Donation of a Horse to a Pony Club

Updated February 2009

If a club has been offered a horse as a gift, it should consider several factors before accepting the gift. Always check with an accountant to make sure proper procedures are followed in accepting a gift such as a horse.

While the offer of a donated horse or pony to your club may seem like a wonderful gesture, we urge clubs to carefully review this information before accepting any such donation. There are many factors to consider when accepting a donated horse or pony, and careful consideration should be given before entering into such a situation.

In addition to the IRS regulations concerning the donation of a horse/pony, factors that should be considered include:

- What will the club do with the horse after the donation is complete?
- Where will the horse be stabled?
- Who will pay the expenses on the horse?
- What happens if the horse is no longer usable?
- What happens if the horse encounters large vet bills?
- If the horse is leased to a PC member, what will happen if the lessee no longer wants to keep the horse?
- What about insurance?
- Do you know if the horse is suitable for a member of your club?

Clubs must be prepared and have policies in place to deal with these and other issues that may arise when accepting a donated horse. Please read and review the following information carefully before making any decision on accepting donated horses.

Gift for use by Club: A Pony Club which is offered a horse for its use should consider the following:

IRS: If the donor claims a deduction on his or her Federal income tax return in excess of $500 for the value of the donated horse, the Pony Club will be asked by the donor to sign an IRS Form 8283 which acknowledges receipt of the horse and obligates the Pony Club to file an information report Form 8282 with the IRS if it sells the horse within three (3) years of the gift. If the horse is valued at $5,000 or more, the donor must obtain a written appraisal of that value in order to claim the deduction. The information report on IRS Form 8282 must set forth the name of the donor, the donor's tax ID number, a description of the horse, the date of contribution, date of disposition and amount received. Failure to file this report can subject the Pony Club to penalties.

Liability Insurance: USPC has Commercial Equine Liability Coverage, which protects a Pony Club from claims for liability arising from damages caused by a horse owned by a

Pony Club. An alternative would be to have the insurance policy of another person provide liability converge for damages caused by this horse. This can be accomplished by a lease agreement between the Club and the family using the horse, in which the family agrees to hold the Club harmless from any liability arising from actions of the horse. In this respect, the Club should be named as an additional insured in the homeowners or other liability policy of the family using the horse. The family should check with its insurance agent to make sure coverage is in effect for a non-owned horse under the care, custody and control of the family.

Acceptance of Gift: Since acquisition of a horse is a significant step for a Pony Club and may place financial responsibilities upon it, the governing body of a club should approve the transaction before an officer, including the District Commissioner, accepts a donated horse. Several things to remember and consider before acceptance include:

- vet bills if the horse should become ill
- board bills if the club must board the horse and long-term board if the horse is no longer usable.
- liability if someone else is going to ride the horse

Gifts followed by a prompt sale: If the intention of the club is to sell the horse upon receiving it and use the proceeds to finance activities of the Clubs, it should inform the donor of this intention because the resale may have an adverse effect upon the tax-planning of the donor. In such event if the donor is claiming a deduction of more than $500, the Pony Club will be obligated to advise the IRS and the donor of the sale price. Normally in these circumstances the donor would be better served by selling the horse and giving the proceeds to the Pony Club.

Conditions of Gift: The donor may ask a Pony Club to agree to conditions to the gift, such as the person who will care for the horse, or a promise that the club will not sell the horse. There are several issues to be considered by the donor and club before making such conditions:

1. The donor may set up any restrictions they like, but any restrictions to their gift would mean the gift would not qualify as a deduction on the donor's tax return.
2. A restricted gift would likely be treated as a partial interest donation, which does not qualify as a charitable donation.

> *"Generally, you cannot deduct a charitable contribution of less than the entire interest in the property." IRS Publication 526, revised 2008*

The only time a partial interest may be deducted is in the event that you donate a "remainder interest" in your personal home or farm – i.e. the right to live in your home during your lifetime and give the charity a remainder interest that begins upon your death. Generally, the horse donation scenario does not fit this criterion.

3. Another guideline from the IRS that applies to a horse donation with strings attached is their restriction regarding conditional gifts. If there is a reasonable chance that the horse "won't work out" in the future, **the donor may not take the deduction**.

> *"If your contribution is a conditional gift that depends on a future act or event, that may not take place, you cannot take the deduction. But, if there is only a negligible chance that the act or event will not take place, you can take the deduction." IRS Publication 526, revised 2008*

4. One last restriction from the IRS involves the gift (horse) contribution being for the use of the qualified organization (Pony Club), and not set aside for a specific person. Therefore, if the donated horse is given with instruction that it is specifically for use by Mary Sue Ponyclubber, **the donation is not tax-deductible.**

<u>Information for the donor of the horse:</u>
When the horse is worth more than $250 but less than $500, the donor must have a written acknowledgement from the recipient charity. That acknowledgement must include:

1. a description of the horse;
2. a statement concerning whether or not any goods or services were provided by the recipient charity to the donor in whole or in part in exchange for the horse; and
3. a description and good faith estimate of the value and/or services (if any) by the donor in exchange for the horse.

The acknowledgement must be procured prior to the date you file the return for the year you make the contribution, or by the due date including extensions for filing the return.

When the horse is worth more than $500 but less than $5,000, the donor must fill out and file Section A of IRS Form 8283, and attach it to their Form 1040. The IRS can disallow deductions for noncash charitable contributions if it is more than $500 and the required Form 8283 is not submitted with the return. In addition to the items described above, Form 8283 requires the following information:

1. how was the horse acquired?
2. date of the acquisition of the horse.
3. the cost, or other basis of the horse, including any basis adjustments (generally means depreciation deductions previously taken).
4. an appraisal summary.

The "appraisal summary" required by form 8283

1. must be signed by the charitable recipient, or at least have been presented to the charitable recipient by signature;
2. must be signed and dated by the "qualified appraiser" who prepared the "qualified appraisal"; and
3. must contain information about the donor, the donee, the appraiser and any other information which may be specified in the form.

When a horse is valued at $5,000 or more, the donor must fill out Section B of IRS Form 8283. A separate "qualified appraisal" is required for each horse donated for which a deduction of $5,000 or more is claimed, unless multiple horses, or a herd is donated at one time, provided that each horse must be separately described and specific value must be assigned to each horse. The qualified appraisal must be prepared, signed and dated by a qualified appraiser, and contain the following information:

1. a description of the horse;
2. a description of the physical condition of the horse;
3. the date or expected date of the contribution;
4. the terms of any use, sale or other disposition of the horse;
5. the identity and qualifications (background experience, education and professional affiliations, memberships etc) of the appraiser;
6. a statement that the appraisal was prepared for income tax purposes;
7. the date of the appraisal;
8. the appraised value of the horse on the date of the contribution;
9. the method used for valuation (e.g. market data);
10. the specific basis for valuation (e.g. comparable sales)

The qualified appraisal must be made not earlier than 60 days prior to the date of contribution, and not later than the due date of the return (including extensions) on which the charitable contribution deduction is made.

The term "qualified appraiser" is defined as an individual who:

1. holds him or herself out to the public as an appraiser or who performs appraisals on a regular basis;
2. is able to make appraisals of horse(s) appraised because of his or her qualifications as described within the appraisal;
3. is not within a group of disqualified people, including: the donor, the person who sold, exchanged or gave the horse to the donor, and/or any employee, relative or spouse of such a disqualified person;
4. has signed the written acknowledgement that intentionally false for fraudulent overstatements of value of the property appraised may subject the appraiser to penalties.

The fee charged for the appraisal may not be based upon a percentage of the appraised value of the property appraised. The appraisal fees paid, as well as any fees paid for tax advice about the charitable contribution are not considered, for purposes of the charitable contribution deduction, to be part of the contribution, so they are not deductible as charitable contributions. Such expenses can be deducted as expenses of preparation of a tax return, but are subject to the limitation on Schedule A deductions.

If the club sells, exchanges, or otherwise disposes of the horse within three (3) years of the gift for which an IRS Form 8283 was required (i.e. anything over $500), the club is required to file the IRS Form 8282 Donee Information Return with the IRS, detailing the amount received for the horse. The club will need the donor's Social Security number in order to complete this form. If the horse is sold for less than the donation appraisal amount, the donor may need to amend their tax return for that year. These restrictions are meant to prevent tax fraud.

Proper Acknowledgement of Horse/Pony Donations

It is important that the donor receive the proper acknowledgement for any donation of a horse or pony. Each club is assigned an EIN number, which is listed in the Annual Directory. The national office can also provide any additional materials, if needed.

Sample Acknowledgement Letter

Dear Donor:

This is to acknowledge receipt of your gift of (detailed description of the horse/pony). Valuation of the gift is your responsibility. You should discuss with your tax advisor the requirements to comply with the US Internal Revenue Codes.

Please find enclosed a copy of the letter of determination from the IRS* which classifies gifts to our organization as "deductible by the donors in computing their taxable income…to the extent allowed by law." Also be advised that our tax identification number is (quote your local club Federal ID number).

Your interest and support of our goals to further improve Pony Club instruction is greatly appreciated.

Sincerely,

Jane Doe (District Commissioner)

*copies available from the national office.

Club Owned Horses – Making It Work

As members of USPC, we are probably all aware of the large number of "would be" members who are lost by their lack of access to a horse or pony. In recent years this has become even more of a problem in areas where horses are squeezed out of urban areas.

In our club, it began innocently enough. About fifteen years ago one of our Pony Clubbers was off to college and faced with the dilemma of what to do with her tried and true mount. We decided the horse was too much of a gem to let out of our club, despite his advanced age, and our first donation was acquired. As D.C., my mother opened her heart and 40 acre pasture to hundred of "old faithfuls" and "young projects" over the years, and for our club is has been an immeasurable benefit.

The advantage of club owned horses are vast. Children can have all the responsibility of ownership at a much lower cost by sharing a horse with another Pony Clubber. As their level of experience increases, they can move up form the old campaigners to the feistier models without the risk or expense of purchasing a horse. As they become more proficient riders, many of our members then purchase the young prospects they have been training within the club at a much more reasonable cost than what they would find on the open market. The older horses which would otherwise be retired (or worse) have a lot left to give to our beginners and often are used until nearly 30 years.

To make this work, a number of problems must be addressed. The first problem is where to house horses that are donated to your club. There are several alternatives which I know of currently in use. Most clubs require all horses to remain boarded at the ranch which hosts their club, and liability coverage is then purchased for the owners of the ranch by the individual club. Other clubs allow the horses to be boarded at the members' home if the club is added as an "also insured" on the family's homeowner policy, but this is tricky to administer.

Some clubs work out of non-Pony Club barns where they pay day use fees for the use of school horses and cover those facilities under hold harmless and liability policies. Others offer the use of Pony Club owned horses to a stable in exchange for use of the facilities, but once again liability insurance must be in place for all persons involved with those horses. The best bet seems to be in contacting graduate Pony Clubbers and their parents to "create" a facility. When approaching individuals, a club should be prepared to purchase liability coverage for the owner and improve the facility by their presence. Building arenas, dressage rings, stadium, and cross-country courses with donated materials can make your club a valuable asset to a private facility. This way you can create a fruitful relationship for all concerned. In most such cases a written contract must be drawn up. It should include what financial payback, if any, would be assessed for improvements made to a facility if your Pony Club is asked to leave.

The nature of a lease also varies from club to club. Our lease, for example, requires the lessee to pay $100 per month for board and feed. They are also responsible for the cost of regular vet and farrier fees, but are not generally expected to shoulder the cost of serious vet care such as colics or fractures, etc. These costs are absorbed by our club through the sale of donated goods and other fundraisers. Leasing is a privilege, not a right, and can be terminated immediately if our board determines the animals care is not satisfactory. The families must also agree to allow the leased horse to be used in our various fund raisers such as camp and Pony rides when it does not conflict with that member's show-lesson schedule. To insure both the riders and horses safety, we have firm regulations concerning how often and how high a horse may be jumped, and where a horse may be ridden without an instructors direct supervision. Our club owned horses may only be shown or hunted under the supervision of an instructor as well.

It is vital that the club be prepared to deal with the large expenses which will hit them when horses are laid up or are between lessees. We do not generate income for our leases since all money collected is for feed, vet, or farrier expenses, so we must fund raise in advance to keep enough money in our treasury. Other clubs add $25 - $50 month to their lease fees in order to insure necessary funds for such inevitable expenses. Policies should also be established pertaining to agreed procedure in cases such as severe colics and debilitating lameness. Our club has been able to find a dude ranch which can use our horses which are no longer able to jump, and we have the room to pasture our most treasured retirees.

Colic surgery is not an option we consider. Luckily, this has never been a situation we have had to face, and an individual lessee may at such time be willing to support such a procedure. In cases where costs are that high, the club often gifts the horse to the lessee who is willing to go to such lengths.

Club owned horses are not easy to manage by any means. They require continual care and safe affordable housing. Their use by members necessitates constant supervision, tact, and ingenuity. But when I look back at the 100 plus riders our first has taken to their D-2 rating, I wouldn't change a thing!

Bunnie Sexton
Santa Ynez Valley Pony Club