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PARTNERSHIP INVESTMENTS

In the equine industry, partnerships are becoming an increasingly popular form of owning show and/or breeding stock. These include general partnerships, limited partnerships, and syndicates.

A partnership consists of two or more persons joined together to conduct a business, with each partner contributing money, property, labor or skill, with all sharing in the profits or losses of the business. Partnerships can be formed by written or oral agreement.

In a general partnership, each investor is completely liable for all the expenditures and liabilities of the partnership.

In a limited partnership, the limited partner is liable only to the extent of the money he has invested. The risks to the limited partner are minimal, but so also is his control. He normally has no management control, expect perhaps for major decisions affecting the legal status of the partnership. Limited partnerships are most commonly used for the ownership of breeding stock and are set up for specified amount of time. They usually consist of 10 partners or less and are managed by one or two general partners, who have complete management control but do not have limited liability like the limited partners. This type of partnership is attractive to investors because of the tax advantages.

It is felt by many prominent horse people that there is a minimal chance for a person to make the big money at a lower level of investment in the horse business. However, if several people gather their forces together to buy a better horse, than they have a good chance of capitalizing on the strong market. The great appreciation we are seeing today is at the middle and higher levels, but the maintenance costs are the same at any level.

A form of breeding partnership very popular today works in the following manner: A mare is purchased for the purpose of being bred and her foals sold each year. One or two general partners manage the entire operation, with perhaps seven or eight investors as limited partners having no management control. The partnership is set up for a specified number of years - say three or five - and the stallion service fees are prepaid.

In this way, the actual investment of each limited partner is determined ahead of time, although he may be assessed his share of yearly fees. At the end of the specified number of years, the mare is sold in foal with her foal at side. The general partner may take a fee of 10 percent of the sale price of the mare and 10 percent of each foal being sold, or perhaps an up-front management fee and a certain percentage of profits at the end in lieu of the 10 percent mentioned. Each agreement is different.

In this type of limited partnership, the risk to the investors is minimal, especially if all horses involved are fully insured. The biggest risk is perhaps the mare may not take when bred, in which case the partnership is usually extended one year with mutual consent.

It has been noted and accepted as common knowledge that the main reasons people are becoming involved in this type of investment are the diversification and tax incentives they offer. Let's take a look at the tax aspects. A partnership itself does not pay taxes. The income and exposure passes through to each individual partner in accordance with his share of the profits and losses. A partnership, however, is required to report profits and losses each year to the internal revenue service on a partnership return. This information is then reported by the various partners, according to their share or agreement with another partner, on their individual return.

Because the definition of a partnership is very broad under tax laws, a potential investor must be very careful to determine whether the agreement he or she enters into actually constitutes a partnership. If so, he should make sure that the partnership files the information return with the IRS in order to avoid a penalty for late filing.

Some advice: Have confidence in the general partner. His profit will be in direct relationship to the money he makes for you, the limited partner. Be sure you understand your share of the partnership - review it with your accountant or lawyer if it would make you more comfortable. And most important to remember is that you are going into the breed horse business partnership - don't put your money in your pocket before you get it.

Horses are exciting, and so is being a part of it. Here you can watch your investment give birth, grow, be sold, and probably at some future date, make money. A lot of people figure it beats sitting on the curb looking at the bank window wondering what your money is doing.

As long as the equine industry itself remains sound, partnerships, as a form of horse ownership, will continue to flourish. This is especially true as the prices for horses continue to escalate. Profits from price appreciation have outstripped inflation by seven to 24 percent every year since 1963, regardless of state of the economy or interest rates.

With the widespread use of partnerships as a form of ownership, the wise investor will be aware of all the advantages and disadvantages of each type and will be extremely cautious when entering any agreement. With the proper precautions, partnerships can and will continue to be very useful and, therefore, cannot be ignored by the serious investor as a vehicle for ownership in this exciting industry. If you have specific questions regarding this article, please call Patrick J. Hurley at (800) 996-1040.