Taxing, regulating and monitoring short-term rental

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There has been a significant rise in short-term rentals through platforms such as Airbnb, and many others. These sharing accommodations are increasingly popular, as they offer tourists cheaper accommodation, while also allowing them to stay outside the hotel district enabling the exploration of different neighborhoods. Travelers seek to live like locals, and the cheaper accommodation makes them stay longer, while in turn residents get the opportunity to gain more economic value out of their property.

Why does it need your attention?

The trend of short-term rentals has significant impacts on cities and there are ongoing debates about all kinds of topics: increased housing for short-term rentals could limit the housing supply. The decreased availability of houses for city residents, may drives up real estate prices and could contribute to gentrification processes. Businesses, which are focussed on providing for local people are replaced with businesses, which serve tourist purposes. This disturbs existing neighborhoods and the social cohesion in neighborhoods. Landlords focus more short-term rentals, considering the financial incentives it offers, while neighboring residents worry about tourist misbehaviours such as increased noise, illegal parking, overuse of shared facilities in apartment buildings, nuisance, damage to common property and safety and security issues. Last there is the discussion about how to create a level playing field for all short-term rentals providers.

Approaches

Regulations hope to guarantee more safety, fairer competition, better consumer information and counteract the housing crisis for residents in the region. There are multiple approaches to take, such as limiting the number of days an apartment is available for short-term rentals: distinguishing between residential activity and commercial activity; introduction of taxation or permits; allowing only hosted vs. non hosted rentals. However these approaches lead to various controversies, such as their implication to privacy, i.e. in the case of having the online platform share data; discussions about who is responsible for the content on online platforms.

Cities must be aware of the fact that different cities have different communities, meaning that ready made solutions might not be successful and effective in their own

city, i.e. highly dense cities such as New York and San Francisco must take stricter measures to prevent an affordable housing crisis compared to less dense ones. Through the sharing of learnings, cities however get more insights on possible impacts and chose an appropriate regulation themselves.

Guarantee consumer safety

Cities are balancing out old and new ways to guarantee consumer safety in accommodation sharing. Consumer safety is a priority for every city, yet most cities are still figuring out how to protect consumer safety in accommodation sharing.

Maximum number of guests
Chicago limits the amounts of units available for short-term rental per building and requires platforms to pay a per unit fee in addition to a licensing fee to operate in Chicago through their vacation rental ordinance .

Amsterdam has put a maximum of four persons on the number of guests in a single accommodation.

Consumer safety in city regulations
Amsterdam covers basic safety issues such as fire safety in the city's rules for holiday rental. If multiple apartments in one building are rented out simultaneously, extensive fire safety rules apply.

Brussels obligates all accommodation providers to comply to the full set of rules and requirements .

Maintain a level playing field

The blurring lines between traditional accommodation providers and people renting out their property incidentally prove new challenges for governments to create a level playing field that is fair to all stakeholders. Here is how different cities are creating their versions of a level playing field.

Drawing a line between incidental and professional
Most cities are making a distinction between full apartments (un-hosted) and rooms or a portion of a property (hosted). The latter is often already subject to rules and regulations that apply to bed and breakfasts including getting a license.

The short-term rental of full properties are creating the biggest challenges with regard

to maintaining a level playing field. The solution most cities are taking now is to create two playing fields, one for incidental rental and one for year round professional rental. Usually cities draw a line based on a certain number of days per year. San Francisco and London, 90 days; Copenhagen; 7 weeks, Amsterdam, 60 days; Paris, 120 days; New York, 30 days.

The city of Amsterdam signed an agreement with Airbnb, restricting short term rental to a maximum of sixty nights per year without a license, in 2014. In the agreement, as updated per November 2016, the municipality made clear that housing in the city should primarily cater to its citizens and not be rented out like hotels. The city has evaluated the effectiveness of the city's policies on accommodation sharing and short stay (you can read the evalutation here).

Monitoring the situation

Cities are constantly looking for new ways to get a clear picture of the local accommodation sharing situation. Installing new rules and regulations is one thing, enforcing those is something else and in order to do that, monitoring is essential.

Gathering data from platforms
Airbnb blocks bookings on its platform after an Amsterdam host has rented out his accommodation for sixty days in a year.Amsterdam has required Airbnb (and other platforms) to automatically prevent whole appartments to be rented out for more than 60 days per year. Airbnb share's data in bulk with the city so that it can check the effectiveness of these measures. Here's airbnb's communication .

Similarly, in London cooperates with Airbnb, to prevent misuse and therefore automatically removes listings, which have exceeded the maximum number of 90 days (Guardian , 2016)

In Paris Airbnb provide hosts, who appear to operate illegally, with a reminder to follow the set home-sharing rules. It does not however disclose the names of hosts (BBC , 2014).

San Francisco limits un-hosted homesharing to 90 per year, while not restricting hosted sharing at all. The city however requires an in-person registration at the city office by appointment, which is valid for 2 years and requires a $250 registration fee. Hosts are required to hand-in quarterly reports of all stays. The city has introduced a new department to handle hosts registrations and investigations. The regulations furthermore requires online short-term letting platforms to police their websites and

remove unregistered hosts. The regulatory effort, through introducing registration for hosted stays and requiring quarterly reports on the stays, pose an extra effort to hosts (SFmayor.org , 2014).

Gathering data through the law - registration obligation
On July 19th, 2017 the Amsterdam government decided that they will install a registration obligation which will be in force from the 1st of October, 2017. It requires hosts to inform the municipality each time they rent out their property (City of Amsterdam , 2017).

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Gathering data through research
Through its own Research and Statistics Department, Amsterdam has gathered data that was used to evaluate the effectiveness of the city's policies on accommodation sharing and short stay.

Preventing nuisance

Tourists staying in private homes may cause nuisance to the neighbourhood. This problem of nuisance can be solved. There are several ways of how neighbours including the homeowner, the online platforms and local governments can prevent and/or deal with nuisance issues.

The first thing most cities do is declare any nuisance illegal. Right now most online platforms promote responsible hosting to both homeowners and renters in a soft way. To our knowledge there is not yet a city that requires homeowners to communicate rules preventing nuisance to their guests.

Keeping it personal
Amsterdam requires that property that is rented out is the hosts' primary residence, or that their is permission from the landlord. This way neighbours are able to talk to the

homeowners about any nuisance issues (Holiday rental rules Amsterdam). Several cities, including Amsterdam and Brussels require permission from co-owners of a building before a space can be rented out.

Protecting a local balance
The city of Chicago requires hosted short-term lets to be registered and levies a 4% surcharge on all short-term rentals. The city limits the amounts of units available for short-term rental per building and requires platforms to pay a per unit fee in addition to a licensing fee to operate in Chicago (vacation rental ordinance Chicago, 2016).

Amsterdam has put a maximum of four persons on the number of guests in a single accommodation. The city will also try to equal the spread of tourists across the city through smart taxing. From 2018 onwards, a 6% tourist tax will apply in the most popular areas of the city and a 4% tourist tax in less popular areas. (Holiday rental rules Amsterdam).

Dealing with nuisance
The city of Amsterdam has installed a hotline that connects citizens directly to a upholders when nuisance is experienced.

The city of Chicago requires online short-term letting platforms to establish hotlines for neighboring residents to provide a stage for complaints through their vacation rental ordinance .

Taxes

Several cities are finding ways to collect taxes from citizens who rent out their homes. Collecting taxes from a large number of small accommodation providers can be a real challenge. However, the technology that is enabling people to rent out their home is also potentially lowering the transaction costs of collecting taxes, and beholds the potential for tax collection innovation beyond the sharing economy.

Tourist tax collection
Since 2014 Airbnb has been collecting tourist taxes for the city of Amsterdam. The tax amounts to 5% of the total booking fee, from Amsterdam hosts and remits these to the municipality. From 2018 onwards, a 6% tourist tax will apply in the most popular areas of the city and a 4% tourist tax in less popular areas (Holiday rental rules Amsterdam).

After Amsterdam, many cities have followed. For instance Paris, where Airbnb has been collecting a €0,83 tourist tax per night since October 2015. As of November 2016,

Airbnb is automatically gathering tourist taxes for +200 cities and aims to do it for a total of 700 cities that represent 90% of the platforms turnover (Financial Times , 2016).

Some cities, like Brussels require citizens themselves to hand over the information and pay local tourist taxes (Brussel Ordinance Tourist accommodation , 2016).

The city of Chicago requires hosted short-term lets to be registered and levies a 4% surcharge on all short-term rentals. This money is used to fund services for the homeless (check out the CASE STUDY). In addition the city requires online platforms to be a yearly $10.000,- fee plus a $60,- per unit to get a license to operate in the city (vacation rental ordinance Chicago, 2016).

San Francisco passed a law in February 2015 that requires an in-person registration at the city office by appointment, which is valid for 2 years and requires a $250 registration fee pay a 14% Occupancy Tax (San Francisco Government website).

Income tax
Many countries have installed a tax-free zone for holiday rental. United Kingdom: £7500.

Norway is making a distinction between occasional rental which is tax-free, and professional and more frequent rental which is subject to regular taxation (Skatteetaten , 2017).

Denmark operates with a variable tax-free amount. It depends on the question if the property is owned or being sub-let, as well as the property value or yearly rent. In case of home ownership, rental incomes up to 1.33% of the property value or below 24.000 DKK (+/- $ 3500,-) are tax-free. In the case of rent, sub-letting incomes up to 2/3rds of the yearly rent are tax-free. (More information: Contact Copenhagen!)

Part of Denmark's government is considering to demand an automatic reporting system requiring online platforms to automatically disclose the income of hosts to the tax authorities. The tax minister has rejected this because it would be legally impossible. However there are still voices in government pushing for this to happen and ALEX will keep track of it. (Avisen , 2016). Similar developments are happening in Norway (Norwegian Government , 2017) and France (Paris Property Group , 2017).

In Brussels all income through holiday rental is subject to income tax and the Tax Special Inspection Unit is actively looking for fraudsters on holiday rental websites (The Brussels Times , 2015).