Racehorse ownership in Canada

A tax guide for new and prospective owners

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Understanding the tax side of the track

Racehorse ownership is an exciting venture — but it's also a business. Whether you're buying your first yearling or joining a syndicate, understanding the tax implications is essential to making informed decisions. This guide outlines the key tax considerations for Canadian residents entering the world of racehorse ownership, with a focus on the tax rules that apply to owners, the importance of GST/HST registration, and the different reporting methods .

This guide is meant to give a general overview and is for illustration only. It's not tax, legal, or financial advice — be sure to check in with a qualified advisor for guidance that fits your specific situation.

Reporting methods: Cash vs. accrual

Most racehorse owners report income and expenses on a cash basis, meaning:

- Income is reported when received (e.g., race winnings, horse sales)
- Expenses are reported when paid, including:
  - Feed and bedding
  - Training and boarding fees
  - Veterinary and farrier services
  - Transportation and entry fees
  - Purchase costs (subject to tax treatment and inventory rules)
- Capital expenditures remain on an accrual basis (e.g., trailers, tractors)

Under the accrual method:

- Inventory purchases cannot be deducted until sold
- Prepaid expenses can only be deducted in the year to which they relate
- Accounts receivable are income, and accounts payable are expenses

Once you use the cash method for tax reporting purposes, you must obtain CRA approval if you wish to convert to the accrual method.

Restricted farm losses

Under Canadian tax law, maintaining horses for racing qualifies as a farming activity. However, if it's not your chief source of income, the Income Tax Act limits the amount of farm losses that can be deducted to prevent those losses from reducing non-farm income.

Full-time vs. part-time farming

The distinction between full-time and part-time farming is key in determining how losses are treated:

- **Full-time farmers:** Farming is your main source of income, or your other income sources are subordinate to it. You may deduct your full farm losses without restriction.
- **Part-time farmers:** Farming is a legitimate business activity but not your primary source of income. Your other sources of income are not subordinate to your farming. You are subject to the restricted farm loss rules.
- **Hobby farmers:** If the activity is not carried on in a commercial manner, losses are not deductible.

Annual deduction limits for part-time farmers

- First $2,500 of losses: fully deductible
- Next $30,000: 50 percent deductible
- Maximum deductible loss per year: $17,500
- Excess losses can be carried forward (20 years) or back (three years) but only applied against net farming income

EXAMPLE

How restricted farm losses work

	Year 1	Year 2
Farm income	$17,000	$25,000
Farm expenses	-$1,000	-$50,000
Horse purchases[1]	-$100,000	-$200,000
Prior year's Mandatory Inventory Adjustment[2]	$0	-$70,000
Cash basis farm loss	-$84,000	-$295,000
Mandatory Inventory Adjustment	$70,000	$189,000
Revised farm loss	-$14,000	-$106,000
Loss that can be claimed		
First $2,500	$2,500	$2,500
50% of up to the next $30,000 of loss	$5,750	$15,000
Maximum farm loss that can be claimed	$8,250	$17,500
Restricted farm loss carry forward – current year	$5,750	$88,500
Restricted farm loss carry forward – previous year		$5,750

Where do you benefit from your unused restricted farm losses?

Any unused restricted farm loss in a year can be carried forward for a maximum of 20 years. These losses can only be applied against net farming income in a future year.

For example, if you report a farm profit in year three, you can use the restricted farm losses from years one and two to reduce your tax burden.

[1] Assumes none of the horses purchased in year one and year two are sold.

[2] A mandatory inventory adjustment (MIA) reduces farm losses by accounting for unsold inventory, specifically, items purchased and still on hand at year-end. Horses are valued at their original purchase price less 30 percent per annum on a diminishing balance basis. Inventory you've raised yourself is not subject to the MIA.

GST/HST considerations

Racehorses are not exempt from Goods and Services Tax (GST) / Harmonized Sales Tax (HST). Whether purchased in Canada or imported from the U.S., GST/HST is payable on the transaction. However, if you are registered for GST/HST, you may be eligible to recover the tax paid on many of your expenses.

- **Register early:** You must register for GST/HST before you can claim input tax credits (ITCs).
- **Commercial activity requirement:** You must be carrying on a business with a reasonable expectation of profit to qualify for registration.
- **Claiming ITCs:** While race winnings and horse sales typically don't include GST/HST, you can recover GST/HST paid on expenses like training, feed, veterinary care, and transportation.

In theory, GST/HST should be neutral — what you pay out, you can recover, provided you're properly registered and operating in a business capacity.

For an effective tax plan that aligns with your specific circumstances, consult with an advisor with experience in both your industry and tax planning.

Canada's business advisor

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