

Tax Guide for Short-Term Rentals

6th Edition

Stephen Fishman, J.D.

Table of Contents

Chapter 1 – Introduction: Who This Book Is For.....	1
Chapter 2 – How Short-Term Rental Hosts Are Taxed.....	3
Learning Objectives	3
Introduction.....	3
Income Taxes.....	3
What Is Rental Income?.....	4
What Expenses Are Deductible?.....	5
Paying Estimated Tax on Your Rental Profits.....	5
Income Taxes When You Sell Your Home.....	6
Social Security and Medicare Taxes	7
What Are Substantial Services?.....	7
Filing IRS Schedule C.....	8
Social Security and Medicare Tax Due on Rental Profits.....	8
Net Investment Income Tax	8
What Is the NII Tax?.....	8
Who Is Subject to the NII Tax.....	9
What Is Net Investment Income?	9
Amount of the Tax	9
Real Estate Professionals Not Subject to NII Tax.....	9
Hosts in Hotel Business Not Subject to NII Tax.....	9
Local and State Occupancy Taxes.....	9
Review Questions.....	12
Review Answers	13
Chapter 3 – Tax-Free Short-Term Rentals.....	15
Learning Objectives	15
Introduction.....	15
Short-Term Rentals That Qualify for Tax-Free Treatment.....	15
Dwelling Unit.....	15
Used as a Residence.....	15
Rentals of 14 Days or Less	16
Room Rentals.....	16
Multiple Properties	16
Multiple Hosts.....	17
Effect of Qualifying for Tax-Free Treatment.....	17
No Tax Due on Rental Income	17
No Deductions for Tax-Free Rentals	17
Reporting Tax-Free Rental Income on Your Tax Return.....	18
Review Questions.....	19
Review Answers	20
Chapter 4 – Deducting Your Expenses: The Basics	21
Learning Objectives	21
Introduction.....	21
What You Can Deduct.....	21
Operating Expenses	21
Repairs and Maintenance	21
Long-Term Asset Expenses.....	22
Pass-Through Tax Deduction.....	22
You Must Allocate Many Expenses Between Your Rental and Nonrental Use	22
How Your Tax Status Affects Your Deductions.....	22
Is Your Rental Activity a Business?.....	22
Is Your Rental Activity an Investment?.....	23
Is Your Rental Activity Not for Profit?	24

Table of Contents

Deductions for Multiple Owners.....	25
Co-Owners Not Married to Each Other.....	25
Co-Ownership by Spouses.....	25
Ownership Through a Business Entity.....	25
Review Questions.....	27
Review Answers.....	28
Chapter 5 – Operating Expenses.....	29
Learning Objectives.....	29
Introduction.....	29
What Are Operating Expenses?.....	29
Direct Expenses Deductible in Full.....	30
Rental Platform Fees and Commissions.....	30
Local and State Licenses and Fees.....	30
Advertising and Marketing Expenses.....	30
Car and Local Transportation Expenses.....	30
How to Deduct Car Expenses.....	31
Long-Distance Travel Expenses.....	31
Home Office Deduction.....	33
Hiring Help.....	33
Legal and Professional Services.....	34
Guest Amenities.....	34
Gifts.....	34
Entertainment Not Deductible.....	35
Other Operating Expenses.....	35
Start-Up Expenses.....	35
State Income Taxes.....	35
Operating Expenses That Must Be Allocated.....	36
Rent.....	36
Home Mortgage Interest.....	36
Credit Card and Loan Interest.....	37
Property Taxes.....	37
Utilities.....	37
Parking.....	38
Insurance.....	38
Casualty and Theft Losses.....	38
Review Questions.....	40
Review Answers.....	41
Chapter 6 – Repairs.....	43
Learning Objectives.....	43
Introduction.....	43
Repairs vs. Improvements.....	43
Deducting Repairs for Short-Term Room Rentals.....	44
Three Safe Harbors.....	44
Safe Harbor for Small Taxpayers (SHST).....	45
Routine Maintenance Safe Harbor.....	46
De Minimis Safe Harbor.....	47
Repair vs. Improvement: Analysis Under the Regulations.....	48
Betterments.....	48
Restorations.....	48
Adaptations.....	49
How to Deduct Repairs and Maintenance.....	49
When Guests Pay for Repairs.....	49
Properly Documenting Repairs.....	49
Review Questions.....	51
Review Answers.....	52

Table of Contents

Chapter 7 – Deducting Long-Term Assets	53
Learning Objectives	53
Introduction.....	53
Depreciating Property Used in Your Rental Activity	53
How to Depreciate Real Property	54
Determining Your Property’s Basis.....	54
How Long Is the Depreciation Period?	55
How Much to Depreciate Each Year.....	56
Depreciating Improvements After Rental Activity Begins.....	56
Improvements That Are Qualified Improvement Property.....	57
When You Sell Your Property	58
Personal Property	59
De Minimis Safe Harbor.....	60
Materials and Supplies Deduction	61
Bonus Depreciation	62
Section 179 Expensing	64
Regular Depreciation	65
Personal Property Converted to Rental Use	65
Review Questions.....	66
Review Answers	67
Chapter 8 – The Pass-Through Tax Deduction	69
Introduction.....	69
Your Rental Activity Must Be a Business.....	69
Your Rental Activity Must Be a Pass-Through Business	69
You Must Have Qualified Business Income	70
You Must Have Taxable Income	70
Calculating Your Pass-Through Deduction.....	71
Taking the Pass-Through Deduction	73
Strategies to Maximize the Pass-Through Deduction.....	73
Increase Rental Income	73
Buy New Property to Rent Short Term	73
Keep Your Taxable Income Below W-2/Property Thresholds.....	73
Review Questions.....	74
Review Answers	75
Chapter 9 – Prorating Your Deductions	77
Learning Objectives	77
Introduction.....	77
Direct Expenses Are Fully Deductible	77
Expenses That Must Be Prorated.....	77
Renting Your Entire Home	78
Renting a Room in Your Home.....	79
Calculating Personal and Rental Days	79
Calculating Personal Use.....	79
Calculating Rental Use	80
Putting Your Calculations Together	81
Review Questions.....	82
Review Answers	83
Chapter 10 – Reporting Rental Income on Your Tax Return	85
Learning Objectives	85
Introduction.....	85
Most Hosts Use Schedule E to Report Rental Income	85
Schedule E Line by Line	85
Lines A and B: Filing IRS Form 1099	88
Line 1a–1b: Physical Address and Type of Property.....	88

Table of Contents

Line 2: Dual-Use Properties	88
Line 3: Rents Received	88
Line 4: Royalties Received	89
Expenses: Lines 5–20	89
Lines 21–26: Rental Summary	91
Completing Schedule E When You Have a Rental Loss	91
Hosts Who Don't File Schedule E	95
Hosts Who Provide Guests Substantial Services	96
Electing Qualified Joint Venture Status	96
Spouses in Community Property States	96
Ownership Through a Business Entity	96
Not-for-Profit Real Property Owners	97
Tax-Free Home Rentals	97
Review Questions	98
Review Answers	99
Chapter 11 – Filing IRS Form 1099 Information Returns	101
Learning Objectives	101
Introduction	101
When Someone Else Reports Your Rental Income to the IRS	101
Reporting Payments You Make to ICs and Other Workers	102
Workers Subject to Reporting Requirement	102
\$600 Threshold for Reporting	102
Exception for Electronic and Credit Card Payments	103
Filing IRS Form 1099-NEC	103
Backup Withholding for Independent Contractors	105
Review Questions	106
Review Answers	107
Chapter 12 – Deducting Losses for Short-Term Rentals	109
Learning Objectives	109
Introduction	109
What Are Rental Losses?	109
Which Rental Loss Rules Apply	110
Vacation Home Rules	110
Limits on Deducting Losses	111
Nondeductible Losses Are Carried Forward	111
Completing IRS Schedule E	111
Allocation Strategy to Increase Your Current Deduction	112
Hotel Business Rules	113
Rentals for Seven Days or Fewer	114
Rentals for 30 Days or Fewer With Significant Services	114
Deducting Losses for Hotel Businesses	114
Suspended Passive Losses	115
No Personal Deduction for Mortgage Interest	115
Beware Not-for-Profit Rules	116
Regular Rental Activity Rules	116
The \$25,000 Offset	116
Real Estate Professional Exemption	117
Annual Loss Limits	117
Losses Before 2018	117
Losses Incurred 2018–2020	117
Losses Incurred 2021–2026	118
Losses Incurred 2027 and Later	118
Review Questions	119
Review Answers	120

Table of Contents

Chapter 12 – Record Keeping	121
Learning Objectives	121
Introduction.....	121
What Records Do You Need?	121
Separate Rental Bank Account	121
Separate Credit Card for Rental Activity Expenses	122
Tracking Income and Expenses	122
Rental Expenses.....	122
Rental Income	123
Supporting Documents for Your Expenses	123
Asset Records	124
Listed Property	125
Records Required for Local Travel	125
Records for Long-Distance Travel, Meals, and Gifts	127
Property Usage Record.....	128
Review Questions.....	129
Review Answers	130
Glossary	131
Index	133