



Alexander M. Waldrop  
*President & CEO*

March 28, 2018

David H. Koch  
Americans For Prosperity  
1310 N. Courthouse Road  
Suite 700  
Arlington, VA 22201

Dear Mr. Koch,

We read with interest and dismay your recent fundraising letter on behalf of Americans for Prosperity in which you attack three-year depreciation of the purchase price of a racehorse as a “multi-multi-million dollar handout” to racehorse owners. Your comments reflect a lack of understanding of the business of racehorse ownership and the tax laws that apply to such ownership.

For starters, a recently released study of horseracing conducted by the American Horse Council determined that horseracing supports more than 241,000 direct jobs and adds \$15.6 billion in direct value to the U.S. economy. These direct impacts drive an additional \$21 billion in value to the economy, and in total create more than 231,000 jobs from both indirect and induced effects. Thus, racehorse ownership is responsible for a sizable portion of the US economy and is economic activity that should be developed and encouraged.

It follows that tax laws that discourage horse ownership are detrimental to the US economy. What follows is a brief explanation of the tax laws as they apply to horse ownership and the need for three-year depreciation in limited circumstances.

First, only racehorse owners who are in the active business of owning and racing horses can take advantage of three-year depreciation. Many horse owners are denied any tax benefits related to horse ownership because the IRS rules for establishing an active business as a horse owner are not easy to satisfy. Instead, with the passage of the new tax reform law, effective January 1, 2018, owners denied active business status must recognize all income from their racing activity but cannot take any corresponding deductions for related expenses. This is a serious impediment to horse ownership.

**NATIONAL THOROUGHBRED RACING ASSOCIATION**

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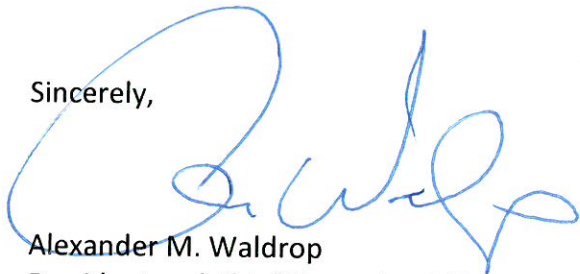
Second, under the new tax reform law, active business owners of horses are treated like every other small business owner in that they can now expense or depreciate 100% of the cost of the horse in year one. Given this fact, it is somewhat disingenuous that you have singled out three-year depreciation of racehorses.

Third, the three-year depreciation provision that you are referencing appears to be a provision included in the Bipartisan Budget Act of 2018 (BBA). The BBA affects many industries. For horse racing, it basically extends three-year depreciation of certain racehorses through the end of 2017. In doing so, it mirrors the tax laws that have been in place from 2009 to 2016. Three-year depreciation has always applied to racehorses placed into service when older than 24 months. The pertinent provision in the BBA simply extends three-year depreciation to racehorses placed into service when 24 months and younger, as is often the case because many young racehorses begin early training at that age. Prior to this change, horses placed into service when 24 months and younger had to be depreciated over seven years, which meant that owners had to depreciate their racehorses into the horse's ninth year of life when racing may no longer be profitable or safe for horse or rider. This lengthy depreciation schedule in no way matches the useful economic life of a racehorse since racehorses tend to be most profitable in years two through five of their racing lives. That is why racehorses placed into service when older than 24 months have always been depreciated over three years.

In short, uniform three-year depreciation regardless of age when placed into service is important to racehorse owners in the active business of racing horses because it better aligns deductions with corresponding income opportunities on an annual basis. Such an alignment is good for business and it is good for horses.

I hope that as a businessperson you now understand that a horse owner, like any other business owner, is entitled to depreciate assets acquired in the conduct of their business in a manner that accurately reflects the safe and useful life of the asset.

Sincerely,



Alexander M. Waldrop  
President and Chief Executive Officer  
National Thoroughbred Racing Association

CC: Emily Seidel, Chief Executive Officer, Americans For Prosperity