Coates' Canons Blog: Is My Couch Taxable? Personal Property Taxes and Short-Term Rentals

By Rebecca Badgett

Article: https://canons.sog.unc.edu/is-my-couch-taxable-personal-property-taxes-and-short-term-rentals/

This entry was posted on November 15, 2018 and is filed under Finance & Tax, General Local Government (Miscellaneous)

I stumbled across a headline in the San Francisco Chronicle that read: *Airbnb 'furniture tax' generates $120,000 for San Francisco*. The article explains that the city requires hosts on Airbnb and other short-term rental sites to tally the contents of their homes—from sheets to sofas to silverware—so that the contents may be taxed. The average tax bill came to $60 per property. This made me think. Are the owners of short-term rental (STR) properties in North Carolina aware that they too must pay a similar tax?

What is the personal property tax?

In North Carolina, there are two types of property subject to taxation: real property and personal property. The most common property subject to taxation is real property as defined in G.S. 105-273(13). Personal property is all tangible property other than real estate. This generally includes movable items not permanently affixed to real estate, including furniture, computers, clothing, etc. Personal property (e.g. household goods) is generally exempt from taxation, unless it is used to operate a business. If so, the property will be classified as business personal property (BPP) and is subject to taxation. BPP generally includes machinery, equipment, furniture, and computers used in business operations. Registered motor vehicles are personal property too, but they are taxed differently under the Tag & Tax Together Program.

Who is required to pay BPP taxes?

The NC Department of Revenue (NCDOR) mandates that any individuals or businesses owning property "used or connected with a business or other income producing purpose" shall be assessed BPP taxes. Because a short-term rental is used for income producing purposes, STR hosts are responsible for paying BPP taxes.

What BPP must be reported?

As mentioned above, business personal property may include, among other things, furniture and equipment used in business operations. The NCDOR's Business Personal Property Form can be used by STR hosts to report all physical assets used in the rental activity. The physical assets for STR properties generally include furnishings for the kitchen, living room, dining room, and bedrooms, such as televisions, sofas, mattresses, chairs, tables, and large appliances. Any improvements made to the STR property may also need to be disclosed on the BPP form. Because many hosts will not have purchased new furniture or appliances, they will want to estimate the year in which each item was purchased and its cost. Like other types of accommodation providers, STR hosts should likewise be taxed on every knife, fork, and spoon (I'm joking—kind of).

How is BPP tax calculated?

BPP is categorized on the NCDOR listing form by year of acquisition and original cost. The local tax offices determine the value of BPP by taking the original cost of an item and depreciating it using the depreciation tables provided by NCDOR. BPP is then taxed at the rate set by the county in which the property is located.

If a property is used as the owner's primary residence, is there still a requirement to pay BPP taxes?

Yes. In many cases a STR property will only rented when the host is traveling or otherwise temporarily absent from the residence. However, the occasional use of a property as an STR will not excuse a host's requirement to pay BPP taxes. A host is required to pay BPP taxes if he or she engaged in *any* rental activity during a calendar year. There is no proration of BPP taxes. Also, unlike the occupancy tax, there is no exception that relieves a host from having to pay BPP taxes when a property is rented fewer than 14 days-per-year.

How is the collection of BPP taxes from STR hosts relevant to local government?

Local governments have focused much of their efforts on collecting occupancy taxes from STR hosts, but it is imperative that they actively pursue the collection of BPP taxes as well (unless the assessed value is de minimis and thereby exempt from required collection under G.S. 105.321(f)). The collection of BPP taxes will not only provide the taxing jurisdiction with additional tax revenue, but it also evidences a commitment by the local government to tax all accommodation providers equally. Thus, local governments should continue identifying STR properties and educating hosts on their requirement to pay both occupancy and BPP taxes. Increased collection efforts will help (hopefully) foster goodwill between accommodation providers and local government. The ultimate goal is to level the playing field in terms of taxation.

For a comprehensive discussion of personal property taxes, see NCDOR's publication, Personal Property Appraisal and Assessment.

Links

- www.sfchronicle.com/business/article/Airbnb-furniture-tax-generates-120-000-for-8399617.php
- www.sog.unc.edu/blogs/coates-canons/county-tax-collection-obligations-motor-vehicles-under-tag-tax-together-program
- www.ncdor.gov/taxes/north-carolinas-property-tax-system/types-property-be-taxed
- www.ncdor.gov/documents/2018-business-personal-property-listing-form
- files.nc.gov/ncdor/documents/manuals/appraisalassessment2007.pdf