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Airbnb's Impact On Your Taxes Depends On How You Use It

By Robert W. Wood

Airbnb was launched in 2008, connecting people with space to offer to those who want to rent it. It means renters and landlords galore, which means there are taxes to consider. You might think that would be simple, but it isn't.

Airbnb has tips on its website, addressing "How do taxes work for hosts?" but much of the focus is on international issues. If you want simple guidance, you might be tempted to vote for Carly Fiorina, who has proposed a three-page tax code! In the meantime, despite the simplicity of the Airbnb concept, get ready for complex taxes.

There's a quirky tax code provision — Section 280A — that governs property used for both personal and rental purposes. First determine if your property is strictly a rental, a residence, or both. In general, a home is treated as used for rental purposes for any day it is rented for fair market value.

But if you rent your home to a family member, those days count as rental days only if: (1) The family member pays fair market value; and (2) the home is used by the family member as his or her primary residence. If these two requirements are not met, the days the home is rented by the family member are considered "personal use" days to the owner.

You are generally considered to have used a house for personal purposes for a day if, for any part of the day, the home is used for personal purposes by the owner or the owner's siblings, spouses, ancestors or lineal descendants. Additionally, you get attributed personal use for anyone using your home under a reciprocal arrangement. You even get attributed personal use for anyone you allow to use it who is not paying you a fair market value rent.

If multiple people co-own a property, each owner is treated as using it for personal purposes on any day that *any owner* uses it for personal purposes. However, you are not treated as using a home for personal purposes for any day you spend cleaning, painting, repairing, or otherwise maintaining the home. Cleaning days are not counted as *either* rental or personal use.

Say you use Airbnb to rent out a room in your principal residence while you continue to reside there? You are saddled with a personal use day for every day of the year, even for the days the home was rented. If your rental activity is limited to sharing a room within your primary residence, you can't deduct a loss from your rental activity.

<u>14 or Fewer Rental Days</u>

Say you have fewer than 15 rental days during the year. If you rent your home for fewer than 15 days during the year, you can simply ignore the rental activity, pocket the cash, and not report the income. But you also cannot deduct any expenses attributable to the rental activity, other than ones that are otherwise deductible, such as mortgage interest and real estate taxes.

<u>15 or More Rental Days, Limited Personal Use</u>

Say your rental days exceed 14 days, and your personal use days do not exceed the greater of 14 days, or 10 percent of your total rental days? Here, the property is considered a rental, *not* a residence. As a result, this is the one situation in which you may generate and deduct a loss from your rental activities.

But you have to report all the rental income. Plus, any expenses attributable to the rental may be deducted. However, there is a defined order in which the rental expenses must be deducted.

<u>15 or More Rental Days, Plus Lots of Personal Use</u>

If you rent a home for more than 14 days, *and* you *also* use the home for personal purposes for more than the greater of 14 days or 10 percent of rental days, the home is classed as a residence. Because the home is a residence, and not a rental, no rental loss is permitted. Moreover, there is a distinct order in which your rental expenses must be deducted against your rental income.

<u>Renting a Room</u>

Say you just rent out one room in your house or apartment? Airbnb has greatly enhanced the ability of a homeowner to rent a single room in his or her primary residence. If this sounds like you, you must remember that you are treated as using the home for personal purposes each day of the year, regardless of how many days you might have rented it.

As a result, your personal use will always exceed the greater of 14 days or 10 percent of the rental days. That means you can't claim a loss on the rental.

<u>Deducting Losses</u>

In some ways, deducting losses is the most attractive part of renting property. If you have a dedicated rental unit you own, you report the rental income but deduct the expenses. That includes cleaning, maintenance, interest, taxes, and many other expenses, even including depreciation. But the passive activity loss rules (in Section 469 of the tax code) may restrict your ability to deduct more than you earn. As you think about Airbnb, consider the larger topic of property rentals and how they are taxed.

If you have 15 or more rental days, and limited personal use, you may be able to deduct a net loss. However, before that loss will actually become useful on your tax return, you have to consider the passive loss rules of Section 469. Basically, a loss from a passive activity can only be used to offset income from a passive activity.

Passive activities include all rental activities regardless of how "active" you are in conducting the rental activity. This means that in general, your rental losses do you little good unless you have other passive income. There are three exceptions, however, that may enable you to benefit from the rental losses.

Even if an activity is considered a rental, if you "actively participate" in the management of the rental activity, you can deduct up to a $25,000 loss from the rental. But this $25,000 allowance is reduced by 50 percent of the amount by which your adjusted gross income exceeds $100,000. As a result, the benefit is completely lost once your adjusted gross income reaches $150,000.

So, is Airbnb good for your taxes? It depends. If you rent your place for less than 15 days a year, sure. You pocket the cash and need not report it.

Alternatively, if you have a rental unit that you don't use personally and that you keep strictly professional, that too works well. In between, you are in for what can sometimes be painstaking calculations!

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