

Mi Casa, Su Casa

Home Sharing and the Taxman



Excited about all the money from renting out your spare room?

Not so fast. The Canadian Revenue Agency gets a cut of your home sharing income. Here's what you need to know about taxes and your rental listing.

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When Robert's adult daughter moved out of the basement of his Toronto home to take a job overseas, he thought about renting out the space, but worried about the headaches of becoming a landlord.

"I have friends who told me horror stories about trying to evict their problematic tenants," he says. "I was very wary of entering into a landlord-tenant situation."

This was about 10 years ago, and there was a buzz emerging about a new website which allowed users list their homes and apartments for short-term rentals. That website was called Airbnb — and Robert knew it could be exactly what he was looking for.

"I would be only dealing with short-term stays, and I didn't need to worry about chasing someone for rent, because the website took care of collecting rental fees," he relays. "Users and hosts rate each other, so there was less concern over having a renter who didn't respect my home."

He added a small kitchenette to the basement, and created a listing. Soon, he was making about \$8,500 per year, and renting out the space for about 15 days out of each month.

Fast-forward to today: online home sharing services that connect homeowners with renters are flourishing in this sharing economy. Listing your property or spare room is as easy as taking a few pictures with your smartphone, and creating an online profile with the space and availability. The online details are all handled as a simple online transaction, and hosts, renters and spaces are reviewed by other users. Some services even include insurance to homeowners, although it's unclear which insurance — your residential insurance or the site's insurance — would be the primary insurer if damage occurs, or even if your residential insurance policy would be valid

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property owners are sharing their homes in hopes of making hundreds of dollars in extra income every month. Sites like Airbnb have shaken up home rentals and hotels; municipalities and condo boards are struggling to keep up and create rules around home sharing. Many condominiums even have outright bans on short term rentals with the goal that their building doesn't become an ad hoc hotel with transient residents. So, some property owners may not be aware of all the changing rules that apply to sharing your home and that the income you make is taxable.

Robert says that he understood the tax implications of making extra income, as he was already freelancing as a journalist. But, as word spread about his rental, others approached him about their interest in home sharing, and he found a lack of awareness around reporting any extra income from home sharing to the Canada Revenue Agency (CRA).

“Make no mistake, it is taxable,” says Pierre Letourneau, a tax planner at TD Wealth. “Any income, no matter how it is paid, or how it was made, should be disclosed to the Canada Revenue Agency. However, there are ways that you can plan and structure your rental to minimize those taxes.”

if you haven't disclosed that you are renting part of the space.

The leading home sharing hub, Airbnb, is in talks for a new round of investment that would value the company at about \$30 billion.¹ Airbnb reports that they have 50 million guests to date, with 2 million listings.² Montreal alone has almost 3,000 hosts; guests stay an average of five nights, and spend almost \$1,000 per stay.³ More and more,

Is it a business or rental income?

When you earn money from renting out part of your home, it may qualify as either rental or business income for taxation purposes, which is why it's important that you know which category your income falls under come tax time.

If your rental includes only basic services, such as cable, a parking spot, maintenance and utilities, the CRA may consider the money you earn as rental income. But if you provide additional services, like meals, cleaning or security, that may place the revenue in the business income column.

It's important to know that rental income and business income may be treated differently at tax time, and allow different write-offs. For rental income, the CRA may allow you to deduct expenses related to the maintenance of your property. That might include advertising, insurance, maintenance, repairs, property taxes and utilities. It may also include accounting and legal fees, and some office expenses. As a small business owner, expenses related to a home office and travel expenses may be deductible.

"The type of income your rental generates could also affect your Canada Pension Plan premiums, and the calculation of child care

Airbnb Hosts By the Numbers

Source: Airbnb

4

nights the average host shares their home per month

87%

rent only the home they live in

62%

say hosting helps them stay in their home

\$628

typical host income per month



benefits,” says Letourneau. “An accountant or tax professional can help you to determine which kind of income your rental falls under.”

Do I need to charge sales tax?

If you’re renting your space and claiming the fees as business income, you will need to charge provincial HST or GST. So, if you run the rental like a hotel or motel, with cleaning and meals or other services, you should register for an HST or GST account so that you can collect and remit those taxes. If your business income is more than \$30,000 per year, it will be mandatory to register, collect, remit and file a return each year. If your income is considered rental income — and you are just providing accommodations and basic amenities, then you don’t need to charge GST or HST on the rental fees.

For business owners, having an HST or GST account does have its benefits, as it allows you to claim the provincial tax you spend on business expenses as a tax credit. Many home sharing sites, like Airbnb don’t collect HST or GST on behalf of hosts. So you will need to factor that in when setting your rental fee.

Am I running a hotel?

Some sites, like Airbnb will collect and remit hotel or occupancy tax on behalf of hosts whose locations require these taxes. But so far, Canada is not one. Quebec City, Winnipeg, Montreal and Halifax all have occupancy fees, but many municipalities have yet to classify “home sharing” as a hotel.

However, with the success of home sharing, governments are looking for ways to reap revenue from these transactions, and a hotel or occupancy tax is one method that some Canadian cities are seriously considering. In some cities outside Canada, a hotel or occupancy tax can be as high as 15 per cent of the rental fee.

One official definition of “Hotel”

“Hotel” means a separate building or two or more connected buildings used mainly for the purpose of catering to the needs of the travelling public by the supply of food and also by the furnishing of sleeping accommodation of not fewer than six bedrooms as distinguished from any other building or connected buildings used mainly for the purpose of supplying food and lodging by the week or otherwise commonly known as “boarding houses” or of furnishing living quarters for families and having a dining room or restaurant commonly known as “apartment houses” or “private hotels”.

-Hotel Registration of Guests Act. Ontario. R.S.O. 1990, c. H.17, s. 1.

“Home sharing sites like Airbnb have avoided many rental and hotel tax laws so far,” says Letourneau. “To ensure your space doesn’t meet the test of being hotel in the eyes of the law, check your local laws.” Each municipality has its own by-laws defining a hotel. Some municipalities say that any stay less than a week would classify a rental as a hotel, while Ontario defines a hotel as more than six bedrooms in a separate building.⁴

So, how do I minimize all this additional tax?***Receipts, Receipts, Receipts.***

Keep your receipts for all expenses related to your rental property, then discuss with your accountant or tax professional if they can be written off. Even if you keep a stash of extra toothbrushes for your guests in case they forgot, make sure you have the receipt, as the expense may be deductible. “Be diligent with recording those expenses,” says Letourneau. “Also record dates of rentals, whether you were staying there with the guests, and how much space was rented. Consulting a tax professional to ensure that those expenses are both in your best interest, and above board, may be a wise move.”

Current Expenses

Current Expenses relate to money spent on property taxes, painting and routine and on-going maintenance. You can claim those expenses as a

deduction on your tax return. When claiming current expenses, you can write them off as a ratio of the space you are renting. So, if you are renting two rooms of your five bedroom house, for example, you could claim 40 per cent of those expenses, as the rental space adds up to 40 per cent of your home.

Capital Expenses

You may be able to reduce your taxes owing by deducting large scale repairs and renovation expenses. The CRA categorizes those expenses as Capital Cost Allowance (CCA). It allows you to claim the depreciation on the cost of the building and other capital expenditures, like creating a basement apartment or adding a bathroom to your rental space. But beware. The CCA rules are vast and complicated, and claiming it could cause the CRA to rethink the principal tax exemption status of your home. Before you deduct any capital expenses, consult thoroughly with an accountant or tax professional.

Lesson Learned

Even after taxes, Robert is finding that running an income property is lucrative and may even be his life's calling. A few years ago, he left Toronto and bought a heritage home in Cornwall, Ontario. He made it into Chelsey's Inn — a Bed and Breakfast. "Being a host is one of the few ways to have a partially tax-deductible mortgage in Canada," Robert says. "For me, as well as being a way to pay for the house, it's also been a great retirement plan." —*Denise O'Connell, MoneyTalk Life*

¹Newcomer, Eric. "Airbnb Files to Raise \$850 Million at \$30 Billion Valuation". Bloomberg. bloomberg.com/news/articles/2016-08-05/airbnb-files-to-raise-850-million-at-30-billion-valuation

²Airbnb. Airbnb Summer Travel Report: 2015. September 4, 2015. blog.airbnb.com/wp-content/uploads/2015/09/Airbnb-Summer-Travel-Report-1.pdf?3c10be

³Airbnb. Airbnb's Positive Impact in Montreal. September 2014. blog.airbnb.com/airbnbs-positive-impact-montreal/?_ga=1.251870605.525951165.1464282084

⁴Province of Ontario. Hotel Registration of Guests Act. Ontario. R.S.O. 1990,

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