

DO YOU HAVE A RENTAL PROPERTY IN THE DISTRICT OF COLUMBIA? FREQUENTLY ASKED QUESTIONS

District residents who own properties that they rent out should know that there may be specific provisions in the District tax code that they should be aware of in order to ensure that they are correctly reporting their income and expenses and that they are paying the correct amount of tax due.

Q I rent a property or a portion of my property in the District of Columbia. Am I considered a business for DC tax purposes?

A Yes. In the District of Columbia, rental income is considered business income. All businesses should register with OTR by filing a form FR-500 on MyTax.DC.gov. Registration is required and ensures that payments and returns properly post to a taxpayer's account.

Q I report my rental income on a federal Schedule E, which allows me to report any income or losses associated with my rental real estate on my federal individual income tax return. Does the District of Columbia allow me to report these items on my District individual income tax return?

A No. The District requires that rental income over a certain threshold and related losses are reported at the entity level. If you have gross rents over \$12,000 per year and you are not a corporation, you are

considered an unincorporated business and must file an Unincorporated Franchise tax return (Form D-30). You should not include income or losses related to rental real estate on your District individual income tax return. Rental losses will be reflected on your entity-level return and will not reduce your individual income in the District. If your business is a corporation (including an S-Corp), you should file a Corporate Franchise Tax return (Form D-20).

Q Are there additional returns that are required to be filed for individuals with rental income?

A Yes. Rental properties should file Personal Property Tax returns (FP-31). Rental properties may be liable for Sales and Use tax or Occupancy tax, if the tax is not collected by a marketplace facilitator (such as AirBnB, VRBO, etc.). In addition, there may be additional filings required if the taxpayer is a trust, partnership, or if other circumstances are met. It is important to consult with a tax professional if you have any questions about your tax filings.

Q I do not live in the District but own a home in the District that I rent out. Do I have a tax filing obligation?

A If your gross rents for a property located in the District of Columbia exceed \$12,000 per year, you are considered a business and must file an entity-level return to report your business income and/or losses, even if you are not domiciled in the District yourself.



Q I rent my property as a short-term rental, which allows a host to offer lodging at their primary residence while the host is present on the property, or as a vacation rental, which allows a host to offer lodging at their home for 90 or fewer nights per year without being present in the residence. What are my tax obligations in order to be eligible for a Short-Term Rental or Vacation Rental License from DCRA?

A While DCRA may have additional requirements, tax-related requirements include the requirement that the owner is eligible for the Homestead Deduction and that the owner must obtain a Certificate of Clean Hands.



Q What are the requirements for the Homestead Deduction?

A To qualify for the Homestead Deduction, you must be domiciled in the District of Columbia and the property for which you are applying must be your principal residence. To establish District domicile, the District must be your permanent home. Actions which you should take to establish domicile include obtaining a District driver's license/ Identification card, registering your vehicle in the District, and registering and actively voting in the District. You should also file District and Federal income tax returns from this residence and you must not own property elsewhere with a homestead exemption or a primary residential credit. In addition, you must apply for the Homestead Tax Credit in order to receive it; you can apply for this benefit on MyTax.DC.gov.

Q What are the requirements for a Certificate of Clean Hands?

A In order to get a Certificate of Clean Hands, the applicant must not owe the District government more than \$100 and must have filed all required District tax returns. In addition, businesses must have a valid registration on file. For eligible

applicants, a Certificate of Clean Hands can be instantly generated on MyTax.DC.gov by either logging in to an existing MyTax.DC.gov account (for District residents) or by using the non-login option on the MyTax.DC.gov homepage (for non-District residents).

Q What can I do to obtain a Certificate of Clean Hands if I am non-compliant?

A If you are deemed to be non-compliant with your District tax obligations, you will not be able to generate a Certificate of Clean Hands instantly on MyTax.DC.gov and you will need to review your notice of non-compliance, which will give you additional information on what you may be missing. If your notice of non-compliance states that you have unfiled tax returns or a balance with the Office of Tax and Revenue, you will need to correct the issue before a certificate can be issued. OTR recommends that you file missing returns as soon as possible, since the returns will need to be processed before your compliance status can be updated. If you owe a balance of more than \$100 you must either satisfy the balance or have a payment agreement in good standing before your compliance status can be updated.



Q What can I do to correct my filings if I have not been properly reporting my rental income on an entity-level return?

A If you realize that you have not reported, misreported, or underreported your District rental income or losses, you may be able to obtain relief from penalties by voluntarily coming forward to bring your accounts into compliance through the Voluntary Disclosure program. The Voluntary Disclosure program allows for a waiver of the penalties with the payment of the tax and interest, as well as a limited lookback period. You may be eligible for this program if you have not been contacted by OTR or its representatives (including the Multistate Tax Commission or a third-party bill collector contracted by OTR). You can submit a request for a Voluntary Disclosure Agreement on MyTax.DC.gov anonymously, if you choose; however, submissions must be approved by the Audit Division.

CONTACT INFORMATION

General Questions?
Customer Service Administration:
202-727-4TAX (4829)

Questions about MyTax.DC.gov?
E-Services: **202-759-1946**

Questions about bills, collections, or for the Clean Hands Unit?
Collections and Enforcement Administration:
202-724-5045

Office of the Taxpayer Advocate: **202-442-6348**

Or you can send a web message through MyTax.DC.gov.