PacificCPE

COURSE
33702C

Short-Term Rentals: Deductions, Repairs, and Depreciation

Dig into the nuts and bolts of deducting short-term rental expenses, from everyday operating costs to repairs and long-term asset depreciation. Understanding the distinction between a deductible repair and a capitalized improvement can make a significant difference for your clients. This course walks through each category methodically so you can apply the rules with confidence, helping clients maximize legitimate deductions while staying on the right side of IRS guidelines.

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

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LEARNING ASSIGNMENTS AND OBJECTIVES

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 what expenses qualify as current.
- Identify differences between repairs, betterments, and improvements.
- Recognize how depreciation is handled.

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Chapter 1: OPERATING EXPENSES

Chapter Objective

After completing this section, you should be able to:

- Recognize what expenses qualify as current.
- Identify differences between repairs, betterments, and improvements.
- Recognize how depreciation is handled.

This chapter is about the day-to-day operating expenses you incur for your short-term rental activity. All these expenses are currently deductible in the year they're incurred (except for start-up expenses). Some are deductible in full; others must be allocated according to how much and how long you rent your property.

WHAT ARE OPERATING EXPENSES?

You may start to deduct your operating expenses the moment your short-term rental activity begins— this ordinarily happens when you list your property for short-term rental. Expenses you incur before you offer your property for rent are not operating expenses but might be deductible as start-up expenses (see "Start-Up Expenses," below). Many different types of operating expenses exist—so many that they can't all be individually listed in the tax law. The basic rule is that you can deduct in a single year any expense that is:

- Ordinary and necessary
- Current
- Directly related to your rental activity, and
- Reasonable in amount. (I.R.C. § 162.)

An expense is ordinary and necessary if it is common, helpful, and appropriate for your activity. It doesn't have to be indispensable—it only has to help your rental activity in some way, even a minor way. A one- time expenditure can be ordinary and necessary. Generally, the IRS won't second guess your claim that an expense is ordinary and necessary unless the item or service clearly has no legitimate business purpose. You will not be allowed to deduct off-the-wall or clearly ridiculous expenses.

An expense is current if it is for an item that will benefit your rental activity for less than one year. These expenses are the costs of keeping your rental venture going on a

day-to-day basis, including money you spend on items or services that get used up, wear out, or become obsolete in less than one year. A good example of a current expense is the cost of utilities like electricity, gas, and water you provide your short-term guests. Anything you purchase that will benefit your rental activity for more than one year isn't a current expense—for example, purchasing a new refrigerator for your vacation home. You can usually deduct the cost of personal property like a refrigerator in a single year using bonus depreciation or the de minimis** safe harbor (see Chapter 3).

An expenditure must be directly related to your rental activity to be deductible as an operating expense. So, you can't deduct personal expenses. If you buy something for both personal and rental use, you can deduct only the business portion of the expense. You must figure out how much of the time you use the item for rental purposes and how much for personal purposes. You then allocate the total cost between the two purposes and deduct only the rental portion of the cost. These allocation rules are particularly important for part-time rentals and are discussed in detail in Chapter 2 of course 33703D. Finally, unreasonable expenses aren't deductible. As a rule of thumb, an expense is reasonable unless more economical and practical ways are available to achieve the same result. If the IRS finds that your deductions are unreasonably large, it will disallow them or at least disallow the portion it finds unreasonable. Certain areas are hot buttons for the IRS—especially travel and meal expenses. The IRS won't allow any lavish expenses here, and you will have to follow strict rules requiring you to fully document these deductions.

DIRECT EXPENSES DEDUCTIBLE IN FULL

Any operating expense you incur solely for your short-term rental activity is deductible in full. These are expenses you incur only because you're renting your property short term; otherwise, you wouldn't have them, including all the following types of expenses.

Rental Platform Fees and Commissions

The fees charged by short-term rental platforms, such as Airbnb, VRBO, or FlipKey, are all fully deductible operating expenses. These fees can be substantial, so this deduction can be valuable. For example, Airbnb charges a "host service fee" equal to 3% of the cost of each reservation (but some hosts pay more), while VRBO charges $699 for an annual subscription. These rental platforms also typically charge "service fees" to guests—for example, Airbnb charges guests a 13%–20% service fee. Obviously, hosts can't deduct guest fees because they don't pay them. Guests might be able to deduct such fees if their travel is for business.

Local and State Licenses and Fees

Many local (and some state) governments require short-term hosts to pay for business licenses and special registration fees. For example, San Francisco requires short-term hosts to pay a $250 registration fee every two years. These fees are fully deductible operating expenses.

Advertising and Marketing Expenses

Expenses you incur to advertise and market your short-term rental are fully deductible. For example, if you hire a professional photographer to take pictures of your property for your online rental listing, the cost is fully deductible. If you create your own website to market your short-term rental, the cost is also deductible. Ongoing website hosting, maintenance, and updating costs are currently deductible operating expenses. Money you spend to get people to view your website, such as SEO (search engine optimization) campaigns, is also currently deductible. However, the cost of initially developing your website might constitute a capital expense, not a currently deductible business operating expense. If so, the cost might have to be deducted over three years. Any other advertising you do is also deductible.

Car and Local Transportation Expenses

Local travel is travel by car or other means within the area of your tax home—the entire city or general area where you live. If the home you rent out short term is also the main home where you live, this deduction might be quite limited. You might have more deductions if you have a second home you rent out, but even here, restrictions are in place.

Driving Must Be for Rental Activity

You may deduct local travel only if it’s for your short-term rental activity. For example, you can deduct the cost of driving to the airport to pick up or drop off your short-term guests. You can also deduct driving to meet with repair people, attorneys, property managers, and other people who help in your short-term rental activity.

What about travel to and from your short-term rental property? If this property is also your main home (that is, the place where you live), you’ll likely have no deductions for this unless you have an office outside your home you use to manage your rental activity (which is rare for short-term rental hosts). In this event, you could deduct travel between your outside office and your main home for rental purposes.

You’ll likely qualify for more deductible local travel expenses if you rent out a property other than your main home, such as a vacation home. Travel from your main home to your vacation home (or other property away from your own home) can be deductible if done for rental purposes—for example, to do cleanup, maintenance, repairs, guest

check-in, hauling supplies, or other rental-related tasks. However, this is true only if you have an office in your main home that qualifies as the principal place of business for your rental activity (see “Home Office Deduction,” below). Otherwise, such trips are nondeductible personal commuting, even if there is a rental purpose for the trip. Moreover, you may not currently deduct driving expenses incurred while making improvements to your home or another property you use in your short-term rental activity. Instead, the cost of such driving must be added to the basis (cost) of the improvement and depreciated over several years (see Chapter 2).

How to Deduct Car Expenses

If you have tax-deductible driving expenses, you can deduct them by using the standard mileage rate or the actual expense method. With the standard mileage rate, you deduct a specified number of cents for every business mile you drive. The IRS sets the standard mileage rate each year. For 2026, the rate is increased to 72.5¢ per mile. To figure out your deduction, simply multiply your rental miles by the applicable standard mileage rate. You can find the current standard mileage rate on the IRS website.

Alternatively, instead of using the standard mileage rate, you can deduct the actual cost of using your car for your rental activity. This requires more record keeping, but it can result in a larger deduction. If you use this method, you must keep careful track of all the costs you incur for your car during the year, including:

- Gas and oil
- Repairs and maintenance
- Depreciation of your original vehicle and improvements
- License and registration fees
- Parking fees for rental-related trips, and
- Insurance and auto club dues.

You may deduct parking fees and tolls with either method.

You must use the standard mileage rate in the first year you use a car for your rental activity, or you are forever prevented from using that method for that car. If you use the standard mileage rate the first year, you can switch to the actual expense method in a later year. Whichever method you use, you must keep track of all the driving you do for your rental activity (see Chapter 3 of course 33704D).

Long-Distance Travel Expenses

Long-distance travel is travel away from the area of your tax home (the city or general area where you live) that requires you to stay at least overnight at your destination before returning home. If the property you rent to short-term guests is a vacation home or another home outside the area of your tax home, you might have substantial long-distance travel expenses. Such expenses can be deductible. However, you can't deduct trips primarily for personal vacations.

What Travel Is Deductible? To be deductible, your trip must be primarily for your rental activity. So, you must have a rental purpose in mind before starting out, and you must actually spend more than half your time working at your short- term rental activity while you're away. Examples of rental purposes include:

- Traveling to your property to deal with guests, maintenance, or repairs
- Traveling to building supply stores or other places to obtain materials and supplies for your rental activity
- Learning new skills to help in your rental activity, by attending landlord-related classes, seminars, conventions, or trade shows, and
- Traveling to see people who can help you operate your rental property, such as attorneys or real estate managers.

For example, an Oklahoma couple owned a vacation condo in Hawaii that they rented to short-term guests for many years. The IRS and Tax Court ruled that their travel and meal expenses for their two-and three-week trips to Hawaii over a two-year period were not deductible because the trips were primarily vacations. Although they spent some time repairing and refurbishing their condo, they failed to show that this was the primary reason for their travel and meal expenses. (*McKinney v. Comm'r*, T.C. Memo 1981- 181.)

You may not currently deduct travel expenses incurred to make improvements to property you use in your short-term rental activity— for example, travel expenses related to adding a new roof to your vacation home. Instead, the cost of such travel must be added to the basis (cost) of the improvement and depreciated over several years (see Chapter 2).

What Expenses Can You Deduct?

If your travel is deductible, you may deduct transportation expenses— that is, the expenses you incur traveling to your destination, such as plane fare. You may also deduct the expenses you incur to stay alive (food and lodging) and do rental business while at your destination. Such destination expenses include:

- Hotel or other lodging expenses for rental business days (if any)

- Meal and beverage expenses (50% deductible)
- Laundry and dry cleaning expenses, and
- Tips you pay on any of the other costs.

You may deduct 100% of your transportation expenses if you spend more than half of your time on rental activities while at your destination. In other words, your rental activity days must outnumber your personal days. If you spend more time on personal activities than on rental activities, you get no transportation deduction. You may also deduct the destination expenses you incur on days when you spend most of your time on rental-related tasks. Expenses incurred on personal days at your destination are nondeductible personal expenses.

You may deduct the travel costs of your spouse or any other relative who is a co-owner of the rental property you travel to visit as long as that person spends sufficient time on rental activities. If you bring your family along simply to enjoy the trip, you may still deduct your own business expenses as if you were traveling alone.

Calculating Time Spent on Rental Activities While Away From Home

To calculate how much time you spend on rental activities while on a trip, compare the number of days you spend on rental-related work to the number of days you spend on personal activities. You spend a day on rental activities if you:

- Spend more than four hours doing rental-related work— for example, working on repairs or maintenance of the property or dealing with your short-term guests
- Spend more than four hours on travel for your rental activity (travel time begins when you leave home and ends when you reach your destination, or vice versa)
- Drive at least 300 miles for your rental activity. You can average your mileage. For example, if you drive 600 miles to your destination in two days, you may claim two 300- mile days, even if you drove 500 miles on one day and 100 miles on the other
- Spend more than four hours on some combination of travel and your rental activities, and
- Stay at your destination between days you work on rental activities, if it would have cost more to go home and return than to remain where you are. This sandwich rule allows you to count weekends as rental activity days, if you work at your travel destination during the previous and following weeks.

Example

Will lives in Boston and owns a two-bedroom vacation home in Miami that he rents short term through Airbnb and other rental platforms. This year, he flew from home to Miami and spent five days working on repairing and remodeling the home and then flew back home. He spent five hours each day on this work. His trip was primarily for his rental business activity. He may deduct his airfare and 100% of his meals at restaurants while in Miami (50% for meals not at restaurants).

Home Office Deduction

If your rental activity qualifies as a business for tax purposes (see Chapter 3 of course 33701D), you might able to take the home office deduction. This enables you to deduct as a rental expense a portion of your rent or home mortgage, utilities, and other home expenses. In addition, you'll be able to deduct driving from home to your rental property (if other than your main home). To qualify for this deduction, you must pass three tests:

1. **Exclusive use test:** You must use a portion of your home exclusively for your rental business If you use part of your home—such as a room or studio—as your rental business office, but you also use that space for personal purposes, you won't qualify for the home office deduction. You can use an entire room or rooms for your office or just part of a room. Because your use must be exclusive, your guests must not be allowed to use the space while they stay in your home. This should pose no problem where your office is in your main home and you rent out a vacation home or another property you have. However, the IRS might have trouble believing you satisfy the exclusive use requirement if your office is in your main home and you rent the entire home to short-term guests and are not present (unless you can show you have a good lock on the door to your home office that you keep locked).
2. **Regular use test:** You must also use your home office regularly for your rental business The IRS doesn't say exactly how much, but you should use your home office at least a few hours every week.
3. **Business importance test:** Finally, your home office has to serve an important function in your rental business. You'll qualify if you:
    - Regularly and exclusively use your home office for administrative or management activities for your rental business, and