

Short-Term
Vacation Rental
Taxation Part 1

Course #3291A

Taxes

2 Credit Hours

Support@PacificCPE.com | (800) 787-5313

PacificCPE.com

SHORT-TERM VACATION RENTAL TAXATION PART 1

This course explains the types of taxes short-term rental hosts need to know about, including: income taxes, social security and Medicare taxes, net investment income tax, and state and local occupancy taxes. It also identifies tax-free situations and what qualifies as rental expense.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

How Short-Term Rental Hosts Are Taxed Tax-Free Short-Term Rentals Deducting Your Expenses: The Basics

Study the course materials from pages 1 to 35 Complete the review questions at the end of each chapter Answer the exam questions 1 to 10

Objectives:

- To recognize how short-term rentals are taxed
- To identify tax-free situations
- To recognize what qualifies as rental expenses

NOTICE

This course and test have been adapted from supplemental materials utilizing the full text of Every Airbnb Host's Tax Guide © 2023 by Stephen Fishman, J.D.. All rights reserved. Reprinted with permission from Nolo, which owns the copyrights. The course information, learning objectives, review questions and review answers are written by PES which owns the copyright, thereto.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties or merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

The End User shall be permitted to use the Licensed Content for internal purposes only and not for resale or distribution. The Licensed Content is provided on an "as is" basis and without any warranties of any kind, express or implied. CCH INCORPORATED AND ITS LICENSORS AND AFFILIATES DISCLAIM ALL WARRANTIES WITH RESPECT TO THE LICENSED CONTENT, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, TITLE, QUIET ENJOYMENT AND INFORMATION COMPLETENESS, CURRENCY OR ACCURACY.

End User assumes all responsibilities and obligations with respect to the selection of the Licensed Content to achieve End User's intended results. End User assumes all responsibilities and obligations with respect to any decision or advice made or given as a result of the use or application of the Licensed Content. CCH and its licensors and affiliates are not engaged in the rendering of legal, accounting, tax or other professional advice or services. If legal, accounting, tax or other expert assistance is required, the services of a competent professional should be sought.

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

© Pacific CPE, LP 2023

Program publication date 4/13/23

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- ACCESS FINAL EXAM: Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- LICENSE RENEWAL INFORMATION: This course qualifies for 2 CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

TABLE OF CONTENTS

Chapter 1: How Short-Term Rental Hosts Are Taxed	1
Income Taxes	1
Social Security and Medicare Taxes	6
Net Investment Income Tax	8
Local and State Occupancy Taxes	10
Chapter 2: Tax-Free Short-Term Rentals	13
Short-Term Rentals That Qualify for Tax-Free Treatment	13
Effect of Qualifying for Tax-Free Treatment	16
Chapter 3: Deducting Your Expenses: The Basics	19
What You Can Deduct	19
How Your Tax Status Affects Your Deductions	21
Deductions for Multiple Owners	24
Test Your Knowledge	26
Solutions and Suggested Responses	28
Glossary	31
Index	33
Final Exam Copy	34

CHAPTER 1: HOW SHORT-TERM RENTAL HOSTS ARE TAXED

This chapter explains the types of taxes short-term rental hosts need to know about, including:

- · income taxes
- Social Security and Medicare taxes
- · Net Investment Income tax, and
- · local and state occupancy taxes.

Most short-term rental hosts have to pay income taxes, and some have to pay Social Security and Medicare taxes as well. Although hosts don't have to pay local occupancy taxes themselves, they have to ensure that their guests pay these taxes.

INCOME TAXES

Short-term rental hosts must be concerned first and foremost with federal income taxes. If you rent your property for 14 days or fewer during the year, you might not have to pay any income tax at all on your rental income. This situation is discussed in detail in Chapter 2. However, if, like most short-term rental hosts, you rent your property more than 14 days, you'll have to pay federal income tax on the net rental income you receive during the year. When you file your yearly tax return, you add your net rental income to your other income for the year, such as salary income from a job, interest on savings, and investment income, and you pay income tax on the total. You'll need to file a separate tax form with your annual tax return (usually IRS Schedule E) to report your short-term rental income and expenses (see course 3293).

Fortunately, you don't have to pay tax on all the short-term rental income you receive. Instead, you pay tax only on your "net" rental income—this is your total rental income minus your deductible rental property expenses. So, the more deductible expenses you have, the less tax you'll have to pay.

Example



Jenna owns a condo in Miami that she rents out 60 days during the year on Airbnb, earning a total of \$6,000 in rental income. Luckily, she doesn't have to pay income tax on the entire \$6,000. She gets to deduct the expenses she incurred renting out her condo, such as Airbnb fees, utilities, supplies, repairs, and depreciation of her condo. These expenses amount to \$2,000. She has to pay income tax only on her \$4,000 in net short-term rental income. She files IRS Schedule E with her tax return to report her rental income and expenses. She adds her \$4,000 net short-term rental income to her other income for the year and pays income tax on the total.

This example shows why it is so important to deduct every rental expense you're allowed and to keep proper records of these deductions in case they are questioned by the IRS.

In some cases, your deductible expenses can exceed the income you earn from renting your property, resulting in a net rental loss for the year. Rental losses can be deductible from other nonrental income you earned during the year. The complex tax rules governing these kinds of losses are covered in course 3293.

State Income Taxes

This book covers federal taxes. However, 42 states also have income taxes. State income tax laws generally track federal tax law, but there are some exceptions. The states without income taxes are Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming. (New Hampshire doesn't tax earned wages.) For details on your state's income tax law, visit your state tax agency's website or contact your local state tax office. You can find links to all 50 state tax agency websites at www.taxadmin.org/state-tax-agencies.

What Is Rental Income?

Your rental income consists primarily of the rent your short-term guests pay you for the use of your property. However, short-term rentals can generate other income as well. Here are examples of some other types of rental income.

Security deposits. You do not need to include security deposit money in your income when you receive it if you plan to return the money to your guests at the end of their stay. But if you keep part or all of the security deposit because a guest causes damage or doesn't pay you in full at the end of their stay, include the amount you keep in your income for that year. If the guest caused damage, you can deduct the cost of repairs (see Chapter 3).

Interest earned on security deposits is also rental income that should be included in your income in the year it is earned, unless your state or local law requires landlords to credit that interest to your guests.

Property or services in lieu of rent. Property or services you receive from a guest as rent (instead of money) must be included in your rental income. For example, if a guest is a painter and offers to paint your property in return for staying rent free for 30 days, you must include in your rental income the amount the guest would have paid for a 30-day stay at your property.

Rental expenses paid for by guests. Any rental expenses that guests paid for are rental income; for example, payments a guest makes to you for repairs, utilities, or other rental costs. These costs are then deductible by you as rental expenses.

Reservation cancellation fees. Any fees you retain when a guest cancels a reservation are rental income.

Fees. Other fees or charges guests pay you are also rental income. These fees and charges include:

- garage or other parking fees
- fees you charge guests for the use of storage facilities
- pet fees, and
- laundry income from coin-operated washers and dryers you provide for guests' use.

How COVID-19 Pandemic Aid Is Taxed

During the COVID-19 pandemic, struggling short-term rental hosts were able to get various types of financial aid. Some of this aid is taxable income; some is not. For example:

- Aid from Airbnb. Airbnb established a \$250 million fund to help hosts impacted by cancellations related to COVID-19. To qualify, hosts had to permit guests to cancel for a full refund. Airbnb paid 25% of what the host would have received based on the host's cancellation policy. This aid is taxable income for the hosts who received it.
- Paycheck Protection Program (PPP) loans. During 2020 and 2021, millions of business owners, including short-term rental hosts, obtained PPP loans from the Small Business Administration (SBA). Hosts with employees, such as property managers, could borrow up to 2.5 times their average monthly payroll costs for 2019 or 2020. Hosts without employees were not eligible for PPP loans unless they filed IRS Schedule C with their return because they provided their guests with substantial personal services (see below). Such hosts could borrow up to \$20,833. Most PPP loans have been wholly or partly forgiven by the SBA—that is, they don't have to be repaid. Under normal tax rules, forgiven loans are taxable income. However, Congress enacted a special tax law making forgiven PPP loans completely tax free for the hosts and other businesses that received them. PPP borrowers did not have to list the PPP loans in their tax returns.
- Economic Injury Disaster Loans (EIDLs). All short-term hosts were eligible for low-interest EIDLs from the SBA of up \$2 million depending on financial need. EIDLs also came with emergency loan advances up to \$10,000. Congress also established a second round of EIDL emergency advances in 2020 targeted to businesses in low-income communities. The IRS does not forgive EIDLs—they must be paid back. Because they are loans, EIDLs are not taxable income, and the interest the host-borrower paid to the SBA is a tax-deductible expense. EIDL advances are also nontaxable.

What Expenses Are Deductible?

You are entitled to deduct virtually all the expenses you incur when you rent out your property, just like any other residential landlord. Deductible expenses include such items as advertising costs, attorneys' and accounting fees, listing fees and commissions, travel expenses, mortgage interest, utilities, supplies, travel expenses, car expenses, repairs and maintenance, furniture and personal property costs, and depreciation of your real property.

Any expenses you incur just for your short-term rental activity— for example, Airbnb listing fees—are fully deductible. However, other expenses are only partly deductible. Deductions such as depreciation