

# The Breeder Deductions Checklist

What a dog or cat breeding operation can actually write off, with the treatment, the documentation an audit examiner might ask for, and a chart of accounts you can copy straight into your bookkeeping.

## THE RULE EVERYTHING BELOW SITS ON

A business may deduct expenses that are **ordinary and necessary** to carrying it on: ordinary meaning common and accepted in breeding, necessary meaning helpful and appropriate. A *hobby* deducts none of this. A hobby breeder can only subtract Cost of Goods Sold from gross receipts to arrive at the gross income reported on the tax return. This checklist assumes your operation is engaged in for profit under IRC §183.

## What the treatment labels mean

|                       |                                                                                                                                              |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>EXPENSE</b>        | Deduct in full this year on your tax return.                                                                                                 |
| <b>CAPITALIZE</b>     | Record as an asset and depreciate. §179 (an election) or bonus depreciation (automatic unless you elect out) may allow a year-one write-off. |
| <b>ALLOCATE</b>       | Only the business percentage is deductible. Write down your method.                                                                          |
| <b>NO BASIS</b>       | The cost was already deducted, so nothing is left to recover at sale.                                                                        |
| <b>NOT DEDUCTIBLE</b> | Personal, penalized, or disallowed by law.                                                                                                   |

## Breeding stock & genetics

| ITEM                                                                          | TREATMENT                    | KEEP FOR THE FILE                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Purchased breeding stock (dam, sire, queen, stud)    | <b>CAPITALIZE</b>            | Bill of sale, registration transfer, date placed in service. §179 (an election) or bonus depreciation (automatic unless you elect out) may let you write it off in year one. If a full write-off would turn a profit year into a loss, consider spreading it out to protect your §183 profit history. |
| <input type="checkbox"/> Animals you raised yourself and later sell           | <b>NO BASIS</b>              | If you already deducted the feed and vet costs of raising the animal, you have no cost basis left to deduct at sale. Deducting both is the most common breeder error.                                                                                                                                 |
| <input type="checkbox"/> Stud service fees paid                               | <b>EXPENSE</b>               | Stud contract, invoice, proof of payment.                                                                                                                                                                                                                                                             |
| <input type="checkbox"/> Purchased frozen semen and embryos                   | <b>CAPITALIZE</b>            | Purchase invoice. Held for future production, so it carries basis; the basis comes out when a straw is used or sold.                                                                                                                                                                                  |
| <input type="checkbox"/> Collection of your own stud's genetics               | <b>CAPITALIZE OR EXPENSE</b> | Collection invoices. Choose one treatment and apply it consistently; never both.                                                                                                                                                                                                                      |
| <input type="checkbox"/> Annual genetics storage fees                         | <b>EXPENSE</b>               | Annual storage bills.                                                                                                                                                                                                                                                                                 |
| <input type="checkbox"/> Progesterone timing, AI, surgical implant, C-section | <b>EXPENSE</b>               | Vet invoices tied to a named dam and breeding.                                                                                                                                                                                                                                                        |
| <input type="checkbox"/> Purchase of a pet you keep and do not breed          | <b>NOT DEDUCTIBLE</b>        | Personal. Keep non-producing animals out of the business accounts entirely. This is a §1.183-2(b)(9) issue as much as a deduction issue.                                                                                                                                                              |

| ITEM                                                                     | TREATMENT      | KEEP FOR THE FILE                                                                                                  |
|--------------------------------------------------------------------------|----------------|--------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Retired breeding animals kept as household pets | NOT DEDUCTIBLE | Once an animal leaves the program, its ongoing care is personal. Record the retirement date in your animal roster. |

## Veterinary, health & nutrition

| ITEM                                                                                         | TREATMENT | KEEP FOR THE FILE                                                                                                                        |
|----------------------------------------------------------------------------------------------|-----------|------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Routine vet care, vaccinations, deworming, exams                    | EXPENSE   | Invoices identifying the animal. Split business animals from personal pets at the point of payment, not at year end.                     |
| <input type="checkbox"/> Genetic and health testing (OFA, PennHIP, DNA panels, cardiac, eye) | EXPENSE   | Test invoices and certificates. These also evidence expertise under §1.183-2(b)(2).                                                      |
| <input type="checkbox"/> Emergency care, surgery, medications                                | EXPENSE   | Invoices plus a note on what happened. A catastrophic vet year is exactly the kind of unforeseen circumstance that explains a loss year. |
| <input type="checkbox"/> Feed, formula, supplements, whelping nutrition                      | EXPENSE   | Receipts. If the same bag feeds household pets, allocate honestly and write down the method once.                                        |
| <input type="checkbox"/> Microchips, registration & litter paperwork                         | EXPENSE   | Registry receipts and paid invoices, ideally identifying each litter.                                                                    |

## Facility, equipment & utilities

| ITEM                                                                                                    | TREATMENT             | KEEP FOR THE FILE                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Kennel or cattery building, runs, fencing, permanent improvements              | CAPITALIZE            | Contractor invoices and in-service dates. A repair is deductible now; an improvement is not. The difference matters.                                                                                                                                                                                                                     |
| <input type="checkbox"/> Whelping boxes, incubators, grooming tables, HVAC, washer/dryer for kennel use | CAPITALIZE<br>EXPENSE | Receipts. Set a written capitalization threshold and apply it consistently. Under the de minimis safe harbor you may expense items up to <b>\$2,500 per item or invoice</b> ; you may choose a lower amount, but not a higher one. Items at or above your threshold are capitalized. The election must be made on your return each year. |
| <input type="checkbox"/> Repairs and maintenance — fixing what already exists                           | EXPENSE               | Invoices describing the work. "Replaced failed heat-lamp circuit" is a repair; "added a new whelping wing" is not.                                                                                                                                                                                                                       |
| <input type="checkbox"/> Cleaning, sanitation, bedding, disposables                                     | EXPENSE               | Receipts.                                                                                                                                                                                                                                                                                                                                |
| <input type="checkbox"/> Utilities — the kennel or cattery share                                        | ALLOCATE              | A separate meter is best. Otherwise document the square-footage or usage method you used and keep using it.                                                                                                                                                                                                                              |
| <input type="checkbox"/> Office space in your home used for the business                                | ALLOCATE              | The space must be used regularly and exclusively for the business. A room that doubles as a guest room will not work. Reported on Form 8829 or with the simplified method.                                                                                                                                                               |
| <input type="checkbox"/> Rent or lease of a separate facility                                           | EXPENSE               | Lease and payment records.                                                                                                                                                                                                                                                                                                               |

## Sales, marketing & client care

| ITEM                                                                                     | TREATMENT             | KEEP FOR THE FILE                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------------------------------------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Website, hosting, domain, listing and directory fees            | EXPENSE               | Invoices and renewal receipts. Also evidence under §1.183-2(b)(1) that you are carrying on the activity in a businesslike manner.                                                                                                                                                                                                                                                                                                                    |
| <input type="checkbox"/> Advertising, social media promotion, print, signage             | EXPENSE               | Receipts and, where you can, a copy of the ad.                                                                                                                                                                                                                                                                                                                                                                                                       |
| <input type="checkbox"/> Professional photography and video of litters                   | EXPENSE               | Photographer invoices.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <input type="checkbox"/> Go-home packs, collars, blankets, starter food, toys for buyers | EXPENSE               | Receipts. These are cost of sale. Track them per litter so you know your true margin.                                                                                                                                                                                                                                                                                                                                                                |
| <input type="checkbox"/> Shipping, flight nanny, ground transport of a sold animal       | EXPENSE               | Carrier receipts.                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <input type="checkbox"/> Health guarantee payouts and refunds                            | EXPENSE               | Contract, correspondence, proof of payment.                                                                                                                                                                                                                                                                                                                                                                                                          |
| <input type="checkbox"/> Buyer deposits received before placement                        | INCOME WHEN RECEIVED* | <p><b>Cash basis (most breeders):</b> a nonrefundable deposit is income when received. A deposit you are contractually obligated to refund is not income until it becomes nonrefundable. A deposit refunded in a later year is deducted in the year refunded.</p> <p><b>Accrual basis:</b> book to 2000 Customer Deposits until the animal goes home.</p> <p>*Your sales contract should state plainly whether and when a deposit is refundable.</p> |

## Travel, vehicle & shows

| ITEM                                                                                  | TREATMENT      | KEEP FOR THE FILE                                                                                                                                                                                |
|---------------------------------------------------------------------------------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Mileage — vet runs, buyer meetings, supply runs, show travel | ALLOCATE       | A contemporaneous mileage log: date, destination, purpose, miles. Choose the standard rate or actual expenses, but you must have a mileage log either way.                                       |
| <input type="checkbox"/> Vehicle purchase used substantially in the business          | CAPITALIZE     | Purchase documents plus business-use percentage from your log. §179 and bonus depreciation require more than 50% business use; at 50% or less, straight-line only. Luxury auto limits may apply. |
| <input type="checkbox"/> Airfare and lodging for a business trip                      | EXPENSE        | Itinerary, receipts, and a one-line business purpose written at the time.                                                                                                                        |
| <input type="checkbox"/> Show, trial and evaluation entry fees                        | EXPENSE        | Entry receipts and results. The honest caveat: showing carries recreational elements, so tie entries to a breeding purpose, such as proving stock or earning titles that raise placement value.  |
| <input type="checkbox"/> Meals while traveling on business                            | 50% ONLY       | Receipt plus who was present and the purpose of the meal.                                                                                                                                        |
| <input type="checkbox"/> Entertainment of any kind                                    | NOT DEDUCTIBLE | Disallowed entirely since 2018, no matter how business-related.                                                                                                                                  |
| <input type="checkbox"/> Commuting from home to your own kennel                       | NOT DEDUCTIBLE | Personal commuting is not deductible.                                                                                                                                                            |

## Administration, professional & people

| ITEM                                                                                             | TREATMENT      | KEEP FOR THE FILE                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Accounting, bookkeeping, tax preparation, legal fees                    | EXPENSE        | Invoices and engagement letters. Also evidence under §1.183-2(b)(2) that you consulted advisors.                                                                                                    |
| <input type="checkbox"/> Kennel licenses, USDA/state permits, inspection fees                    | EXPENSE        | License certificates and renewal receipts. Also evidence under §1.183-2(b)(1).                                                                                                                      |
| <input type="checkbox"/> Registry and breed club dues (AKC, CFA, TICA, parent clubs)             | EXPENSE        | Dues receipts.                                                                                                                                                                                      |
| <input type="checkbox"/> Insurance — liability, property, animal mortality, care-custody-control | EXPENSE        | Policies and premium notices.                                                                                                                                                                       |
| <input type="checkbox"/> Software, breeding-record apps, payment processing fees                 | EXPENSE        | Subscription receipts and processor statements.                                                                                                                                                     |
| <input type="checkbox"/> Wages to employees; contract labor on 1099                              | EXPENSE        | Timesheets, payroll filings, W-9s and 1099s. For 2026 payments, a 1099-NEC is required once a contractor is paid \$2,000 or more. Paid help also strengthens §1.183-2(b)(3), but only with records. |
| <input type="checkbox"/> Seminars, coursework, breed literature, mentorship fees                 | EXPENSE        | Receipts, registrations and certificates. Education that maintains or improves skills in a business you already carry on. Also evidence under §1.183-2(b)(2).                                       |
| <input type="checkbox"/> The value of your own labor                                             | NOT DEDUCTIBLE | A sole proprietor cannot deduct paying themselves. Log the hours anyway; they matter under §1.183-2(b)(3) even though they are not an expense.                                                      |
| <input type="checkbox"/> Fines and penalties (licensing violations, citations)                   | NOT DEDUCTIBLE | Never deductible, regardless of business connection.                                                                                                                                                |

## Key numbers for 2026

Verify these against current guidance before filing. Rates and limits change, sometimes mid-year, as the mileage rate did this year.

|                               |                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>MILEAGE</b>                | 72.5¢ per mile for business miles driven January 1 – June 30, 2026, and 76¢ per mile July 1 – December 31, 2026 (IRS Announcement 2026-11). If you drove all year, split your log at June 30.                                                                                                                                                          |
| <b>§179 EXPENSING</b>         | Up to \$2,560,000 of qualifying property expensed in year one, phasing out dollar for dollar above \$4,090,000 of purchases (Rev. Proc. 2025-32). §179 is an election and cannot create a loss.                                                                                                                                                        |
| <b>BONUS DEPRECIATION</b>     | 100% under §168(k) for property acquired after January 19, 2025, made permanent by the 2025 tax act. Applies automatically unless you elect out.                                                                                                                                                                                                       |
| <b>DE MINIMIS SAFE HARBOR</b> | Expense items costing up to \$2,500 per item or invoice, with the annual election on your return.                                                                                                                                                                                                                                                      |
| <b>STARTUP COSTS</b>          | Up to \$5,000 deductible in your first year under §195, reduced dollar for dollar once total startup costs exceed \$50,000; the remainder amortizes over 180 months.                                                                                                                                                                                   |
| <b>MEALS</b>                  | 50% deductible when business-related. Entertainment: 0%.                                                                                                                                                                                                                                                                                               |
| <b>1099-NEC THRESHOLD</b>     | \$2,000 per contractor for payments made in 2026 (previously \$600).                                                                                                                                                                                                                                                                                   |
| <b>PROFIT PRESUMPTION</b>     | Under IRC §183(d), an activity profitable in 3 of 5 consecutive years is presumed to be engaged in for profit, and the burden shifts. (Horse activities get 2 of 7; dogs and cats do not.)                                                                                                                                                             |
| <b>HOBBY EXPENSES</b>         | Zero. The miscellaneous itemized deduction that once let hobby expenses offset hobby income is suspended, and that suspension was made permanent. Hobby gross income is still fully reportable. Cost of Goods Sold is especially important for hobby breeders, because it reduces gross receipts to arrive at the gross income reported on the return. |

#### THE FIVE DEDUCTIONS THAT GET DISALLOWED MOST OFTEN

1. Personal pet costs, including retired breeders kept as pets, run through the business.
2. Deducting the cost of raising an animal and then claiming basis in it again at sale.
3. A home office that is not used regularly and exclusively for the business.
4. Capital improvements expensed in full without support: no written capitalization threshold, no de minimis election, and no depreciation, \$179 or bonus reported on the return.
5. Undocumented mileage.

## A chart of accounts you can copy

Here is a basic standard chart of accounts. Set it up once in QuickBooks, Xero, Wave, Zoho Books or a spreadsheet and your bookkeeping stops being a giant year-end project. Numbering is conventional; adjust it to your software, and delete what you do not use. Operating expenses are subdivided so the Profit & Loss shows where the money actually goes.

### INCOME • 4000s

|      |                              |      |                               |
|------|------------------------------|------|-------------------------------|
| 4000 | Puppy & Kitten Sales         | 4040 | Boarding & Grooming Income    |
| 4010 | Stud & Service Fees Earned   | 4050 | Show & Competition Winnings   |
| 4020 | Frozen Genetics Sales        | 4060 | Consulting & Mentoring Income |
| 4030 | Retired & Adult Animal Sales | 4900 | Refunds & Allowances (contra) |

### COST OF GOODS SOLD • 5000s

Use 5040 for litter-specific vet care (first shots, puppy and kitten exams) and 6020 for routine adult care, so no invoice is posted twice.

|      |                                        |      |                                                      |
|------|----------------------------------------|------|------------------------------------------------------|
| 5000 | Cost of Animals Sold — Purchased Stock | 5040 | Litter Registration, Microchipping & Litter Vet Care |
| 5010 | Stud Fees Paid                         | 5050 | Go-Home Packs                                        |
| 5020 | Reproductive Services                  | 5060 | Litter Marketing & Photography                       |
| 5030 | Whelping & Neonatal Supplies           | 5070 | Health Guarantee Claims                              |

### OPERATING EXPENSES • 6000s

#### Animal care & program costs

|      |                                       |      |                                     |
|------|---------------------------------------|------|-------------------------------------|
| 6000 | Feed & Nutrition                      | 6050 | Kennel Supplies & Sanitation        |
| 6010 | Supplements & Medications             | 6060 | Show, Trial & Evaluation Entry Fees |
| 6020 | Veterinary — Routine                  | 6070 | Animal Transport                    |
| 6030 | Veterinary — Health & Genetic Testing | 6080 | Registry & Breed Club Dues          |
| 6040 | Grooming Supplies & Services          |      |                                     |

#### Personnel costs (payroll)

|      |                                              |      |                                      |
|------|----------------------------------------------|------|--------------------------------------|
| 6100 | Wages & Salaries                             | 6140 | Employee Benefits & Health Insurance |
| 6110 | Officer / Owner Compensation (entities only) | 6150 | Workers' Compensation Insurance      |
| 6120 | Payroll Taxes                                | 6160 | Payroll Processing Fees              |
| 6130 | Contract Labor (1099)                        | 6170 | Staff Training & Certification       |

#### Marketing & advertising

|      |                              |      |                                     |
|------|------------------------------|------|-------------------------------------|
| 6200 | Advertising & Paid Placement | 6240 | Print, Signage & Branded Materials  |
| 6210 | Website, Hosting & Domain    | 6250 | Marketing Software & Email Platform |

|                                                      |                                                                  |
|------------------------------------------------------|------------------------------------------------------------------|
| <b>6220</b> Listing & Directory Fees                 | <b>6260</b> Trade Shows & Breeder Expos                          |
| <b>6230</b> Photography & Video                      | <b>6270</b> Sponsorships & Promotional Donations                 |
| <b>Facility costs (occupancy)</b>                    |                                                                  |
| <b>6300</b> Rent or Lease — Facility                 | <b>6350</b> Waste Removal & Disposal                             |
| <b>6310</b> Utilities — Business Portion             | <b>6360</b> Security & Monitoring                                |
| <b>6320</b> Facility Repairs & Maintenance           | <b>6370</b> Groundskeeping & Snow Removal                        |
| <b>6330</b> Property Insurance                       | <b>6380</b> Home Office Allocation (reported on Form 8829)       |
| <b>6340</b> Property Taxes — Business Portion        |                                                                  |
| <b>Administrative</b>                                |                                                                  |
| <b>6400</b> Professional Fees — Accounting & Legal   | <b>6460</b> Telephone & Internet — Business Portion              |
| <b>6410</b> Licenses, Permits & Inspections          | <b>6470</b> Education, Seminars & Publications                   |
| <b>6420</b> Liability Insurance                      | <b>6480</b> Vehicle — Mileage or Actual                          |
| <b>6430</b> Software & Subscriptions                 | <b>6485</b> Travel — Lodging & Airfare                           |
| <b>6440</b> Bank & Merchant Processing Fees          | <b>6490</b> Meals (50%)                                          |
| <b>6450</b> Office Supplies & Postage                |                                                                  |
| <b>ASSETS • 1000s</b>                                |                                                                  |
| <b>1500</b> Breeding Stock — Purchased               | <b>1550</b> Accum. Depreciation — Equipment                      |
| <b>1510</b> Accum. Depreciation — Breeding Stock     | <b>1560</b> Vehicles                                             |
| <b>1520</b> Kennel Buildings & Improvements          | <b>1570</b> Accum. Depreciation — Vehicles                       |
| <b>1530</b> Accum. Depreciation — Buildings          | <b>1600</b> Frozen Genetics Inventory                            |
| <b>1540</b> Equipment                                |                                                                  |
| <b>LIABILITIES • 2000s</b>                           |                                                                  |
| <b>2000</b> Customer Deposits — Unearned (accrual)   | <b>2020</b> Payroll Liabilities                                  |
| <b>2010</b> Accounts Payable                         |                                                                  |
| <b>OTHER INCOME • 7000s</b>                          |                                                                  |
| <b>7000</b> Interest Income                          | <b>7030</b> Insurance Proceeds & Claim Settlements               |
| <b>7010</b> Gain on Sale of Assets or Breeding Stock | <b>7090</b> Miscellaneous Other Income                           |
| <b>7020</b> Grants, Rebates & Incentives             |                                                                  |
| <b>OTHER EXPENSES • 8000s</b>                        |                                                                  |
| <b>8000</b> Interest Expense — Loans & Credit        | <b>8030</b> Loss on Sale or Disposal of Assets or Breeding Stock |
| <b>8010</b> Depreciation Expense                     | <b>8040</b> Fines & Penalties (non-deductible)                   |
| <b>8020</b> Amortization — Startup Costs             | <b>8090</b> Miscellaneous Other Expense                          |

## Setting it all up: next steps

The chart of accounts is only worth having if it is actually being used. This is the shortest path to a working set of books, and to a kennel or cattery that is set up professionally and audit-ready.

- 1. Open a business checking account and a business card, today.** Nothing else on this list matters as much. Commingled accounts are the single fastest way to lose a \$183 argument, and they make every step below three times harder.
- 2. Create the accounts, then delete what you do not use.** A short chart you post to correctly beats a long one you guess at. You can always add an account later.

3. **Set your capitalization threshold in writing.** Up to \$2,500 per item under the de minimis safe harbor; many breeders choose a lower amount, such as \$1,000. Write it down before the year starts and apply it every time: at or above the threshold goes to the appropriate asset account; below it goes to the relevant expense account. Make the de minimis election on your return each year.
4. **Set up deposits correctly before your next litter.** On the accrual method, book deposits to 2000 Customer Deposits until the animal goes home, then move them to sales. On the cash method, record nonrefundable deposits as income when received. Either way, make sure your sales contract says whether and when a deposit is refundable.
5. **Reconcile monthly, not annually.** Twenty minutes a month. Reconciled books kept contemporaneously are exactly what factor 1 of the nine hobby loss factors is asking about, and they are the difference between a clean examination and an expensive one.
6. **Tag every transaction to a litter where you can.** Classes in QuickBooks, tracking categories in Xero, tags in Zoho Books. Do it for one year and you will know, for the first time, which of your pairings actually make money.

#### DEDUCTIONS ARE THE EASY HALF

Keeping the records that let you actually claim them, litter by litter, year after year, is the part that decides whether an audit examiner agrees with you. That is what Breeder Biz Advisor is for: bookkeeping built for kennels and catteries, litter costing that shows real margin, and substantiation that holds up when someone asks.

Members get a more detailed chart of accounts with posting guidance, plus templates and documents to download and use in your program, and guidance from a CPA who was also a successful Maine Coon breeder, so she knows both taxes and animal husbandry. Join Breeder Biz Advisor for the financial and operational support your program needs to succeed, thrive, and last.

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*This checklist is general educational information, not tax advice, and it does not create a client relationship. It is written for United States federal income tax purposes; state and local treatment differs. Whether a particular expense is deductible depends on your facts, and every item here assumes the activity is engaged in for profit under IRC §183. Rates, limits and thresholds change; the 2026 figures shown were current when this was prepared and should be confirmed before filing. Discuss your situation with your own tax advisor.*