Treatment and Taxation of Income From Horse Racing

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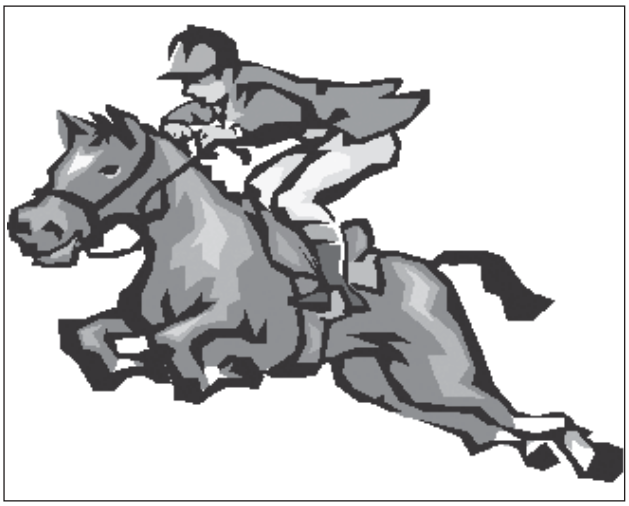
Of late, the racing industry in India has registered its contribution to the Governments of Central and States in the form of various taxes, fees etc. In fact, the Government share of income from horse racing is always considerable as compared to any other person's take home from horse races. Let us see how Central Government collects Direct Taxes from the persons connected to the Racing industry in India.

Basically the income from Horse Racing arises in different shapes in the hands of different persons. The different shapes and different persons are in the nature of the following incomes and persons:

- Dividends or bets won on horse races by the persons who make bets.
- Stake money i.e. the prize money won by the owners of the horses.
- Commission earned by the Trainers and Jockeys who are instrumental and involved directly in the horse racing.
- Income earned by Race Clubs and Book makers.



1. Dividends or bets won on horse races

Hitherto, this income was treated as casual income and was exempt upto Rs.2,500 per year u/s 10(3) of the Income Tax Act. Now in the recent Finance Bill 2002, this exemption has been withdrawn with effect from 01.04.03 i.e. from the assessment year 2003-2004. That means the income from horse racing is not a casual income hereafter and all such income without any exemption should be declared for Income Tax purpose. Similarly no expenditure is allowed to be deducted from such race winnings. The entire race winnings are taxable. This income is taxable at a flat rate of 30% u/s 115 BB and the income tax is deducted at source u/s 194 BB by the persons responsible for such payments exceeding Rs.2,500 without giving any exemption except the only investment made for winning that much of dividend. Therefore, the question of getting any refund from the Income Tax Department does not arise.

2. Stake money or Prize money

Stake money or Prize money is earned by the owner of the horses when their horses win or are placed 2nd, 3rd or 4th etc. as per rules of race clubs. All these stake money and prize moneys are gross income of the owner from the business of owning and maintaining the horses. This income is treated as business income against which the following expenses are generally allowed.

Basic Training fee i.e., the expenditure incurred for feed and maintaining and training the animal, transport expenses of horses, supplementary feed and medicines & tonics and medical & surgical treatment expenses,

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special stable expenses like aircooling, matting etc. stud farm expenses, contribution to owners associations, gifts and presents to stable staff, entertainment expenses, trainers commission, jockeys' commission, books, magazines, newspapers, periodicals and racing literature, photos, videos, CDs etc. conveyance expenses, travelling expenses for outstation participation, depreciation on vehicles and plant & machinery & equipment etc. all other expenses directly or indirectly incurred for carrying on this business.

But no Depreciation is allowed on Live Stock i.e. Horses. Although the horses are in the nature of fixed assets in the hands of the owner, no depreciation is allowed under Income Tax Act. Instead when the animal dies or becomes permanently useless the entire value of the horse can be written off as revenue loss in the year in which it dies or becomes permanently useless.

When the gross income exceeds the total expenditure, it results in net profit which will be taxable at usual rates of tax applicable to the person. But when the gross income is less than the expenditure, then it results in loss. Although the live stock is in the nature of fixed assets of the owner, they are not permanent. The owners buy them, maintain them, train them, participate in races and sell them or send them away to studs when they are useless.

When the horses are sold, the difference between the sale price and purchase price is taxable as profit if the sale price is more than the purchase price. Similarly if the purchase price is higher than the sale price, the loss arises and it can be written off as revenue loss in the year in which the horse is sold.

There is no Tax Deduction at Source on any payment of stake money or prize money to the owners. When the gross receipts including the receipts from Horse Race exceed Rs.40 lacs in a year, the books of accounts of the owner have to be audited u/s 44 AB of the Income Tax Act by a Chartered Accountant.

3. Commission earned by Trainers and Jockeys

The Jockeys ride the horses in the race events and their Income is in the nature of income from profession. Their receipts include Mount Fee i.e., Jockeys are paid a certain amount of fees for each ride irrespective of their winning or losing a race. Further they earn a commission of an agreed rate over the stake money when their horse wins or is placed as per rules of the race clubs. Jockey's are also retained by some trainers on monthly or yearly retainer fee, this retainer fee also form part of Jockey's income. As against these incomes, the Jockeys have to incur expenditure on the following heads which are generally allowed:

Jockey's License Fee, Contributions to Accident Fund, Jockey Association, Jockey Trust of India, Injured Jockey Compensation Fund, Jockey Medical Relief Fund, Medical Expenses, Saddlery Expenses, Sircingles, working Shoes, working Breaches, Racing Books & Literature, Racing Blazer, Whips, Stirrup Leather, Saddle Sponges, Stirrup Iron, Pads, Neck Straps, Lead Bags, Goggies, Salaries, Conveyance, Misc. Expenses, News Papers & Magazines, Professional recoveries (Fines), travelling for outstation participation etc.

The excess of income over expenditure is taxable as income for the year or when there is excess of expenditure over income, the loss can be adjusted against the other income of the Jockey in that year. In the absence of any other income, the such loss will be allowed to carry forward for eight successive assessment years for set off against future profit from Jockey's profession. There is no Tax deduction at source on the payments made to the Jockeys. The net income is taxable in the hands of the jockeys at the rates applicable. Generally, the returns have to be filed on or before 31st July every year. But when the gross receipts exceed Rs.10 lacs the books of accounts may be audited u/s 44 AB by a Chartered Accountant to avoid any controversy and such returns have to be filed on or before 31st October every year.

Similarly the trainers income is also treated as income from profession. Their receipts includes Basic Training Fee from the owners, Feed supplements etc.

Against these incomes, the trainers incur heavy expenditure on the following heads which are generally allowable:

Salaries & Wages to Stable Employees & Office Staff, Feed and Fodder, Stable Maintenance, Contribution to A.P.S.E.B. Trainers Association, Contribution to Trainers Association, Contribution to Stable Staff Medical Fund, Electricity Charges, Ex-gratia, Leave Travel Allowance, Professional Recoveries (Fines), Rates, Taxes & Licenses, Jockey Retainer fee etc.

Here again if there is excess of income over expenditure the net profit will be chargeable to tax at the rate applicable. But when the expenditure is higher than the income, it results in loss which can be adjusted against any other income during the year or in the absence

thereof, the loss can be carried forward to eight successive assessment years to be set off against such income from trainers profession. In order to carry forward the loss, it is necessary that the Income Tax return should be filed on or before the date of filing return, otherwise it will lapse. There is no tax deduction at source on payments made to the trainers, when the gross receipts of a trainer exceeds 10 lacs, the books of accounts may be audited u/s 44 AB by a Chartered Accountant to avoid any controversy. The trainers have to file their Income Tax return on or before 31st July every year. But when the gross receipts exceed 10 lacs, it is subject to tax audit and the date for filing such return is 31st October every year.

4. Income earned by Race Clubs and Book Makers

These are the authorised and licensed persons to conduct racing and carry on the business of accepting bets and paying dividends. Race Clubs and Book Makers mainly earn commission in this business and that net commission income after setting off various expenses for carrying on such business, is taxable in their hands at the rates applicable to them.

Thus the Central Government collects considerable revenue from various persons directly involved in the racing industry in India. ■