

# AIRBNB HOST REPORTING GUIDE

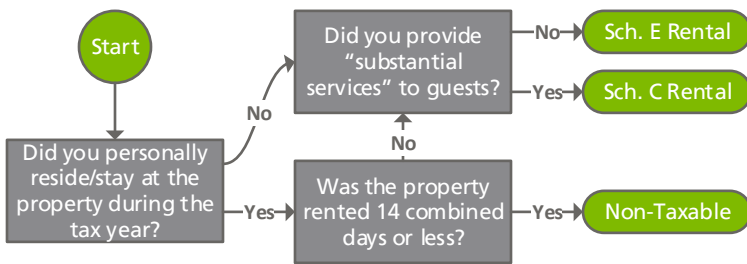
Airbnb hosts who offer their property for short-term rental are subject to the income tax rules for residential rental property. Airbnb may issue you Form 1099-K (Payment Card and Third Party Network Transactions), or make available an Earnings Summary, reporting the gross amount of rent earned during the calendar year. Regardless of whether you receive a Form 1099-K, the rental income you earned from Airbnb is reportable on Form 1040, unless the non-taxable rental exception applies (discussed below). It is important to note that the gross amount reported to you will exceed the actual amount paid-out by Airbnb. Refunds, services fees, and adjustments are not included in the gross amount. These differences will be accounted for as deductions on your tax return.

**Note:** This guide is designed to apply to most Airbnb host situations, but is not comprehensive. Additional guidance from a qualified tax professional should be sought if you are a real estate dealer or professional, or if this activity is incidental to a non-rental activity. Many hosts can do their own returns with H&R Block's online or desktop software, these rules are "built in" to the interviews so you do not have to know them.

Airbnb's partnership with H&R Block does not constitute an endorsement. Tax advice is complicated and you should do your own diligence when receiving advice. Airbnb is not responsible for any tax or other advice provided by any outside entity.

## Where to Report the Rental Activity

The first step to properly prepare your tax return is to determine where the rental activity should be reported. Short-term rental activities can be classified into three different classes, using the following flowchart:



**Schedule E Rentals** – Most common classification; occurs when a host does not provide “substantial services” to their guests. This income is not subject to self-employment tax.

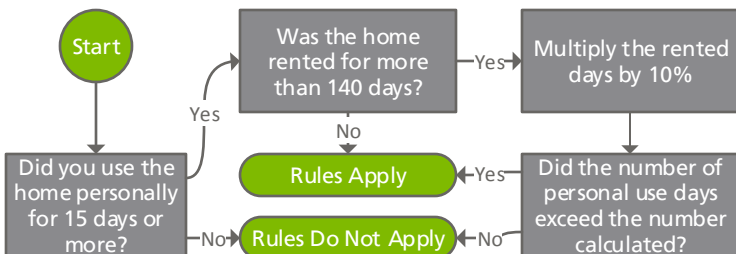
**Schedule C Rentals** – A rental will typically fall into this category when “substantial services” are provided to guests, though there are other rare cases where this can occur. This income is subject to the self-employment tax.

**Non-Taxable Rentals** – A rental may not be taxable (no matter how substantial the amount) if the (1) property was used by a host personally as a residence during the year, **AND** (2) it was not rented at a fair rental price for more than 14 combined days during the year. The only deductions allowed related to the rental will be otherwise deductible property taxes and mortgage interest (Sch. A). When this is the case special reporting procedures must be taken on your tax return to avoid IRS Form 1099 matching errors.

## Determining if Vacation Home Rules Apply

If you used the residence for your own personal purposes (as a personal residence, vacation property, etc.) you must determine if the vacation home rules will apply. This is true even if you would not otherwise classify the property as a vacation property. These rules determine how your expenses related to the rental will be treated. Use the following flow chart to make this determination.

These rules may be ignored if you personally never used the property. Note that allowing someone to stay in the property for free or less than FMV is considered a personal use day by you.



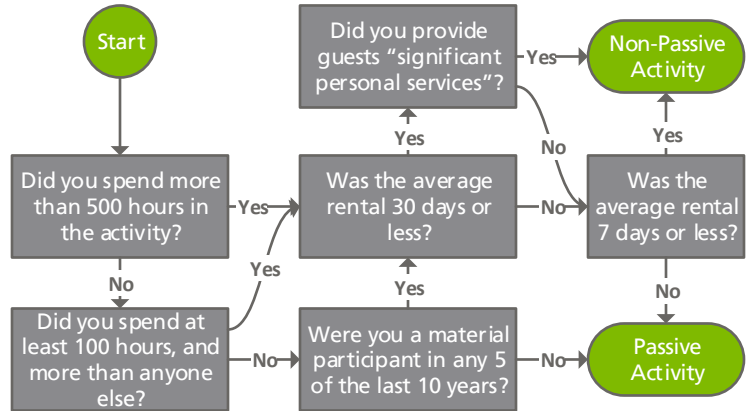
## Is Your Rental a Passive Activity?

Rental activities generally fall into the category of “passive” activities. This means that rental losses you incur can be deducted only against passive income and not against nonpassive income, such as wages or investment income.

If you cannot use losses in a particular year because of the rules, the losses are carried forward indefinitely to future tax years in which your passive activities generate enough income to absorb the losses.

However, if you “actively participate” in the residential rental activity, you may be able to deduct a loss of up to \$25,000 in a tax year against nonpassive income. You actively participate in the rental activity if you make important management decisions, such as approving new tenants, deciding on rental terms, approving capital expenditures. You also can show active participation by arranging for others to provide services. You need not have regular, continuous, and substantial involvement with the property.

The following flow chart can be used in most cases to determine whether your Airbnb short-term rental is a passive activity.



## Treatment of Services Provided to Guests

If you provide substantial services for the convenience of your guests, your short-term rentals can be re-classified as a Schedule C business activity subject to self-employment tax. For example, the operation of the rental in similar fashion of a bed and breakfast will typically be considered to be the provision of substantial services.

The provision of insubstantial and routine services to occupants without any substantial services will not be classified as a Schedule C rental. These are the type of expenses landlords normally provide tenants.

### Insubstantial Services

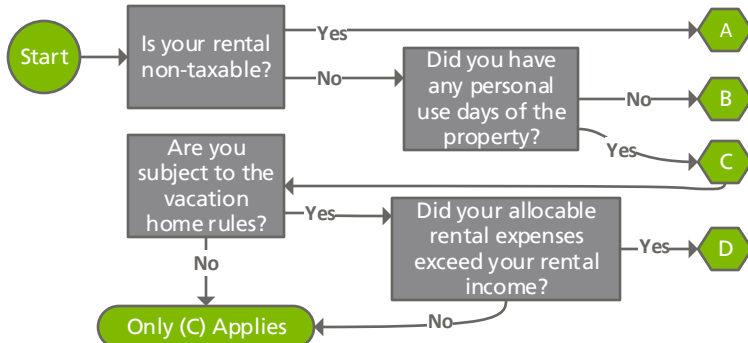
- Heating and A/C
- Water and Gas
- Internet and Wi-Fi
- Cleaning of common areas
- Repairs
- Maintenance
- Trash collection
- Payment of HOA dues

### Substantial Services

- Cleaning of the rental portion of property while occupied
- Concierge services
- Guest tours and outings
- Meals and entertainment
- Transportation
- Other hotel-like services

## Treatment of Your Rental Expenses

The correct treatment of your rental expenses depends on a number of factors. Primarily, whether you used the property personally, and if so, whether the property is subject to the vacation home rules. Once you have completed the flow charts on Side A, use the following flow chart to determine how to properly treat your expenses.



**A Non-Taxable Rentals** – When your personal residence is rented for 14 days or less, your rental income is non-taxable and the related expenses are not deductible. The exception to this rule is for homeowners who have qualified mortgage interest and real property taxes, which remain deductible as itemized deductions on Sch. A of Form 1040.

**B Non Personal Use Rentals** – Expenses related to your rental property are fully deductible when the property is not personally used by you or your family during the year. See the definition of “personal use” on the opposite page. These expenses should be reported on either Schedule E or Schedule C depending on the result from the first flowchart.

**C Expenses Limited to Rental Use Percentage** – When you use your rental personally during the year, the expenses that may be claimed on Schedule E or Schedule C are subject to limitations. The first limitation is based off of your rental use percentage, which is calculated based off the number of personal and rental use days as well as the square-footage of the portion of the property that is rented.

If the property is subject to the vacation home rules, and the amount of allocable expenses calculated using your rental use percentage exceeds the amount of rental income, you will have also have to perform the allocations provided under (D).

These formulas may be used to calculate rental use percentage.

$$\begin{aligned} \text{Days Rented \%} &= (\text{Rental Use}) \div [(\text{Rental Use}) + (\text{Personal Use})] \\ \text{Area Rented \%} &= (\text{Sq. Footage Rented}) \div (\text{Overall Sq. Footage}) \\ \text{Rental Use \%} &= (\text{Days \%}) \times (\text{Area \%}) \end{aligned}$$

**D Expenses Limited Due to Expenses Exceeding Income** – If you are subject to the vacation home rules, and the amount of allocable expenses calculated under (C) exceeds your rental income, your expenses will be further limited.

Essentially, when this is the case, your deductions for operating expenses (including the Airbnb Service Fee) and deductions for depreciation on the property cannot create a taxable loss. Thus, if your qualified mortgage interest and property taxes offset the rental income, you cannot claim operating expenses and depreciation against your income this year. Instead, to the extent disallowed these expenses are carried forward to subsequent tax years to offset future rental income

The types of allowable expenses (e.g., wi-fi, cable, etc.) that may be deductible, and whether they are subject to allocations can obviously become very complicated. H&R Block online or software handles, or a qualified tax professional can help you make these determinations. For more information on the types of allowable expenses, see IRS Publication 527.

## Special Considerations

**Federal Income Tax Withholding** – If you did not provide Airbnb with your appropriate tax information (such as your social security number), Airbnb may have withheld income taxes from your payments. The withheld amount will be reported on Form 1099-K, box 4. You are allowed to recover the withholding to the extent allowed by claiming a credit on your tax return as an additional tax payment. The amount withheld should not be deducted as an expense against your rental income.

**Amounts Collected on Behalf of Third-Parties** – If you managed rentals on behalf of third-parties, and that income was sent by Airbnb to your bank account and/or reported on your Form 1099-K or Earnings Summary, you should still report that amount on your return. You may then claim a deduction for the amounts you remitted to the third-parties as a commission or fee on your return.

Any amount you were paid by the third party on account of this should be included on Schedule C of your return as self-employment income, even if your own rentals are reported on Schedule E, because it does not related to the actual rental of your own property.

You should also notify the third-parties of their allocable rental income. In certain situations, you may also be required to issue them a Form 1099 with your name as the payor reporting the amount collected on their behalf.

If the property is held in LLC that you and your spouse are both members of and you do not live in a community property state, you will be required to file a Form 1065 partnership return to report your rental activities, subject to the same rules discussed throughout this document.

## Glossary

**Fair Rental Price** – A fair rental price for your property generally is the amount of rent that a person who is not related to you would be willing to pay in an arm’s-length transaction.

**Personal Use** – Any day that you or a member of your family uses the property for personal reasons, as well as any day the property is rented at less than a fair rental price.

**Rental Days** – Any day the property is rented at a fair rental price. Any day the property is available for rent but not actually rented is not a rental day.

**Self-Employment Tax** – An additional 15.3% tax imposed on sole-proprietors, which goes towards Medicare and Social Security.

**Significant Personal Services** – Generally, services provided to guests regarding significant ongoing effort by the host. Term does not include services such as cleaning and maintenance of common areas, routine repairs, trash collection, security, etc.

**Substantial Services** – Services generally provided to guests that are primarily for their convenience and not normally provided with a rental. For example, meals and entertainment, and maid or concierge services. Term does not include the provision of heat and light, cleaning of common areas or collection of trash.

## Options for Filing Your Return

H&R Block has three options for filing a tax return reporting rental income earned as an Airbnb host.

- **File In an Office.** H&R Block has a network of over 80,000 highly-trained tax professionals in over 10,000 locations ready to handle your income tax needs.
- **File Using H&R Block Software or Online.** Both H&R Block’s software and online products are specifically tailored to get you the maximum refund that you deserve.