits and cut costs.
- f. Seek professional advice for cash flow projections and review past operations.

3. THE TIME AND EFFORT EXPENDED BY THE TAXPAYER IN CARRYING ON THE ACTIVITY.

- a. Record the number of hours spent in an average week on keeping books and records, training, feeding, grooming, mucking out stalls, maintaining facilities, travel time when horses are boarded out, etc.
- b. Record frequency and duration of shows, traveling time and type of accommodations used. Notes and Documentation.
- c. What kind of personal inconveniences were created or other activities given up. Notes recorded very helpful..

4. EXPECTATION THAT THE ASSETS USED IN THE ACTIVITY WILL INCREASE IN VALUE.

- a. Show how you plan to increase the value of your horse(s) and progress. What did your horse cost? What is it appraised at now? What could it be worth in the future? Point out successes in the industry. Use a qualified expert for your appraisal.
- b. Any valid offers to purchase - get it in writing, name and address, amount offered, dated and signed.
- c. If the activity includes property purchases for business purposes, was there an expectation that this property would appreciate in value so as to offset losses when sold in the future. Documentation.

5. THE SUCCESS OF THE TAXPAYER IN OTHER ACTIVITIES.

- a. Has not been considered in recent court cases.
- b. May help if you have been successful in other similar or dissimilar activities.

6. HISTORY OF INCOME OR LOSSES WITH RESPECT TO THE ACTIVITY.

- a. The courts have considered important any events, which have caused what appears to be a successful plan of operation to go awry. Notes and Documentation.
- b. Two profit years out of seven does not necessarily protect the activity from being disallowed.

7. AMOUNT OF OCCASIONAL PROFITS, IF ANY, WHICH ARE EARNED.

- a. The potential for profit is the one element, which can overcome the loss years and the minimal profits, and the courts have generally recognized this fact.

8. FINANCIAL STATUS OF TAXPAYER.

- a. Lack of substantial income from other sources will be in your favor. Large income from other sources may weigh against you along with degrees of personal pleasure and substantial tax benefits.

9. ELEMENTS OF PERSONAL PLEASURE.

- a. As long as the other factors indicate a profit motive, personal pleasure will not cause the activity to be classified as a hobby.
- b. If you have personal riding horses as well as business horses, consider allocating a pro-rata share of cost to the personal portion and do not deduct on your return.

Any questions regarding this article should be addressed to Patrick J. Hurley at (800) 996-1040.