<u>Beware the potential tax pitfalls of earnings through Airbnb</u>

A brief search on Airbnb reveals over 10 000 property listings in Cape Town alone. If not doing it yourself, most of us know of someone who has hit on the golden solution of renting out their property through this internationally recognised on-line platform.

This form of income seems ideal – you get to head off for a weekend away or annual holiday destination secure in the fact that you have obtained the ultimate house-sitters – those who will be paying for the privilege! This in turn also allows for holiday and property expenses to be offset, often significantly if one considers the going rate for a Cape Town property in the peak season.

But before spending the Airbnb windfall, Jeremy Burman of Private Client Holdings warns that it is important to consider the tax implications of earning this income and ensure that adequate provision is made for any resultant tax liability.

"The earning of rental income, in which category Airbnb income would fall, is regarded as a trade by SARS. The owner of the Airbnb property must declare all rental income received or accrued during the tax year. He will in turn be entitled to deduct any expenses incurred in the earning of this income with the result that only the net profit will be taxable. Where a property is jointly owned, for example by a married couple, the income and expenses will be shared equally between the owners for tax purposes – regardless of which person physically receives the income or pays for the expenses," explains Burman.

Income must be declared for tax purposes in the earlier part of the year of receipt or accrual. Since Airbnb income is charged up front when a booking is made this may mean that the owner will be paying tax on this income prior to the 'tenant' putting foot in their property.

"S11(a) of the Income Tax Act allows the deduction of expenditure incurred 'in the production of income' for the purposes of trade excluding expenses of a capital nature. Expenses that may be claimed as tax deductions against rental income earned would include any expenses incurred in owning and maintaining the property e.g. cleaning, security, rates and taxes, electricity, repairs and maintenance and bond interest. Repairs and maintenance will be deductible provided that these are not improvements to the property which add to its value and are therefore of a capital nature. Bond instalments must be split into the interest portion which is claimable and the bond capital repayment portion (a capital expense and therefore not claimable)."

According to Burman, earning Airbnb income does not give the owner the license to deduct all his property expenses however. "As only part of the entire property expenditure incurred will relate to the Airbnb income, an owner would only be entitled to claim a percentage of these expenses equal to the number of days the property was rented out divided by 365 days in the tax year. For example, if bond interest of R 100 000 was incurred by an owner during the tax year and he rented out his property for only two weeks of this year, he would only be entitled to claim a deduction of R 3 835 i.e. R 100 000 x 14/365days."

Less clear cut is whether the owner's own accommodation costs will be claimable as a tax deduction for the period during which they are letting out their entire house. "Although it can be argued that the cost of alternative accommodation is expenditure that is necessarily incurred in order to earn Airbnb income it seems likely that SARS will only accept a reasonable portion of the owner's accommodation expenditure on the basis that the remainder is not for the purposes of trade but rather for private purposes (travel, family-time, relaxation). Attempting to claim the costs of the entire family's two week holiday over the Christmas and New Year break may raise the eyebrows of the SARS auditors and run afoul of section 23(g)," cautions Burman.

"Where a person earns taxable income from Airbnb which exceeds R 30 000 per year, they will be required to register as a provisional taxpayer with SARS and submit provisional tax returns on a bi-annual basis in August and February of each tax year. Failure to do so could result in non-submission penalties being issued by SARS. In addition, they will also need to bear in mind that there could be potential capital gains tax implications on ultimate disposal of the property."

"In a tough economic environment where most South Africans have had to tighten their belts, the alternative income stream offered by Airbnb is an attractive proposition – additional income with minimal attendant expenditure. However along with packing away family heirlooms and clearing cupboard space, owners must keep adequate records of this side-line business to ensure tax efficiency and the ability to meet all resultant tax obligations," concludes Burman.

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