

Memo

Date: May 21, 2019

To: All County Assessors

From: Jon Klockziem, Director

Classifying Short-Term Rental Property

Why is this guidance being provided?

Assessors have asked for guidance on how to properly classify residential properties that are rented on a short-term basis. The number of such properties has increased significantly due to the growing popularity of lodging services such as Vacation Rental By Owner (VRBO), Airbnb, and craft retreat houses. Jurisdictions regulate these properties in various ways through ordinance, licensing, permitting, zoning, etc.

What is *not* covered in this memo?

This memo does not address how assessors should determine or verify a property's primary use, the first step in classification. The guidance below applies after the primary use has been determined.

Use the tools available in your jurisdiction to verify the primary use of all property. This includes inspecting the property, communicating with local government officials, reviewing state and local government records, communicating with property owners, and reviewing all other available information.

What is the classification of a short-term rental property?

A few classifications may apply to a property that is rented on a short-term basis (less than 30 consecutive days). Classification depends on the property's primary use, as shown in the following examples.

If the primary use is	Classify the property
Homestead	Homestead*
Short-term rental	3a Commercial
Non-homestead/other use	Based on identified primary use

* Do not change the classification of homestead property if short-term rental occurs and the property remains the owner's/relative's primary place of residence. However, if it appears short-term rental may be the primary use, the assessor should review the homestead status and request a reapplication.

Can short-term rental property be classified as residential or apartment?

No. A short-term rental property's use is income generation through short-term lodging (less than 30 consecutive days), which is similar to a hotel property. Residential non-homestead and apartment classifications require rentals by tenants for 30 consecutive days or more.

What documentation should the assessor request or research to help determine the classification?

The following information and documentation can be helpful to determine if a property's primary use is short-term rental:

- Permits and licensure from the state or local government entity;
- Booking records or information from third party accommodation intermediaries;
- Income and expense records of the property;
- Occupancy records for the property.

We recommend using thorough verification processes to determine the use of all property.

Questions?

If you have questions about this memo, please contact your Property Tax Compliance Officer or proptax.questions@state.mn.us