

Stunning Tax Court Victory Against IRS In Horse Case



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Sometimes it seems that the IRS hates horses. You will find hobby loss cases ([Section 183 - Activities not engaged in for profit](#)) that cover a wide variety of activities. I have written about [motocross racing](#), [painting](#), [a musician](#), [Amway](#), [restoring Fifties Plymouths even blogging](#) - travel blogging, not tax blogging - and many others. But horses seem to account for a disproportionate number of the cases and certainly the aggregate dollars at stake. There are many ways to make a fortune, but there is no better way to lose a big piece of it than the horse breeding  business. The pain can be eased by the losses being deductible, which is why the IRS hates horses.

And [Finis R. Welch and Linda J. Waite](#) just won a stunning victory in Tax Court. The IRS asserted tax deficiencies totaling over \$3.6 million for the years 2007, 2008 and 2009 on the couple's return. And \$ 1.3 million on Dr, Welch's 2010 return. They divorced in 2010, having married in 2007. The Center Ranch, which is the source of the losses and the deficiency notices, was Dr. Welch's project alone. I think that I would have advised Dr. Waite (They are both Ph.ds) to file separately. Had the IRS won and Dr. Welch not anted up the whole deficiency, this matter might have resulted in the mother of all innocent spouse cases.



Squeaky Boon, ridden by Glynn Whitman, competes in the Four Year Open Working Order at a cutting horse

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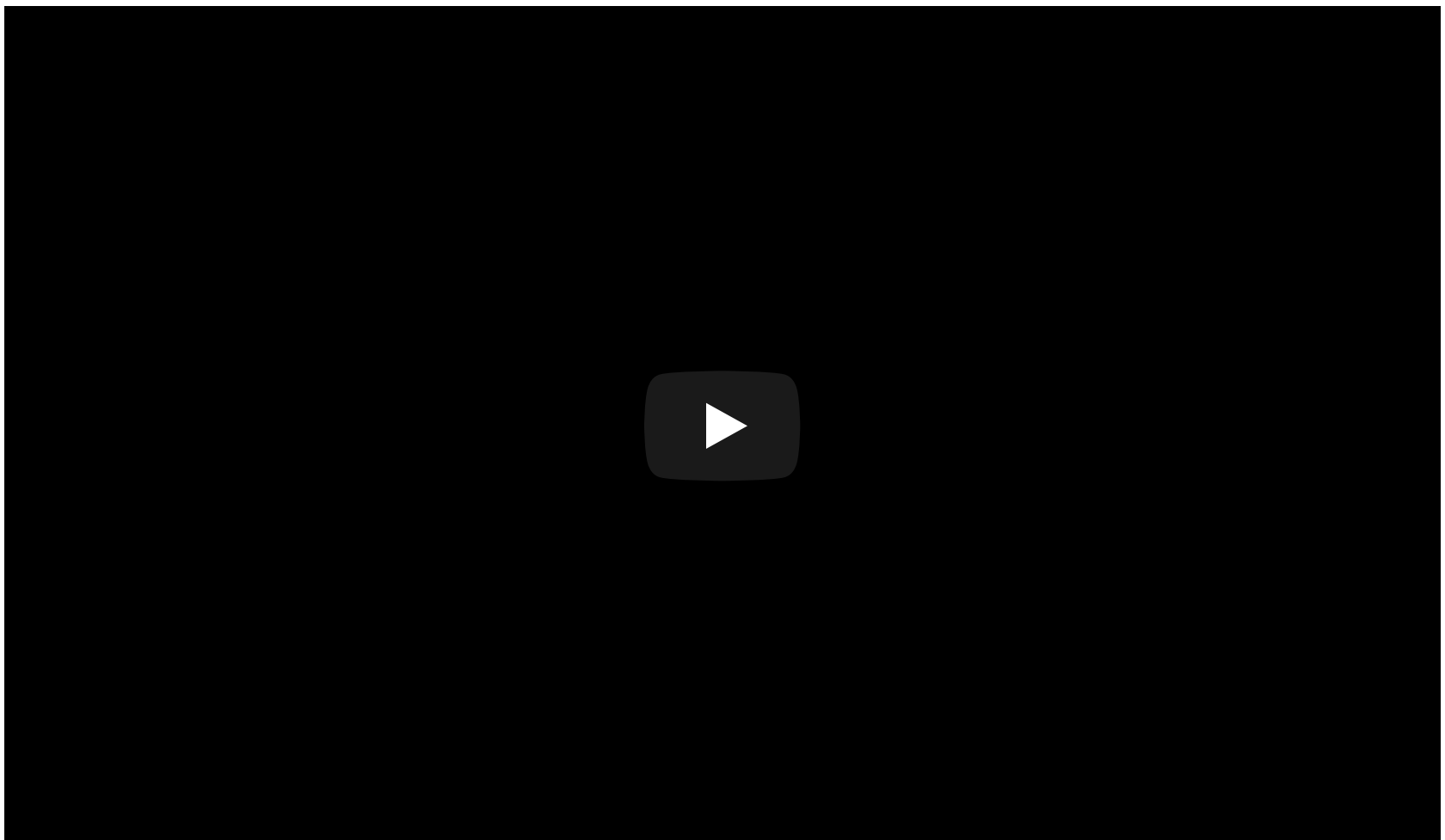
About The Center Ranch

The [Center Ranch](#) in Centerville, TX is a complicated diversified operation. Dr. Welch started it in 1987 with the idea of growing hay as a cash crop. There is a lot more going on now. According to the website


“ Over the past twenty-five years, Center Ranch has grown from a 130 acre property to a 8,800 acre thriving hay operation, cattle business, training facility, and equine veterinary center. The Ranch has balanced a combination of traditional Texas cattle ranching with some of the most technologically advanced agricultural services available to make it a leader in the ranching industry.

Center Ranch’s experience, selective breeding, and equine care have allowed

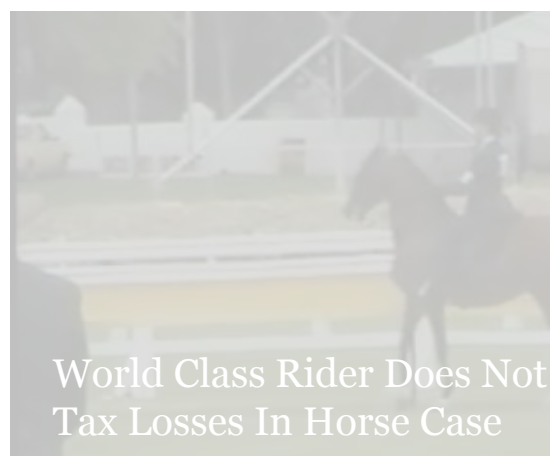
them to produce and sell top quality cutting and ranch horses to their clients. NCHA Hall of Famer, Ronnie Rice manages the 2 and 3 year-old training program giving each of the started cutting prospects and ranch horses, as well as the riders who ride them, a distinct advantage in the cutting arena and on the ranch.



Cutting Horses?

Ever since [I got it wrong about Rafalca's](#), Mitt Romney's dancing horse, status in the Olympics, I get very nervous when I touch on sports. I know less about sports, than the average American male and cutting is a sport that an East Coast city slicker is unlikely to encounter.  Its origin is a task that cowboys have to do on the open range - separating out individual calves from the herd. You really don't want to know what they do to them after they are separated out. Trust me.

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The practice has evolved into an equestrian competition where a horse and a rider strive "to demonstrate the horse's athleticism and ability to handle cattle during a 2 ½ minute performance, called a "run."" The sport is a really big deal. You can tell that by noting that the [National Cutting Horse Association](#), the sport's governing body, [grossed over \\$23 million in 2014](#). Compare that to the [United States Chess Federation](#) which [grossed \\$3.8 million](#) in its year ending May 31, 2015. (NCHA changed its fiscal year so the most recent 990 available is a short year making it not comparable). So at least in that regard, cutting is bigger than chess.

They are both [dwarfed by golf](#), which seems to be the preferred "sport" of the ruling class, which might account for many of our problems. Picturing a world run by cowboys and chess players, I see an immediate problem with gender diversity, but really with [LPGA](#) grossing less than 10% of what PGA grosses, golf is not that much better in that regard. Back to tax.