EPIC POLICY BRIEF

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KEY POINTS

- Property taxes are the primary funding source for local governments and central to local public finance
- Short-term rentals can evade property taxes by underreporting rental days, and many jurisdictions struggle to verify this information
- Third-party reporting of short-term rental bookings plays an important role in strengthening tax compliance and reducing opportunities for tax evasion

WHERE YOU CAN FIND THIS RESEARCH:

CLOSING THE AIRBNB TAX LOOPHOLE

Say the word "Airbnb" at cocktail hour and expect a myriad of opinions and an extensive pro-con list. Yet, what's often lost in these conversations about short-term rentals like Airbnb is property taxes, and whether short-term rentals are paying their fair share. Kara Jones, from the Darla Moore School of Business, asks whether short-term rental hosts in Florida are evading property taxes and if better reporting can stop it.

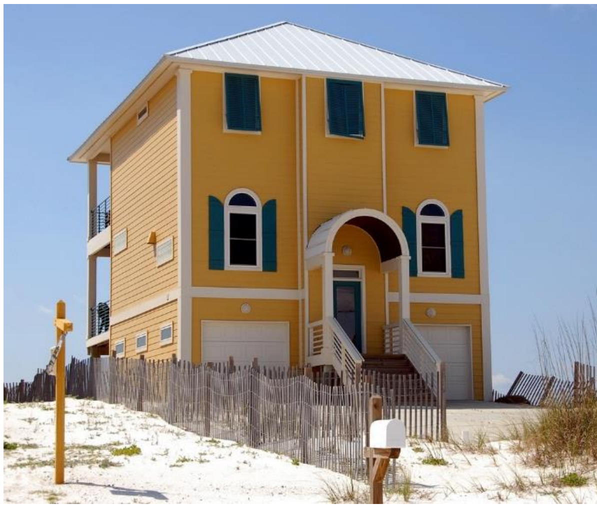
Before breaking down how short-term rental hosts evade the tax, it's worth taking a closer look at the short-term rental market. Generally, short-term rentals refer to residential properties rented to guests for stays of less than a month. These short stays are typically booked and rented through third-party platforms, such as Airbnb, Vacation Rental by Owner (VRBO), and Booking.com. In Florida, where Jones focuses her analysis, Airbnb and VRBO short-term rentals made over $12 billion in revenue in 2024, according to data from AirDNA.

That much money moving through the local economy raises a question: are short-term rental hosts paying their fair share back into it through property taxes?

Property taxes are the backbone of local finance. In 2021, property taxes accounted for over 30% of revenue for local governments, such as counties and cities, across the United States. This revenue supports public schools directly as well as funds public services, including police departments, fire departments, emergency departments, and waste systems.

So how do short-term rental hosts dodge these types of taxes? Many states let homeowners claim a "homestead exemption" that lowers their property tax bill if the home is their permanent residence and is rented less than a specified number of days. The exemption is granted once and rarely re-checked. So, a homeowner can claim it, then list the property as a short-term rental for years afterward and keep collecting the tax break. If nobody checks whether hosts cross the threshold or not, local governments lose out on millions of dollars of tax revenue.

After finding evidence of this type of property tax evasion, Jones explores whether third-party reporting on short-term rentals through Airbnb Voluntary Collection Agreements reduces the evasion. Under a Voluntary Collection Agreement, Airbnb agrees to collect sales and accommodation taxes directly on the platform and remit them to the proper authority.



While property taxes are not collected through Voluntary Collection Agreements, signing one signals that local governments are increasing scrutiny and regulatory activity around short-term rentals. This added visibility into rental activity should extend the enforcement shock of Voluntary Collection Agreements to property tax compliance. To test this hypothesis, Jones compares short-term rental host behavior before and after the Voluntary Collection Agreement, looking for behavior changes after the new tax policy.

She finds that the Voluntary Collection Agreements did reduce property tax evasion. Prior to the Florida Voluntary Collection Agreement, there is no visible gathering of short-term rentals around Florida's rental day limit of 30 days to maintain the homestead exemption. After the Voluntary Collection Agreement, short-term rental hosts cluster at the 30-day limit, suggesting hosts started adjusting their rental activity to remain compliant. Approximately 5,000 extra short-term rentals bunch just below the 30-day threshold. Assuming each bunching host retains an average property tax benefit of $3,000 annually, the implied property tax revenue loss from the bunching behavior is roughly $15 million in Florida (5,000 × $3,000) from 2015 to 2024.

Jones concludes that improved reporting and oversight reduces opportunities for tax evasion in the short-term rental market. Moreover, even a lenient reporting change, where a different type of tax is collected, impacts property tax compliance.

This tax evasion problem isn't unique to Florida. South Carolina ties its own homestead exemption to a rental-day limit of 72 days annually. The exemption is also self-reported and rarely re-verified. Thus, the same evasion channel Jones documents in Florida is possible in South Carolina, too. Like Florida, South Carolina would benefit from property tax and tourism offices integrating or sharing their data. Without integration between them, exemptions stay loopholes.

For Florida and South Carolina alike, Jones encourages policymakers to identify short-term rentals over the rental limit and remove their homestead exemption. The evidence shows that short-term rental hosts are responsive to regulatory changes and property tax rates when tax rates and policies are salient (hosts understand the rules), penalties are costly (losing the exemption is an expensive mistake), and enforcement is credible (compliance is monitored). By pursuing changes in these three areas, local governments protect their main revenue source (property taxes) and can direct that revenue towards amenities that benefit residents.

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