

2025 Year-End Tax Planning for Horse & Farm Owners

As Year-end approaches, horse and farm owners should evaluate how the [One Big Beautiful Bill Act \(OBBBA\)](#) affects both 2025 and years to come. Understanding these tax changes now can help you make informed decisions before December 31.

Understand the Impact of 100% Bonus Depreciation

OBBBA permanently extended 100% bonus depreciation for assets purchased and placed in service after January 19, 2025. For 2025:

- Confirm the correct bonus depreciation percentage: either the enhanced 100% or the applicable percentage for assets purchased before January 20, 2025.
- Keep in mind, many states do not follow this increased 100% bonus depreciation, so it is important to check your state's rules to see if you receive a state tax benefit in addition to the Federal tax benefit.

Increasing Current Deductions

If your goal is to accelerate deductions this year, consider purchasing and placing in service (meaning the asset is ready for its intended use) qualifying assets by December 31, 2025.

Eligible assets, which must be used predominantly in the United States, include:

- Equipment
- Fencing
- Land improvements
- Barns
- Most horse purchases (with some exceptions)

In addition to favorable depreciation rules, many horse and farm owners qualify to use the cash method of accounting when filing annual tax returns. If you use the cash method, consider prepaying expenses before year-end. However, ensure there is a valid non-tax reason for doing so, such as bulk or early payment discounts on feed, supplies, advertising, or access to a particular stallion.

This guidance assumes that you conduct your horse operations as a business and that you are either an active participant under material participation rules (details beyond the scope of this discussion) or have sufficient passive activity income to offset potential losses.

Charitable Giving Considerations Before 2026 Changes

For charitably inclined individuals, OBBBA permanently increased the adjusted gross income (AGI) limitation for cash gifts to public charities from 50% to 60%. However, new restrictions begin in 2026:

- Donations below 0.5% of AGI will no longer be deductible for those who itemize.
- Overall itemized deductions, including charitable contributions, will be reduced by a formula equal to 2/37 of the lesser of itemized deductions or income exceeding the 37% tax bracket. *For example, a married couple with \$1,000,000 of 2026 taxable income and \$100,000 of*

itemized deductions would lose roughly \$5,400 of their deductions due to this limit.

So, when should you give?

- If you itemize and plan to make charitable donations, 2025 may be a more favorable year to give, or even accelerate multi-year contributions, since these new limitations do not apply until 2026.
- If you do not itemize, 2026 may be better, as OBBBA created a permanent \$1,000 charitable deduction for taxpayers taking the standard deduction.

Expanded SALT Deduction Limits (2025-2029)

OBBBA also temporarily increased the itemized deduction limit for state, local, and real estate taxes from \$10,000 to \$40,000 for tax years 2025 through 2029. This higher limit phases down for incomes between \$500,000 and \$600,000, but does not reduce the state and local tax deduction below \$10,000. If you operate a business, note that many states have adopted pass-through entity taxes, which can reduce ordinary business income and avoid the state tax cap, often resulting in significant federal tax savings.

Gifts and Estate Planning Strategies

Beyond income tax planning, consider estate planning strategies. One effective approach is lifetime gifting. Key basics:

- 2025 annual gifts of \$19,000 per recipient may be made to U.S. citizens free of gift and generation-skipping transfer (GST) tax.
- The 2025 lifetime gift and GST exclusion is \$13.99 million per person, permanently increased under OBBBA and indexed annually for inflation.

If the lifetime threshold is exceeded, gifts are taxed at 40%, and GST applies at an additional 40% for transfers to individuals more than 37.5 years younger than the donor (e.g., gifts to grandchildren).

Which Assets Make the Best Gifts?

Ideal assets for gifting are those expected to appreciate. In other words, beyond income tax planning, consider long-term estate planning opportunities.

Example: Gifting property worth \$100,000 today that grows to \$500,000 at death removes \$500,000 from your estate while using only \$100,000 of your exemption. Conversely, if the asset depreciates, you may waste exemption value.

Equine assets can be part of a gifting plan, though their future value is uncertain. If including horses, consider stallion shares from a profitable stallion (which generates cash flow) or broodmare interests rather than younger racing prospects. Remember, the recipient assumes responsibility for care and related expenses. Farms, typically held long-term, may offer better appreciation potential.

Using Pass-Through Entities to Maximize Gifting

To maximize gifting benefits, parents or grandparents often contribute assets to a pass-through entity (holding company). Non-controlling interests in the entity can then be gifted or sold at a discount to children or grandchildren (or their trusts), while the original owner retains voting control.

As the saying goes, nothing is certain except death and taxes. The first is unavoidable, but you can manage exposure to the second through effective planning, some of which is outlined above. If you have any questions, please do not hesitate to reach out to your tax advisor.

Happy Holidays and best wishes for a successful year-end tax planning!