



NSW RACEHORSE OWNERS
ASSOCIATION

**NOV
2005**

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PAUL CARRAZZO'S COLUMN

This month's Newsletter carries the second tax update written by Paul Carrazzo CPA (Bloodstock Taxation Consultant).

Paul will be contributing to the Newsletter; the opinions expressed will be his own but will be on tax issues of interest to our members.

CHRISTMAS RACEDAY LUNCH

The Association's Christmas race day lunch will be held at **Rosehill Gardens on Sat, 3 December 2005**, Festival Stakes Day.

It should be an excellent day at the races. There will be prizes for Ladies Best Hat, Gents Best Tie, guest tipsters, a tipping competition, auction, raffle and other assorted prizes and a sumptuous buffet lunch and

drinks. There will also be full tote and bookmaker facilities. Cost for **members is \$90** and for **non-members \$100** inc. GST.

Numbers are strictly limited so **BOOK TODAY**. A booking form can be downloaded from the website or call 9299 4299 to have one faxed to you.

We look forward to seeing you on the 3rd.

JOINT RESPONSE TO RICHARD TURNLEY'S PRESS RELEASE ON BLACK TYPE RACES

ATA (NSW) and NSWROA Presidents, Ron Leemon and Max Whitby, said that Mr. Richard Turnley's attempt to deflect criticism of the workings of the Australian Pattern Committee regarding decisions on Black Type races does nothing to dispel the concerns of other industry participants, especially owners and trainers, at the preponderance of breeding interests on the Committee.

"Mr. Turnley's press release said that only three members of the Committee come from breeders and agents", they said. "However, he failed to say that the other seven members are all representatives of the regulatory and administrative arms of the industry in each state. There are no Committee members to represent the interests of the principal investors in racing – the owners – nor of those upon whom the industry depends for the level of competition – the trainers".

"For the position of the breeders on the Committee to be bolstered by the inclusion of a member to represent those who exist to sell the breeders' product is totally unnecessary and is merely a throwback to the inception

of "Black Type" over 40 years ago, when it was just a marketing exercise for yearling sales", they said.

Whitby said that Black Type has long since transcended the confines of a sales catalogue; "It has become the defining indication of the level of prestige attached to performance in a race and thus to the stud or breeding potential of a horse. Breeding inevitably becomes tailored to the pattern, reinforcing the structure of racing that the Committee favours".

This affects the interests of all participants in racing, he said; "particularly those who buy the stock and pay the bills". Aside from the state racing authorities, whose function is to ensure the smooth day-to-day running of the industry, the only other members of the Committee are breeders or those who depend on the breeders for their livelihood.

Whitby and Leemon declared that if the Australian Pattern Committee is to retain the confidence of the industry and reflect the diversity of interests that support Australian racing, "then the Australian Racing Board must re-constitute the Committee to include representatives of owners and trainers".

ATROC

Max Whitby and Benedict Chan attended the National ATROC Forum in Melbourne on Friday, 28 October.

It was a very constructive Forum and we will report further in the next Newsletter.

RACING NSW

Over the last month our Directors have had a number of meetings with Gary Pemberton, Peter V'Landy's and Jim Murphy from Racing NSW in an effort to improve recognition of owners' status in NSW.

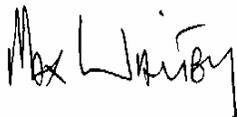
DEVONSHIRE TEA

Inclement weather caused confusion on the day when the venue was changed, and we apologise for the inconvenience caused. We are planning to hold another Devonshire Tea early 2006.

FREE ENTRY – NOVEMBER

1 st	Canberra, Corowa, Kembla Grange, Moree, Muswellbrook, Nowra, Orange, Sapphire Coast, Tamworth, Taree
2 nd	Grafton
3 rd	Albury, Hawkesbury
5 th	Broadmeadow
6 th	Bathurst
8 th	Scone
10 th	Wagga
12 th	Albury, Kembla Grange, Moruya, Wellington
13 th	Broadmeadow, Canberra
14 th	Quirindi
16 th	Hawkesbury
29 th	Kembla Grange
20 th	Taree
21 st	Lismore, Nowra
22 nd	Scone
24 th	Gosford, Grafton
25 th	Canberra, Orange
26 th	Broadmeadow
27 th	Tamworth
29 th	Taree

Yours in Racing



Max Whitby President

PAUL CARRAZZO'S COLUMN

It gives me no pleasure to state what is now becoming very obvious to a

bloodstock tax adviser like myself: The Australian Horse Racing Industry is well and truly under attack by the ATO. Furthermore, those in the "firing line" are owners who most likely fit your own circumstances.

As I noted in the last Newsletter, the Australian Horse Industry is in the midst of its biggest ever ATO audit. What is becoming increasingly obvious from my recent corresponding with the ATO, and feedback from fellow accountants, is that it is those owners who race horses that are not associated with breeding or training activities that run the risk of:

- Having their GST registration immediately cancelled;
- Refunding all GST previously claimed; and
- Having previous tax returns adjusted for horse racing tax losses previously claimed.

Do I have your attention?

NB. If an owner races horses that they bred and their taxation breeding business is also legitimate "enterprise" for GST purposes, generally GST credits and tax deductions can be claimed for such racehorses. This typically happens if a "home bred" filly with broodmare potential is retained and raced by the breeder.

Why is the ATO attacking horse racing?

Put simply, the ATO believes that horse racing is a "game of chance" and that most owners do not have a "realistic expectation" of profit. In essence, they are currently *unlikely* to accept horse racing activities as a GST "enterprise" or taxation "business". This policy applies even though the owner may have invested significant money, has a history of success, used all the right vets, has a successful trainer, keeps proper records, has prepared a credible business plan and uses many consultants within the activity. Scary stuff for our industry, wouldn't you say?

Per the recently released ATO fact sheet titled **GST for the racing industry**, your racehorse activities

are *likely* to be an enterprise or have income tax status, only if:

- you conduct your activities in a business-like manner and there is *reasonable expectation* that your activities will become commercially viable, and
- your activities generate an income based on sound business practices rather than luck or chance.

The ATO is very cynical about the "enterprise"/tax "business" status of any horseracing activity, especially where their previous 1993 horse industry ruling stated, I quote;

"In evaluating submissions on this point, it is worth noting that around 80% of foals get to the racetrack, and about half of these will win a race. According to 1989/90 statistics for thoroughbred horses, 37,264 horses competed in 25,214 races, with an average of 6.3 races per horse. The average prize money per race was \$7,555 and the average prize money per horse was \$5,097. In contrast, the estimated minimum annual cost of maintaining a racehorse was between \$15,000 and \$24,000 in 1992.

"Industry statistics show that only 5% of thoroughbred horses show a profit on the racetrack and it is difficult to envisage how racing could amount to a commercial activity."

What next?

If you are racing horses and are claiming significant GST credits or will do so in the future, in light of the above, you should *immediately* reassess the GST and income tax status of your activities.

Rest assured, yours truly and the NSWROA, together with other key industry players, intend to approach the ATO voicing our concerns with this current "hard line" approach to professional racehorse owners. If something is not done soon in this area, our world class racing and breeding industry will be a major loser as major domestic and overseas owners will exit our industry in droves – it is THAT serious!



For all your Bloodstock
Insurance Needs

Call us now on
1800 652 006 or 02 9635 3100

