
Questions and answers – the tax treatment of broodmares

Question:

What changes will occur to the tax treatment of thoroughbred broodmares?

Answer:

The Government proposes reducing the period over which broodmares must be written off. This would effectively increase the ‘depreciation rate’ for broodmares. The rate varies with the age at which the mare starts breeding. The calculation of the depreciation expense (or ‘specified write-down’ amount) is given in section EM 1(4)(c) of the Income Tax Act 1994.

The current depreciation rules require owners to depreciate their mares from the age the mare begins breeding until age 15, or for three years, whichever is longer. The new depreciation rate will allow broodmares to be fully depreciated by age 11, or for three years, again, whichever is longer.

Bloodstock is further subject to a 25 percent rate of economic loading, which means that basic bloodstock ‘depreciation rates’ are further increased by 25 percent. This also has the effect of reducing useful economic life for tax purposes and results in almost all broodmares being written off by age 13 or 14 under the current rules. With the further reduction in the period over which broodmares can be written off, breeders will effectively be able to write off mares by age nine, or over 2.4 years, whichever is longer.

Question:

Why is the change being made?

Answer:

Analysis of the thoroughbred breeding industry shows that, on average, mares begin breeding at age five, with the majority beginning the breeding process between the ages of three and eight (see figure 1). Further, most broodmares finish breeding before the age of 15 (see figure 2). As a result, breeders are required to depreciate the average mare for around ten to eleven years. The analysis is based on a random sample of 400 mares from a total population of 12,865 mares. These data were sourced from the *1997 New Zealand Stud Book*.

The results indicate that an economic life of eleven years for broodmares is an accurate approximation of their breeding life and therefore a more appropriate benchmark for tax purposes.

Figure 1. A distribution of the age broodmares begin breeding

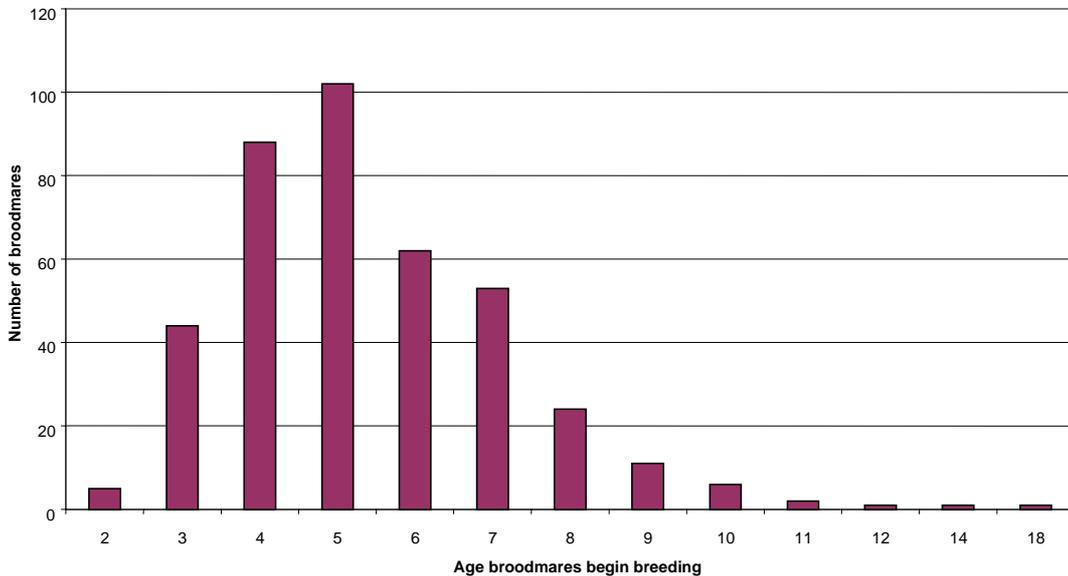
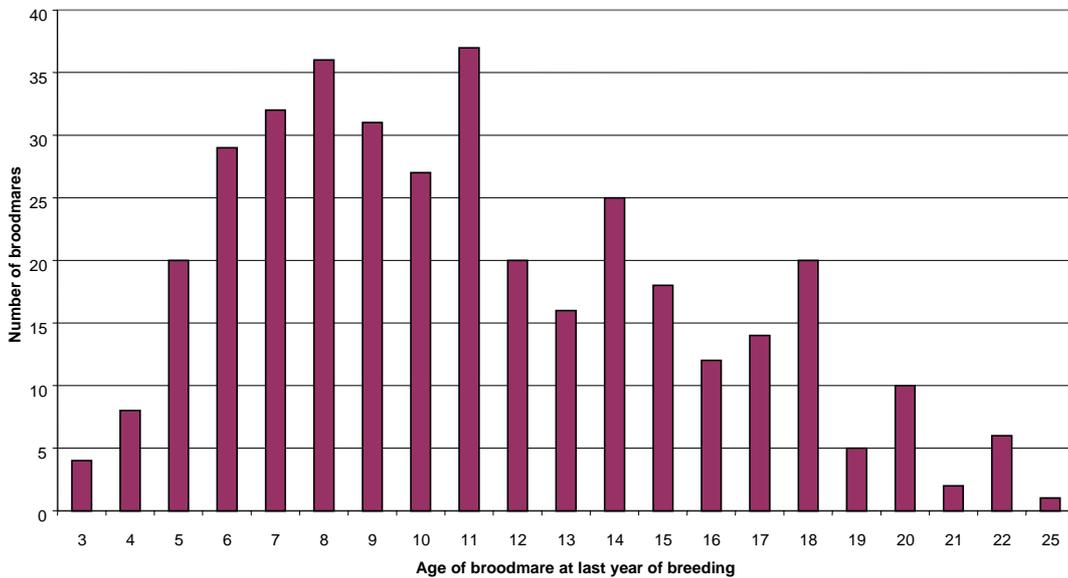


Figure 2. Age a broodmare finishes breeding



Question:

From what date will the changes to the tax treatment of broodmares apply?

Answer:

The Government proposes an introduction date of 1 April 2001. This application date will provide immediate benefits to breeders in the form of greater certainty and equity in the tax treatment of broodmares, in the lead-up to significant bloodstock sales in New Zealand and Australia in early May 2001.

Question:

Will the changes to the tax treatment apply to all broodmares?

Answer:

No, the tax changes will not apply to broodmares that were depreciated before 1 April 2001 under the existing depreciation rules. Broodmares that start breeding after the age of 12 are currently subject to a three-year write-off period (2.4 years with economic loading). This will not change.

Question:

What about the tax treatment of other bloodstock, such as stallions?

Answer:

The Government has reviewed the depreciation rules for stallions and has concluded that the current tax treatment is appropriate. Analysis of data for all New Zealand owned 'commercial' stallions (those servicing more than 25 mares) from 1980 to 1998 shows the peak in the number of years that a stallion breeds for is around five to six years (see figure 3). And, on average, a stallion finishes breeding in his sixth season, indicating an economic life of the same period. Under the current depreciation rules, stallions have an economic life of five years, but are depreciated over four years with the economic loading.

Figure 3. The total number of breeding years for New Zealand owned stallions that began breeding between 1981 and 1994 stallions serving more than 25 mares

