Taxing Home Amenity Rentals Would Rein in Tax Avoidance and Support Maryland Counties

Position Statement in Support of Senate Bill 691

Given before the Senate Budget and Taxation Committee

An effective revenue system is an essential tool to enable Maryland to invest in the foundations of our economy, such as education, health care, and transportation. Collecting sufficient revenue is especially important as we work to rebuild hollowed-out state agencies and guarantee all students a world-class education. All Marylanders benefit when we have sufficient resources to invest in the basics, and these investments can be particularly important to break down the barriers—built through past and present policies—that hold back many Marylanders because of their race, gender, a disability, or another aspect of their identity. **The Maryland Center on Economic Policy supports Senate Bill 691** because it would ensure that short-term home rentals for use as an event space are properly taxed.

App-based service and rental companies such as Uber, Airbnb, and Instacart have proliferated over the last 15 years. While the technology behind these companies provides some value by providing convenient market infrastructure, in too many cases these companies primarily exist to skirt worker protections,[i] safety regulations,[ii] and taxes,[iii] often in pursuit of a predatory, monopolistic business model.[iv] Senate Bill 691 would apply the state sales and use tax to one such app-based service – home amenity rentals, or short-term rentals of part of a home for use as an event space – and allow counties to tax these rentals.

Taxing home amenity rentals is particularly important because companies that facilitate these rentals **explicitly advertise them as a lucrative tax avoidance scheme**. Venyou, one company that offers home amenity rentals, explains on its website (emphasis added):[v]

> With events, you can not only make more money off your property, but you can also do it tax-free! Yes, you heard us right. In the United States, you can rent your full-time residence for 15 days or less and keep 100% of that income tax-free! This means if you rent your home out for $200 an hour and host 15 events in one year **you can generate $24,000 in tax-free income**. Where can you sign up? Here!

The company emphasizes that **home amenity rentals can exploit this tax loophole more efficiently** than residential home rentals because of the high prices typical among event spaces. For example, renting one's home for overnight use at $800 per night would generate only half as much tax-free income as the company's home amenity rental scenario.

By applying the sales and use tax to home amenity rentals, Senate Bill 691 would recapture a portion of this tax giveaway and provide revenue to support vital investments in Maryland communities. The provision allowing local taxation is equally important:

- Home amenity rentals can create public costs such as increased traffic and wear on local roads, and an increased need for emergency services compared to ordinary residential use.
- If home amenity rentals enable event hosts to raise money through channels other than ticket sales, they may depress local admissions and amusement tax revenues.
- Special tax treatment under current law creates a perverse incentive to hold events in spaces that are not zoned for commercial use and are not subject to ordinary health and safety regulations.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on Senate Bill 691.

Equity Impact Analysis: Senate Bill 691

Bill summary

Senate Bill 691 would apply the state sales and use tax to home amenity rentals – primarily short-term rentals of part of a home for use as an event space – and allow counties to tax these rentals.

Background

Some home amenity rental companies advertise home amenity rentals as an efficient way to exploit a federal tax break. Under federal law, income gained from 15 days' rental use of a primary residence is not subject to income tax.

Equity Implications

Senate Bill 691 would generate state and potentially local revenue that could be invested into essential services including education, health care, and transportation. These services are especially vital for Marylanders who continue to suffer from the discriminatory policy that remains today. Investing in these basic services strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Senate Bill 691 would also offset tax avoidance and reduce perverse incentives to skirt local zoning, health, and safety regulations.

Impact

Senate Bill 691 would likely **improve racial and economic equity** in Maryland.

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[i] Jennifer Sherer and Margaret Poydock, "Flexible Work without Exploitation: Reversing Tech Companies' State-by-State Agenda to Unravel Workers' Rights and Misclassify Workers as 'Contractors' in the Gig Economy and Beyond," Economic Policy Institute, 2023, https://www.epi.org/publication/state-misclassification-of-workers/

[ii] Hudson Kennedy, Vanya Jones, and Adrea Gielen, "Reported Fire Safety and First-Aid Amenities in Airbnb Venues in 16 American Cities," *Injury Prevention 25*(4), 2019, https://injuryprevention.bmj.com/content/25/4/328.info

[iii] For example, misclassifying workers as independent contractors enables companies to avoid paying the employer side of Social Security and Medicare taxes.

[iv] Jeff Spross, "Uber Is Basically Promising Investors it Will Become a Monopoly," *The Week*, Aprol 15, 2019, https://theweek.com/articles/834836/uber-basically-promising-investors-become-monopoly

[v] "Renting Your Home as an Event Space?" Venyou, 2018, https://www.venyouspace.com/blog/2018/1/22/renting-your-home-as-an-event-space