

Tax Court Case Sides With Breeder

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Many people decide to breed dogs and sell the litters as a business rather than as a hobby. For most people, it is difficult to make a profit from breeding, but that does not stop them from claiming tax deductions, with the hopes of eventually making a profit and even recouping losses. Some people decide to open a full service venture, combining breeding, grooming and other services, out of their home or in a formal pet shop.

Leonard Sasso of Pittsburgh, Pennsylvania, was in the coal business. For many years his passion was bird hunting, for which he used hunting dogs. At one point he decided to start raising bird dogs for profit. He discussed the venture with different trainers whom he had met. He was advised that he could make a profit if he could get good dogs with a good strain.

Mr. Sasso purchased a male and female dog of proven ability. He proceeded to breed them, and in about three years he had 60 dogs. The initial male dog died.

Mr. Sasso hired an experienced trainer, but the trainer did not produce any well-trained dogs. About a dozen dogs died in an outbreak of distemper and hepatitis.

He then moved the remaining dogs to a farm he owned, and built a kennel following the instructions obtained from the head veterinarian at Penn State University. He maintained an employee at the farm to feed the dogs and exercise them.

Mr. Sasso visited the dogs several times a week, and used some of them in hunting. Those dogs he considered good prospects were sent to outside trainers who were paid a monthly fee for each dog. Mr. Sasso only registered those dogs which he thought were good enough to enter trials. In the fall he hunted with some of the dogs, and also helped train some of the younger ones.

Over a ten-year period he incurred losses which he deducted from his income from the coal industry. The expenses included wages, food, medicine, kennel improvement, fees for trainers, travel expenses, membership and subscription fees.

The IRS denied his tax deductions, concluding that his activity was a hobby, not a business. Mr. Sasso took his case to Tax Court, which sided with him. The court concluded that he was very familiar with bird dogs, having utilized them for hunting for over 40 years. The court noted that Mr. Sasso conferred with numerous trainers concerning the chances of making a profit from breeding and selling these dogs, and was advised that there was a definite profit potential. He purchased breeding stock of proven quality, and hired an experienced trainer. He changed methods of operation after several dogs died, and constructed kennels following the instructions of an experienced veterinarian. The court said that “the foregoing facts clearly demonstrate that the kennel was established and operated as a business.” [Sasso v. Commissioner, T.C. Memo. 1961-216.]

From this case, there are several key points:

1. Consulting with experts as to the feasibility of making money in dog breeding is evidence that you are conducting a business, not a hobby.
2. Starting with bloodlines of proven quality is important.
3. If you incur losses, it is important to change methods of operation to improve the chances of making a profit.
4. Constructing your own kennels is a way of saving money on boarding costs.

Many dog breeders have been successful in Tax Court, even though they have had a history of losses. The IRS targets dog breeding because people rarely make money on a litter. Even if you reduce costs by learning to do some things for yourself, such as giving inoculations, it is hard to make a profit. If you focus on breeding top quality show dogs and sell show prospects or show-quality older dogs, you are in a better position to garner higher prices. A lot depends on demonstrating that your dogs win in the show ring on a consistent basis.