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Tax Implications for Short-Term Rentals

Short-term rentals, often called vacation rentals, have exploded onto the travel scene, becoming hugely popular with homeowners and travelers alike. Millions of people in the U.S. are currently renting their homes or apartments on websites such as HomeAway, VRBO and Airbnb. Though sometimes overlooked, sales and lodging taxes are an entire class of taxes that expose short-term renters to a significant liability.

A significant liability
Short-term rental property owners are required to collect and remit sales and lodging taxes on the gross rent collected from guests – the same taxes a hotel is required to collect. Short-term in most states is less than 30 days, but there are a handful of states that have 90-day definitions and a few where short-term is defined as up to six months. Long-term rentals are typically defined as greater than 30 days (again, this definition varies by state), and are usually not required to collect lodging or any other transaction taxes.

The property owner or host is required to collect lodging taxes from the guest on any short-term stays. These taxes are typically 10 to 15 percent of the gross rent collected – overnight accommodations are heavily taxed. Sales and lodging taxes are a type of gross receipts tax and there are no deductions.

The average short-term rental will generate $20,000 to $30,000 per year in rent, thus amounting to $2,000 to $5,000 in sales and lodging taxes that must be collected and paid. This is a significant liability if you are not compliant, especially if you are audited for three to five years of history.

Lodging taxes are often overlooked
Lodging tax can be easily overlooked because a large number of owners are often unaware of these requirements. Most homeowners or hosts have never heard of or dealt with these taxes before, and the rental activities are to simply generate additional income.

Further complicating lodging taxes is the fact that there are often different city, county and state taxes that apply to each rental. Essentially, there are multiple levels of government that are potentially each applying a separate tax. The state department of revenue may only handle a portion of the required taxes, and the remaining portion will need to be remitted directly to city or county tax agencies.

How to be compliant
Lodging taxes function similarly to sales taxes. A note of caution – rarely are lodging taxes solely collected by the state revenue agency. There are usually additional city or county taxes (sometimes both) that the state will not be aware of. This is one major difference from sales taxes where, in most states, the state revenue agency collects 100 percent of sales taxes.

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Below are the basic steps in order to be compliant:

1. Determine the tax rate. Start with the state revenue agency and search for hotel or transient room taxes. Once you find hotel tax requirements, this also applies to vacation rentals. Based on what you learn from the state, check with the city and county where the rental property is located. It is important to confirm that the property address is within city and county boundaries, as you can't always rely on ZIP codes or mailing address.

2. Register. Once you determine the applicable tax rate, you will need to register with city, county and state agencies that administer the taxes. This may include obtaining a business license or rental permit. You should find the forms required when you are researching the taxes and tax rates with each agency.

3. File and remit. The tax agency determines the frequency of remittance, though sometimes the tax agency will allow you to request a frequency when completing the application forms. These taxes are almost always required to be remitted monthly or quarterly, and most vacation rentals will be required to remit taxes to two different agencies, such as the city and state. Like all sales taxes, returns are usually due by the 20^{th} of the month and there are stiff penalties for not filing on time or missing a filing.

How to Build Your Back-to-School Budget

Even though the beach is still calling, it's almost time for students to think about the days when they'll be loading up their backpacks, charging those computers and setting alarms for earlier than 10 a.m. – because the new school year will be here before you can say 'fall semester.'

If that sounds stressful to you, you're not alone. On top of all the stresses associated with your children going to school, there is also a significant financial cost associated with the start of a new academic year. School requires many different items to be successful – all of which can add up in a hurry if you're not careful. If you help pay for your children's schooling, and/or want to pass on the knowledge to them, here are some widely applicable tips for managing back-to-school costs:

1. Save for textbooks and materials: Textbooks and materials for higher education classes can rapidly add up to hundreds, or even thousands, of dollars for just a semester. Starting a savings plan for these items ahead of time can help reduce unpleasant surprises down the road. Students should confirm with professors if they can buy used editions, or purchase them from discount textbook sites – you'd be surprised how much you can save. Bonus tip: unless there's reading that is required ahead of the first day, it can pay off to wait until then to buy books, as instructors sometimes make last minute changes, or provide online access to or print outs of all the materials needed.

2. Don't forget incidental costs: There are always unexpected costs when it comes to education. Some of these costs are obvious, but there are other costs you might not think of right away. Calculators, different types of database access, or even buying large amounts of paper and ink can add up.

3. Double-check your aid: With the number of charter and other non-public options for elementary and high school education, the concept of financial aid is not something limited to college students anymore. Right now, before the school year starts, find out what your children qualify for and what you are actually receiving.

4. Make a budget: This might not be a groundbreaking idea, but you'd be surprised by how many people fail to put together a budget for back-to-school shopping. Like anything else, not putting together a plan or budget before you start spending money will almost always result in you spending more than you should. Make a plan, stick to it, and your wallet will thank you down the road.