

To AirBNB or not AirBnB? Tax Considerations

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Agenda

Sales tax

- **Real property supplies – what is taxable / what is exempt?**
- **Sales tax registration and recovery**
- **Sale of real property used in short-term rentals**
- **Determining extent of use**
- **examples**

Income tax

- **Type of property**
- **Principal residence**
- **Partial portion of principal residence**
- **Income and expenses**



Real property supplies – what is taxable and what is exempt?

Taxable supplies of real property:

- the supply of non-residential/short-term rentals
- the sale of real property used primarily (more than 50%) in short-term rentals including Bed and Breakfast operations

Exempt supplies of real property:

- residential rent where the purpose of occupancy is as a place of residence or lodging by the same individual under the arrangement for at least one month
- the sale of used residential property used primarily (more than 50%) as a place of residence including Bed and Breakfast operations.



Sales tax registration and recovery

When must a person register for HST?

- Income from short-term rentals > \$30,000 over four consecutive calendar quarters – Required to register and charge HST
- If income from short-term rentals < than \$30,000 over four consecutive calendar quarters, not required to register or charge HST

Can a person recover tax paid on expenses?

- If registered for HST recovery is available based on the extent of use of the property in short-term rental depending on the type of expenditure



Recap - sale of real property used in short-term rentals

Taxable sales of real property:

- where the property was used primarily (more than 50%) in short-term rental activity

Does HST registration status matter?

- generally, whether vendor is registered for HST or not, the sale will still be taxable where the property is used primarily in short-term rentals.



Determining extent of use

How do you determine whether or not the property meets the primary test?

- CRA does not prescribe any method, simply must be 'fair and reasonable'
- Days used personally vs. days rented (note: a method that automatically considers all unoccupied days as days for use in commercial activities is not generally accepted by CRA as fair and reasonable)
- Square footage considerations for BNB type properties where a person rents out 'rooms' in their primary residence.



Example 1

Mr. Johnson bought a new condo in downtown Halifax. His intention was to use the property to rent through Airbnb on full time basis. His accountant advised that he should register for HST and to self-assess tax on the purchase (remit tax on the purchase and claimed an input tax credit on the purchase).

Mr. Johnson rented the condo through Airbnb throughout the entire year.

In the following year, the real estate market soared in Halifax and Mr. Johnson decided to get out of the business and sell the condo.

Clearly this is a business. The fact that he used the property fully in short-term rentals would cause the sale to be taxable.



Example 2

Mrs. Smith bought a used condo in downtown Halifax to live in during a 5 month work contract as her personal residence. During the other 7 months, she decided she would list the condo weekly through Airbnb. She did not pay any HST when she purchased the property – it was an exempt purchase.

Mrs. Smith did not expect to earn more than \$30k a year from short-term rental income, so she did not register for HST.

Mrs. Smith's work contract ended the following year so she decided to sell the property.

Even though Mrs. Smith was not registered for HST, nor did she recover any tax on purchase or improvements to the property, the subsequent sale would attract HST as she used it primarily (more than 50%) in short-term rentals.



Example 3

Mr. Jones has owned and lived in his house in Halifax for a number of years. He recently retired and decided that Halifax was too cold in the winter, so he would spend four months of the year in Florida instead.

During his time away, he figured he could rent out his house weekly for the four months and make some extra money to fund his time away. He never expected to exceed the \$30k in short-term rental income, so he never registered for HST.

The plan was successful and Mr. Jones rented his home over the full four months he was away on a weekly basis.

The following year, Mr. Jones decided that he liked the warm weather so he would move to Florida and sell his house.

Since the house was used more than 50% as his personal residence throughout the year, the subsequent sale would be exempt of tax.



Example 4

Mr. and Mrs. Smith own a four bedroom house. Their children have recently moved out, so they decide to rent out three of the four bedrooms in their home on Airbnb on a nightly basis.

They do not expect to exceed \$30k in short-term rental income, so they do not register for HST or recover any tax on expenses incurred to rent out the rooms.

The house is a 3,000 square foot property. Mr. and Mrs. Smith occupy 2,000 square feet of the property for their kitchen, living space and personal bedroom. The three rental bedrooms take up the other 1,000 square feet of the house.

In the following year after renting the property in this manner, Mr. and Mrs. Smith decide to sell the house.

In this case, the subsequent sale of the property would not attract tax as the property has primarily been used as Mr. and Mrs. Smith's personal residence.



Income Tax

Type of property

- Separate building
- Entire principal residence
- Partial portion of principal residence

Entire principal residence

Do you have a change in use of the property?

Restrictions:

- Cannot claim CCA
- Can only report up to 4 years unless other criteria are met
- Must report all earnings
- Cannot report any other property as your principal residence during this time.



Entire principal residence

Do you have a change in use of the property?

Restrictions:

- Cannot claim CCA
- Can only report up to 4 years unless other criteria are met
- Must report all earnings
- Cannot report any other property as your principal residence during this time



Partial use of your principal residence

Deemed disposition on the partial portion at fair market value

Conditions:

- The income producing use is ancillary to the main use of the property as a residence
- No structural changes to the property
- No CCA has been claimed



Claiming Income and Expenses

Income

- Rental income or Business Income

Expenses

- Deductions
- Prorated costs
- Capital expenditures
- Repairs and maintenance



Questions?

