PacificCPE

COURSE

33701C

Short-Term Rentals: Tax Fundamentals

Get up to speed on how short-term rental hosts are taxed, including the special rules that can make some rental income completely tax-free. This course covers the foundational concepts every tax professional needs before advising clients in the short-term rental space, including how rental activity is classified and what basic expense deductions are available. Whether you're new to this area or looking to formalize your knowledge, this section builds the framework for everything that follows.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize how short-term rentals are taxed.
- Identify tax-free situations.
- Recognize what qualifies as rental expenses.

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INTRODUCTION

This course is a guide to the income tax issues faced by people who rent out all or part of their homes to short-term guests. We refer to such people as “short-term rental hosts.” The information here applies to rentals arranged through online rental platforms, such as Airbnb, VRBO, FlipKey, and others. It also applies to short-term rentals made through Craigslist or made offline through local advertising, word of mouth, or any other means.

This course provides the tax knowledge rental hosts need, whether they rent out all or part of their main home, vacation home, or any other property they own or rent, like a cottage or separate unit attached to their home. The tax rules for short-term rental hosts are different from those that apply to traditional landlords.

Taxes are complicated enough for traditional landlords, but they can be even more difficult for short-term rental hosts. Online rental platforms provide little or no tax guidance—they’re in the rental business, not the tax advice business. The following information is included:

- When short-term rentals are tax free
- How to identify, allocate, and maximize short-term rental deductions
- How to do IRS reporting for short-term rentals
- How to deduct short-term rental losses
- How to complete your tax return (IRS Schedule E), and
- How to keep records for short-term rentals.

Important Inflation Adjustments

Social Security Tax Ceiling Limit (Chapter 1) 2026: $184,500

Standard Mileage Rate (Chapter 1 of course 33702D) Effective 1/1/2026 - 72.5 cents per mile

Section 179 Property Deduction Limits (Chapter 3 of course 33702D) 2026: $2,560,000

Pass-Through Deduction Taxable Income Ranges (Chapter 1 of course 33703D) 2025:

- Up to $197,300 ($394,600 if married)
- Between $197,301 to $247,300 ($394,601 to $494,600 if married), phaseout

2026:

- Up to $201,750 ($403,500 if married)

- Between $201,750 to $276,750, single - phaseout
- Between $403,500 to $553,500, married filing joint - phaseout

Chapter Objective

After completing Chapter 1-3, you should be able to:

- Recognize how short-term rentals are taxed.
- Identify tax-free situations.
- Recognize what qualifies as rental expenses.

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 Chapter 3 of course 33703D).

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 Chapter 2 of course 33704D.

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.)

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 don't 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.

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 and repairs must be prorated according to the amount of time you rent your property during the year compared with the time you use it personally and, if you don't rent your entire property, by the amount of space that is rented. For example, if you rent your entire home 10% of the year, you'll be able to deduct only 10% of the depreciation you'd be able to claim for a full-time rental. If you

have a room that takes up 25% of the space in your home and you rent the room for 10% of the year, you'd be entitled to 2.5% of the full depreciation deduction for the entire home. How to calculate the rental and personal use of your property and how to allocate your deductions are covered in detail in Chapter 2 of course 33703D.

Paying Estimated Tax on Your Rental Profits

No income or other taxes are withheld from the rental payments you receive from online rental platforms likeAirbnb and VRBO. Be aware, however, that when you set up your account with an online platform like Airbnb, VRBO, or FlipKey, you must provide a completed IRS W-9, *Request for Taxpayer Identification Number and Certification*. This form verifies your identity and address for tax purposes. If you don't complete a W-9, the company is required to withhold 24% of your rental income and pay it to the IRS, which is called "backup withholding."

If your short-term rental activity earns a profit and you expect to owe at least $1,000 in income tax on the amount, you might need to pay estimated taxes to the IRS to prepay your income tax liability. However, if you work and have income tax withheld from your pay, you'll need to pay estimated tax only if your total withholding (and any tax credits) amounts to less than 90% of the total tax you expect to pay for the year. So, you can avoid paying any estimated tax at all by having your withholding increased. But, you'll be able to hold on to your money a bit longer if you pay estimated tax instead of having the money taken out of your paychecks every pay period.

If you pay estimated tax, the payments are due four times per year: April 15, June 15, September 15, and January 15. To avoid having to pay an underpayment penalty, your total withholding and estimated tax payments must equal the lesser of either (1) 90% of your tax liability for the current year, or (2) 100% of what you paid the previous year (or 110% if you're a high-income taxpayer—adjusted gross income of more than $150,000, or $75,000 for married couples filing separate returns).

The easiest way to calculate your quarterly estimated tax payments is to subtract your total expected income tax withholding for the current year from the total income tax you paid last year. The balance is the total amount of estimated tax you must pay this year. But, if you're a high-income taxpayer, add 10% to the total. Note, however, that if your income is higher this year than last, you'll owe extra tax to the IRS onApril 15. To avoid this situation, you can increase your estimated tax payments or simply save the money you'll need to pay the taxes when you file your annual return.

You pay the money directly to the IRS in four equal installments, so divide the total by four. You can pay by mail, by electronic withdrawal from your bank account, or by