

## Is Income from My Vacation Rental Home Business or Personal?



You've done the math. That vacation home "investment" you just purchased is *expensive*. From heat to air conditioning, yard maintenance to plumbing, the monthly costs can add up.

Your neighbors are renting their vacation home, but what does this really mean? Can you rent yours, too? What would your accountant say? You've worked your entire life to for the opportunity to have assets such as your second home. Are you putting these in jeopardy? How about your retirement?

Let's start with renting your home -- you are now the equivalent of a hotelier. Your insurance policy that is supposed to protect you most likely does not protect your commercial activities. Your risk is much lower as a user of your own vacation home than as a proprietor of "hotel" for paying guests. And, when you bring in income from any enterprise, you must consider the tax implications.

Both taxes and insurance are dependent on the answer to the question, "*Is vacation rental home income business or personal?*"

The answer is quite simple: **income from renting your vacation home is business income**. When you collect money to allow someone to stay at your property for a short period of time, it is a business transaction. It is not "occasional", nor is it the "residence" of your renter.

There is an exception for a stay of only a few days: If you rent a dwelling unit that you also use as a personal residence to others, limitations may apply to the rental expenses you can deduct. You are considered to use a dwelling unit as a personal residence if you use it for personal purposes during the tax year for more than the greater of:

1. 14 days, or
2. 10% of the total days you rent it to others at a fair rental price.

Renting your vacation home by the weekend, week, month, or season makes sense financially, covers the time and cost of renting and managing the property, and still leaves you time to enjoy the house with your family and friends. You've researched and decided on a platform to facilitate the rental transaction. Everything's in place to turn your wonderful vacation home into a profit center instead of a cost center.

For tax purposes, how you setup the "business" of your vacation rental home will determine how the income is treated on your tax returns. Everyone's situation is completely different, so you should have this conversation with your tax advisor or wealth planner to determine how your new small business is setup in the eyes of the IRS.

However, for insurance purposes, you need to have a conversation with your homeowner's insurance provider. Most regular homeowner's primary insurance specifically excludes business activities. That means your homeowner's insurance coverage does not provide liability or damage coverage for renting your vacation home to other people taking a vacation. Instead, you must have a landlord policy and you must specifically make sure short term rental is covered by your policy.

Before you list your vacation home on [HomeAway](#), [VRBO](#), [Airbnb](#), [Vacation Futures](#), or another short term vacation rental platform, make sure you have these conversations with your tax advisor and your insurance provider, so you can enjoy your vacation home and the income it will generate.