

The cat **Fancy** is a group of individuals interested in the breeding and showing of cats. When does cat fancying cease to be a hobby and become a business venture? What does it mean to you as a business? (1) You start making profits, and (2) you become accountable to the government for your income.

In starting your business you have to presume that you are engaging in this activity for a profit. In the case of breeding and showing cats, you should presume that you are engaged in a profit for two of seven consecutive years.

The next step in your accounting is to become familiar with the Federal Tax Laws as they apply to the owner of a Cattery. There are several types of taxes that will apply: some Federal, some State and, in some cases, even local. These will vary in their application as the business structure changes and grows in size.

Some method must be followed to keep an account of profit and expenses. It is my suggestion that the "cash basis" method be used. In using this method, income is recorded when received and deductions noted as they are paid. Most taxpayers use this method for recording income and expenses. No special system is required by law, only that all records in the accounting system be accurate and complete. This is vital to establish income and all the proper deductions.

Begin organizing by grouping all accounts under descriptive headings such as: Purchases, Food, Rent, Insurance, Veterinary Expense, etc. A more complete list can be found at the end of this article. Use as many categories as needed. Then list all sources of income: include such items as Sales, Breeding, Boarding, Agenting. The third heading will be Depreciation and the method to figure this will be discussed later.

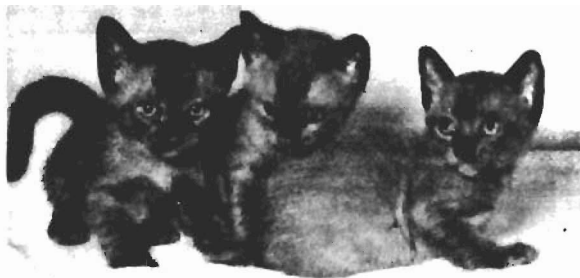
Some expenses incurred are partly for the Cattery and partly for personal reasons. These are deductible only to the extent that they are related to the Cattery. These expenses should be listed and noted as to their pertinence to the expenses in your Cattery.

As you know, gross profits can be figured by subtracting the cost of the goods sold from the gross sales figure. To get a net profit or net loss, as the case may be, the Cattery's operating expenses must be subtracted from the gross profits figure.

One part of the operating expenses picture is all the equipment and animals that make up the business. Depreciation is a way to handle capital improvements through a systematic recovery of the capital invested in business assets. Cats, cages and other big investments made for the Cattery should be handled as depreciable items. Always keep in mind, however, that cats bred in your Cattery between your own animals cannot be depreciated. This is because there is no outlay of cash.

The rate of depreciation will vary with the item. Cages, carriers and other physical equipment can be depreciated based on their life expectancy and cost. Usually this is simply done by the straight line method. Take the cost of the item and divide it by the life expectancy. Cats, I depreciate over a seven year life span. This is what an actuary table for the insurance of cats will allow. Remember, too, that the item can never be depreciated for an amount greater than its cost or basis. The useful life of the item can be changed at the end of any tax year because conditions may change its significant value.

Additional first year depreciation can be used at 20% of the cost of the item in addition to



Young Burmese kittens at Mr. Freeman's Ru-To Cattery, Ohio, U.S.A.

the regular depreciation. The only requirement for this is that the item have an expectancy of six years of useful life to your business.

Methods of depreciation most generally used are (1) straight line (briefly described here); (2) declining balance; (3) sum of the years. I recommend for the novice accounting system the straight line because of its simplicity. The other methods are good but would require taking time to study them and determine which would be more suitable.

Another area to consider is that of Bad Debts. These must be recorded as actual legitimate sales or services rendered which cannot be collected after all possible means of collection have been exhausted. These may be deducted from your gross income as long as they have met the prior stipulations and do not have any incurred interest or finance charges included in them.

CAT FANCYING ...

BUSINESS OR HOBBY?

BY THOMAS E. FREEMAN

In summing up, I think a check list of items might be helpful in setting up the Cattery as a business. This check list is set up as income vs. expenses:

| <u>Income</u> | <u>Expenses</u> |
|---------------|---|
| Agenting | Advertising |
| Boarding | Cleaning |
| Breeding | Commissions |
| Consultation | Depreciation |
| Sales | Entertaining |
| Services | Food |
| | Legal services |
| | Licenses |
| | Safety Deposit Box (for regns., etc) |
| | Salaries |
| | Shipping |
| | Taxes |
| | Travel |
| | Utilities |
| | Vet bills |

This is a start on a check list. There may be other categories that will apply to your own situation. A Cattery can make money or it can be only a hobby. Best of luck on whichever way you should decide to handle your Cattery. ###