

Short Term Rental Tax Policy Stakeholder Discussion

January 6, 2022

Assumption: Short Term Rentals is a new class valued at the commercial rate of 29%

Question	Current State: How does this work now (recognizing the fact that STRs are NOT a current class)?	Scenario: Proportionate valuation based on calendar days of use/square footage	Scenario: Some trigger (# of days rented, # of days lived in, # of days available for use, etc) leads to the property either being classified as residential OR commercial for the calendar year. (AKA 'Light Switch' approach)
Question 1: How do you handle property that changes hands mid-year and moves from short term to permanent?	January 1 st is the date used for classification purposes. If there is a class change mid year, that will impact the taxes paid in subsequent years. Property classification changes do not occur mid-year.	Assessors don't know where STRs are, they don't know how many days they are being used, etc Challenge: Reliable, defensible information. Massive amount of recording keeping and staff time to allocate value based on use/square footage. (Mixed use assessments now – assessors do this now in specific cases but the number of mixed use properties is a known universe that does not change that often.)	Similar to current state. No allocation process mid year (unless there was a statutory change to do so). Home to STR mid year could trigger an affidavit process to determine primary residency (either via voter registration, or some other data point).
Question 2: What impact does a change in classification have on the financing arrangements of the owner?	Office to home scenario exists now. In these instances, assessors do a lot of education with that purchaser. Mortgage Brokers flag: homeowner qualifies for one rate but if the property becomes commercial, the rate will change and buyer may not qualify for loan.	Loans do happen on mixed use properties. Question is whether or not Fannie & Freddie will service the loan?	Similar to the current state.
Question 3: How would you implement partial year use for STR?	No ability to pro rate. Property owner must wait until January 1 st to see a change in classification.	Technological updates would be key. Ability to collect evidence in order to check on someone's affidavit would also be a challenge. Notice to potential buyers on the MLS – how will buyers know?	Not applicable.