



Short-Term Rentals



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Income received for the rental of your home, a room in your home, or a vacation home, must generally be reported on your federal income tax return. Related expenses may have to be divided between rental and personal use. However, if the property that you also use as a home is rented for only a short time each year, the rental income may be tax-free.

Rental Property Also Used as a Home

If you use a property (including a vacation home) for both rental and personal purposes, the tax treatment of the rental expenses and rental income depends on whether you are considered to be using the property as a home. If the property is used as a home and rented 15 days or more, the deduction for certain rental expenses is limited if you have a net loss from rental operations.

You use a property as a home during the tax year if you use it for personal purposes more than the greater of:

- 14 days, or
- 10% of the total days it is rented to others at a fair rental price.

Example: Andrea has a vacation cabin that she used for 17 days and rented for 160 days during the year. The cabin is considered used as a home because she used it for personal use more than 14 days.

Not used as a home. If the property is not used as a home, all rental income is taxable and expenses must be divided between the rental use and the personal use. See *Renting Part of Personal-Use Property*, later.

Personal use. Personal use may include use by your family. It may also include use by any other property owners or their family. Use by anyone who pays less than fair rental price is also personal use.

Example: Emma and her neighbor are co-owners of a condominium at the beach. Last year, she rented the unit to vacationers whenever possible. The unit was not used as a main home by anyone. Emma's neighbor used the unit for two weeks last year and Emma did not use it at all. Because the neighbor has an interest in the unit, both Emma and the neighbor are considered to have used the unit for personal purposes during those two weeks.

Example: Jill rented the guest bedroom in her home at a fair rental price during the local college's homecoming, commencement, and football weekends (a total of 27 days). Jill's sister-in-law stayed in the room, rent free, for the last three weeks (21 days) in July. Jill figured 10% of the total days rented to others at a fair rental price was 3 days. The room was used as a home because Jill used it for personal purposes for 21 days. That is more than the greater of 14 days or 10% of the 27 days it was rented (3 days).

Limit on deductions. If your rental expenses are more than your rental income, some or all of the excess expenses are suspended and cannot be used to offset income from other sources. Excess expenses are carried forward to the next year and will be subject to limits that apply for that year. This limitation will apply to expenses carried forward to another year even if you do not use the property as your home for that subsequent year.

Tax-Free Rental Use—14 Days or Less

If you use the property as a home and you rent it less than 15 days during the year, that period is not treated as rental activity. You are not required to report the rental income and rental expenses from this activity. Expenses, including qualified mortgage interest and real estate taxes, will be reported as normally allowed as itemized deductions.



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Example: A major golf tournament comes to town and Marcus rents his home out for the 6-day duration of the tournament. He does not rent out his home at any other time during the year. The income received from renting out his home for the 6-day period is not considered rental income and is not reported on his tax return.

Providing Substantial Services

In addition to income taxes, rental income and expenses are subject to self-employment tax if you provide substantial services in conjunction with the property. Generally, you are considered to provide substantial services if the services are for your tenant's convenience. Examples include, but are not limited to, regular cleaning, changing linen, maid service, guest tours and excursions, meal and entertainment, transportation, etc. Substantial services do not include providing heat and light, internet, cleaning of common areas, trash collection, etc.

For example, if you rent a room in your home and provide breakfast for the tenant, you may be considered to be providing substantial services.

Renting Part of Personal-Use Property

If you have any personal use of a property (including a vacation home) that you rent, you must divide your expenses between rental use and personal use, as though you actually had two separate pieces of property. You can deduct the expenses related to the part of the property used for rental purposes, such as home mortgage interest, qualified mortgage insurance premiums, and real estate taxes, as rental expenses. You can also deduct as rental expenses a portion of other expenses that normally are nondeductible personal expenses, such as expenses for electricity or painting the outside of the house. You do not have to divide the expenses that belong only to the rental part of your property. For example, if you paint a room that you rent or pay premiums for liability insurance in connection with renting a room in your home, your entire cost is a rental expense. You can deduct depreciation on the part of the house used for rental purposes as well as on the furniture and equipment you use strictly for rental purposes.

There is no change in the types of expenses (e.g., mortgage, real estate taxes) deductible for the personal-use part of your property. Generally, these expenses may be deducted only if you itemize your deductions.

Example: Julie lists her spare bedroom on a popular short-term rental website. The spare room is 300 square feet and her whole house is 1500 square feet. She has the following expenses this year:

Repainting the spare room.....	\$300
Replacing broken door in spare room.....	\$150
Real estate tax and mortgage interest (whole house).....	\$6,500
Internet, electricity, gas, water (whole house).....	\$2,650

Expenses for painting and replacing the door in the spare room are fully deductible rental expenses.

Expenses for real estate tax, mortgage interest, and utilities are not strictly for the rental part of Julie's house and must be prorated. Prorating by square footage is common, which would be 20% (300/1500). \$1,830 ($\$9,150 \times 20\%$) of the whole house expenses are deductible rental expenses. Julie can deduct the remainder \$5,200 real estate tax and mortgage interest as itemized deductions. The remainder \$2,120 utilities expenses are considered personal expenses and are not deductible.

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Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.