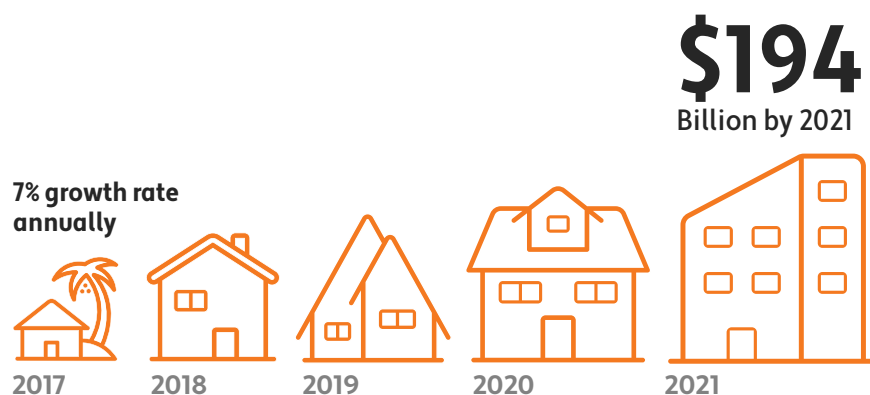




# The vacation rental property owner's guidebook

What you need to know to get started on Airbnb, VRBO, HomeAway, TripAdvisor, and others.

# Are you looking to capitalize on your investments?



## Vacation rental expected growth

With the rise of the sharing economy and home sharing platforms such as HomeAway and Airbnb, renting out a property has become an option for a growing number of homeowners looking to capitalize on their primary residences or second homes.

Short-term rentals often offer travelers a bigger bang for their travel buck than hotels or other commercial lodgings. Benefits can include practical advantages such as more personal, spacious, private and comfortable accommodations, as well as cost savings. Short-term rentals can also offer the chance to experience a city or neighborhood from a resident's-eye view.

Travelers are becoming more comfortable with vacation rentals and are increasingly choosing these accommodations. A recent study by Technavio forecasts that the global vacation rental market is expected to grow more than 7 percent annually between 2017 and 2021, when it will be worth \$194 billion.

Travelers are becoming more comfortable with the vacation rental concept and are increasingly choosing these kinds of properties. A recent study by Technavio forecasts that the global vacation rental market is expected to grow more than 7 percent annually between 2017 and 2021, when it will be worth \$194 billion.

This growing market, plus technology that helps make it safe and simple to rent out a property, has made it very attractive for property owners to enter the short-term rental market. However, while it's easier now than ever, there is still a lot to know and do in order to get short-term renting right. Here are the basics to get you started.



# Short-term vacation rental – what is it and what’s in it for me?

A short-term or vacation rental is a privately-owned property that is rented out to travelers for short stays. The legal definition of a “short-term rental” varies by location, ranging from rentals of less than 28 days to up to 185 days.

## The benefits of owning a vacation rental property

When you rent your property for short-term stays, you can make the most out of a valuable asset that

may otherwise be underutilized. If you are like many people, your vacation home may sit vacant for much of the year. Offering it for rent can provide significant income. You may even be able to completely cover the costs of owning a vacation home with the revenue you gain from rentals.

Beyond the financial benefits, many people who rent their homes find that they enjoy hosting, sharing their home, interacting with their guests, and helping to create great memories.

It’s important to know the exact legal meaning of “short-term rental” as it applies to your specific location. That’s because renting out your home for short stays is considered a business subject to local laws and regulations.

# What you need to know before you get started

While there are many benefits to renting out a vacation home, it does take some research and planning to make it a success. For starters, there are many laws and regulations that can affect you, and it's crucial to make sure you are aware of these requirements before you begin.

## Am I allowed to rent out my property?

The first step is to find out whether it's even legal for you to rent out your vacation property for short stays in your area. Short-term vacation rentals are regulated by local law; check with your city/county zoning office to see if vacation rentals are allowed in your location.

If you belong to a homeowners' association (HOA) or your neighborhood is subject to covenants, you'll need to check those rules as well. Even if short-term renting is allowed by the city, HOA rules or property covenants may have different rules and might override other zoning.

## Do I need to get a business license?

Before you start renting, you will need to register with the appropriate tax agencies. In many places, you will need to be licensed in order to legally offer short-term rentals since it is technically considered a business. These registrations can be known as licenses, permits, or applications. Your rental may be covered by multiple jurisdictions, including city, county, and/or state, so make sure you know what kind of registration or permit is required at all levels.

A common misconception is that if your rental activity falls below a certain occupancy rate or revenue threshold, you don't need to register or pay taxes. However in most cases, you are obligated to follow licensing and tax collection requirements regardless of how frequently you rent.

## Do I need insurance?

Do your homework to make sure you are covered in case of natural disasters, accidents, or guest-caused damage. Most regular homeowner insurance policies do not cover short-term rentals because it is considered a business activity. You'll need to get special coverage that is designed for this type of business. Leading home rental platforms often have partnerships with specialty insurance providers that offer coverage for short-term rentals.



### Management checklist

- Set your rates
- Choose a rental platform
- Create payment and booking options
- Make the most of your online listing
- Pursue other marketing opportunities

# Managing your vacation rental

Once you've made the decision to rent your property, it's time to think about how you're going to manage your rental business. It's important to have a realistic idea of what's involved so that you can make informed decisions that will lead to the best results for you.

There are several different options for taking care of management tasks. These can range from doing everything yourself, contracting with a management agency to do everything for you in return for a percentage of your revenues, or a combination somewhere in between.

## Setting your rates

It's wise to have a realistic idea of what kind of rental rates you can charge even before you make the decision to rent out your property. Those rates are going to be key to realizing your financial goals for the rental property.

First of all, you'll need to define those financial goals. Do you just want to make some extra income? Cover all your expenses for the property? Whatever your goal, you'll need to figure out how many days you'll need to rent the property at which rates to get your desired total.

Some things to keep in mind when setting your rates:

- Rates must be competitive, so do your research on similar properties. Potential guests are going to be making comparisons.
- If you are just starting out, you may want to offer slightly lower prices to attract guests and start building good reviews.
- You may be able to charge more during peak periods.
- It is standard practice to offer discounts for longer stays.
- Avoid adding too many extra fees on top of the regular rate. If there are too many price surprises once a potential guest starts to book, they may go elsewhere.

## Choosing a rental platform

Once you're ready to rent out your property, you need a way for potential guests to find you and to convince them that yours is the perfect property to book. Luckily, this is easier than ever, with several online vacation rental listing services to choose from. The largest and most well-known of these are Airbnb and VRBO (Vacation Rentals by Owner), but you may also want to consider specialized local listing sites.

Make sure you choose the right platform for your property. Airbnb caters more toward urban rentals, including homes, apartments, and rooms for rent, while HomeAway and VRBO are geared more toward vacation rental homes in popular tourist destinations. Become familiar with each site so you can choose the one that will offer the biggest boost for your property. Also, most sites now have performance-based fees for listing your property, which means you only pay a fee when a guest confirms their reservation of your rental property. This structure motivates many owners to list their home on multiple listing sites.

## Payment and booking options

It's to your advantage to make it as easy as possible for guests to book and pay for your rental. This includes accepting credit card payments. Guests are used to using credit cards to book other kinds of travel, and paying by card can feel safer for them than bank transfers or other types of payments. Instant online booking is another feature that allows guests to quickly and conveniently make a reservation.

The major rental platforms offer these features, which can also help you get a better ranking in online listings. Increasingly, large listing sites (such as Airbnb) handle the payment for you on any bookings through that platform. The leading sites are increasingly discouraging offline payments or transacting payment outside of their platforms.

## Making the most of your online listing

Your online listing profile is your primary marketing platform, so make it count! It pays to make the effort to create a quality profile. Elements that are essential to an effective listing include:

- **Photos** can make or break your listing. They create the first impression and should show your property in its very best light. Hiring a professional photographer can be worth the extra expense for quality pictures that wow potential guests. Make sure you include photos of the exterior, interior, and any special features. The more photos, the better, so post as many as you can. Just be sure each photo is an accurate representation of your property.
- **Your headline** should be enticing, accurate, and separate your property from the pack. If your property has a special feature that makes it unique, mention it here.

- **Your description** should give a clear idea of what to expect in the home, especially its size, the number of guests it will accommodate, and the setup of beds and bathrooms. Make sure you highlight all the amenities that are likely to attract guests. Include essential rules and policies, but don't scare guests away with too much detail about dos and don'ts.
- **Your availability calendar and rates** should always be up to date.
- **Guest reviews** are extremely important in convincing potential guests to book. The more reviews you have, the more potential guests will feel that they have an accurate, objective view of what the property is like.

## Other marketing opportunities

Think about where you might find potential guests and market to them there. Local resources such as the visitors bureau or chamber of commerce can expand your outreach.

Social media can be a great way to attract new guests and keep you top of mind for past guests. Targeted online advertising through platforms such as Google, Facebook, or Instagram can enhance these efforts.



# Running your business day-to-day

The amount of time you will have to spend attending to your rental business will vary quite a bit according to demand, but you will need to be vigilant about certain tasks in order to keep things running smoothly.

## Communication with guests

Communication with guests is central to the success of a vacation rental. Someone will need to handle booking inquiries: answering questions, offering price quotes, screening potential guests, completing contracts, collecting payments, confirming reservations, and providing directions and checkin/checkout information. When it comes to guest communication, time is of the essence. If you don't respond to an inquiry promptly, another property owner probably will. Also, it is increasingly common for large rental sites to control or manage the guest communication and interaction on your behalf.

## Ensuring a quality experience

Ensuring a quality experience for guests is also crucial. Today's guests have high standards for accommodations, whether they are staying in a hotel or a vacation home. They expect clean, comfortable surroundings and top-notch service. Failure to deliver either can result in bad reviews and hurt your business.

Your property should be outfitted with everything your guests will need for a comfortable stay, including linens, towels, and kitchenware for cooking and eating. Wi-Fi has become a standard feature. Extras such as flat-screen TVs, cable, Netflix, or gaming systems can make your property more attractive and allow you to increase rates and bookings.

The property should always be clean and in good working order when guests arrive. Make sure you do regular checks and maintenance to ensure that all home systems are working well, and schedule cleanings with plenty of time in between guests. If you are not near the rental location, you'll need to make sure you have reliable people to take care of check-in/checkout, cleaning, and maintenance.

It's also important to take good care of guests during their stay. Make sure there is someone guests can reach immediately in case of any issues or questions during their stay – or get something fixed if necessary. Some other ways to create a great experience include:

- Offer simple, seamless check-in and checkout experiences, whether you are using a lockbox with a code, keyless entry system or handing off keys in person.
- Leave prominent, thorough instructions in the house for equipment operation, Wi-Fi passwords, checkout procedures, house rules, etc.
- Little thoughtful details can go a long way in creating a premium experience that leads to good reviews, return business, and referrals. For example, a welcome gift can make an impact that far outweighs any cost. Stocking toiletries may not be expected, but it's a helpful gesture. And providing recommendations about nearby popular activities, attractions, and restaurants adds a personal touch.





# What are lodging taxes?

A lodging tax is a tax on short-term accommodations that is paid by the guest. It can also be known as sales tax, occupancy tax, room tax, accommodations tax, bed tax, hotel tax, etc. You may be most familiar with these types of taxes from hotel stays, but they apply to a wide range of short-term lodging, including home rentals.

It's essential to find out which lodging taxes apply to your rental business. Although it is your guest who actually

pays lodging tax, you are responsible for collecting the tax and then filing and remitting tax returns and payments.

Lodging tax is calculated as a percentage of the total rent, which is determined by the tax jurisdiction where your property is located. The tax is levied on the total cost of the accommodations, which may be more than just the nightly rate. For example, if your guest must also pay a cleaning fee, then this amount is also subject to lodging tax.

## Lodging tax checklist

- Lodging tax versus income tax
- Collect and pay tax
- Register online
- Charge the right rate
- File tax returns
- Remitting collected taxes
- Identify the rental platform's role
- Get help from a professional service

## What is the difference between lodging tax and income tax?

If you've never rented out your property before, it can be easy to get confused about the differences between lodging and income taxes, but be aware that they are completely separate. Paying income tax does NOT take care of lodging tax obligations.

- **Lodging tax:** When you rent out your home, it's actually the guest who pays the tax, not you as the owner. The guest pays the tax as a percentage of the total rental price, and you are responsible for passing the tax on to the authorities each month or quarter. There are no expense deductions to lodging taxes.
- **Income tax:** As a business owner and/or a private person, you pay income tax to the government based on your personal income and/or business profits. Since income tax is a tax on net profits, all of your business expenses from the rental can be deducted on your tax return.

## Lodging tax collection

It's important to know that once you start renting your property out for short-term periods, you trigger the obligation to collect and pay lodging tax. Local authorities are increasingly cracking down on short-term rentals, and failing to comply with lodging tax requirements can result in penalties and fines on top of any back taxes owed.

### Registration

You are required to register with any tax authorities that have jurisdiction over your rental business. You may need to collect taxes for more than one jurisdiction, including city, county, or state. Sometimes, especially in popular tourist destinations, your property may be subject to special tax jurisdictions as well.

You'll need to check with all local tax authorities to see which rules apply to you. In many cases, you may be able to take care of the registration process online.

## Charging the right rate

When you collect the rental fee from your guests, you will also collect tax. Taxes are levied on the rental price and all mandatory charges, including fees for booking, cleaning, pet, extra person, credit card processing, etc. Refundable deposits and fees are not taxed.

The total tax rate will include taxes for all jurisdictions and is determined by your property's specific location. You must use the precise location to calculate the right rate; do not rely on ZIP codes as ZIP codes may contain more than one tax jurisdiction. Tax rates can and do change, so make sure you keep up on any rate changes to avoid mistakes.

### Filing tax returns

Unlike income taxes, which are filed and paid once a year, most lodging tax returns must be filed monthly or quarterly, depending on the jurisdiction. You may need to file in more than one jurisdiction, according to where you are registered. Electronic filing is becoming increasingly available.

Even in months or quarters when you do not have any rental revenue, you must still file a \$0 return to all tax authorities to inform them that you did not have any revenue for the period and to keep your rental permits active.

### Remitting collected taxes

When you file your lodging tax return, you must pay the taxes you've collected to each jurisdiction, usually on a monthly and quarterly basis. The typical vacation rental must remit taxes to multiple different tax agencies (such as the city and state). Tax must be remitted using the forms or online filing processes mandated by the tax agencies. Forms can usually be obtained on city, county, and state websites. Typical payment deadlines are the 15th, 20th, or 30th of the month following your tax period with the 20th being most common.

### Is your rental platform taking care of lodging taxes for you?

Most online vacation rental listing platforms leave lodging tax collection up to the owner. However, Airbnb automatically collects lodging tax from guests and pays it to tax authorities in select cities, counties, and states, including Amsterdam, Portland, San Francisco, and many others.

If you are using Airbnb in a city where it collects lodging tax, the tax will appear as a line item on your listing's public page, and you should not collect taxes for those jurisdictions. Be aware, however, that Airbnb may only be taking care of a portion of your lodging taxes. For example, Airbnb may be handling your city lodging taxes, but you may still be responsible for collecting and remitting any county and state taxes yourself.

### Getting help with lodging taxes

As you can see, running a vacation rental property can involve a lot of work and many moving parts. Lodging tax compliance certainly adds to that

complexity. Making sure you are doing everything correctly – from registering in the right jurisdictions to keeping up with filing requirements and figuring out which payments go to which entities and when – can take a lot of time and energy.

Many short-term or vacation rental property owners choose to use a tax compliance solution to automate their lodging tax compliance. Avalara's MyLodgeTax offers a simple, affordable means of ensuring that your taxes are always accurate and on time.

MyLodgeTax determines your specific lodging tax requirements by jurisdiction, obtains any required licenses or registrations, and then automatically files your returns and remits tax payments for you. MyLodgeTax handles everything and is always up to date on tax deadlines and rates so that you don't have to deal with the hassle.

Besides time savings, MyLodgeTax also provides peace of mind that your lodging taxes are always done right – guaranteed.

## Learn More

[www.avalara.com/lodgingtax](http://www.avalara.com/lodgingtax)

or call



877.589.0207 today.

#### About Avalara MyLodgeTax

Avalara MyLodgeTax helps property owners and managers of all sizes achieve compliance with vacation rental tax requirements. Our comprehensive, automated, cloud-based solutions manage the complex tax rules, forms, and monthly/quarterly filing requirements for rent by owners and property managers in a fast, easy, and affordable way. Our outsourced solution for sales and hotel occupancy taxes simplifies the preparation and reduces the cost of filing monthly tax returns, eliminating the need for manual procedures.

With a click of a button, Avalara MyLodgeTax provides real-time tax rates for any U.S. location; registers, tracks, and renews all necessary licenses; and files and pays all required taxes when due – all backed with a risk-free guarantee. By eliminating these costly, confusing and liability-ridden tasks, Avalara MyLodgeTax lets people in the vacation rental industry focus on higher value services while providing peace of mind.