



## EQUINE HOBBY LOSS QUESTIONNAIRE

### **Q: Why should I take this quiz?**

**A:** This series of questions is designed to illustrate what the Internal Revenue Service is seeking to distinguish hobby horse owners from serious businesses for purposes of taking certain business deductions related to your horse operations.

### **Q: How do I use it?**

**A:** The goal is to structure your equine business so you can answer “YES” to EACH of the questions below.

### **Q: What happens if I can’t answer “YES” to each of the questions below?**

**A:** Understand that your goal is to have more “Yes” answers than “No”. In other words, the more you are doing each of the following practices in your business, the easier it is for you to honestly qualify your equine activities as a “business” instead of a “hobby” for tax treatment purposes. If you can’t answer “Yes” to all of them, start working on moving towards implementing that process or procedure in the near future.

### **I. Hobby Loss Rule Quiz**

1. Is your equine business established as a separate formal business entity?
2. Did you secure legal assistance in forming the business?
3. Did you keep records of your payments for this service?
4. Did you start the business with a business plan identifying:
  - a. Purpose of the business
  - b. Start-up steps
  - c. Estimated expenses versus profit for first 5 years?
  - d. On a year by year basis?
5. Do you update it annually?
6. Did you identify the steps you would take to achieve a profit?
7. Do you maintain a separate bank account for the business?
8. Do you use the services of a professional accountant to maintain the annual financial records of the business?
9. Do you make it a policy to never write personal checks out of the equine business account?



10. Do you make it a policy to never let the business use horses individually owned in your name?
11. If you use personally owned horses in your business, do you have a formal lease agreement between you and the equine business?
12. Do you pay the equine business anything for the use of the horses?
13. Do you maintain detailed and separate business records on each horse owned by the business (i.e. purchase and sale documents, birth and registration documents, racing or competition records, breeding records, insurance coverage, expenses and income, and veterinary information?)
14. Do you use business forms in the regular course of your business (i.e. business stationary, business cards, standards written contracts, a business name, advertising, telephone listings and the like?).
15. Do you devote substantial time to the business?
16. Do you keep detailed records identifying the date, time and work done for the business?
17. Do you regularly consult, and keep records of your consultations, with professionals about your business (i.e. trainers, accountants, lawyers, trade journals, periodicals, seminars, etc.)
18. Do you keep a record of unexpected hardships, either by memo or in corporate minutes (unexpected deaths, illnesses, injuries, failures to conceive, abortions, productions of defective foals, etc.)
19. Do you obtain periodic appraisals of your realty if it appreciates?
20. Do you obtain periodic appraisals of your horses if they appreciate?
21. Do you insure your horses and increase the coverage as they appreciate?
22. Do you devote over 30% of your annual adjusted gross income to the equine business?
23. Do you or other family members avoid competing or riding on horses owned by the business as “amateurs” or for pleasure?
24. Do you limit the trips and business dinners charged to the business?
25. Does your business show intermittent profit years in a ten year period?



26. Do you engage in tax preplanning to achieve intermittent profit years in a 10 year period?