

Note • Fall Economic Statement 2023 Measure

Denying income tax deductions for expenses incurred to earn short-term rental income where non-compliant



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This measure proposes to deny income tax deductions when short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting, or registration requirements. The measure would be effective for the 2024 taxation year.

The PBO estimates that this measure would increase income tax revenues by \$170 million over five years.

5-Year Cost

\$ millions

Fiscal year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Total cost	-10	-39	-40	-40	-41	-170

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

This estimate uses the operating revenues of the total accommodations sector by province or by census metropolitan area (CMA) as estimated by Statistics Canada. The share of these revenues attributable to private short-term rentals was estimated based on a study by Statistics Canada. We assumed that short-term rentals will be regulated in all municipalities.

The share of short-term rentals which are not compliant with licensing requirements was estimated based on listing microdata compiled by Inside Airbnb, excluding listings with a minimum rental period exceeding 28 days, no availabilities in the next year, or no reviews in 2023. Claimed license numbers were validated against municipal and provincial registries for short-term rentals. All listings that did not provide a valid license number were assumed to not hold valid licenses, including listings that claimed exemptions or government approval. Exceptionally, some listings without valid licenses were deemed compliant because they were described as a hotel, held a business license as a bed and breakfast, or

matched after correcting apparent typos.¹ The average compliance level across Montreal, Toronto and Vancouver was assumed to apply in all other jurisdictions.

Unlicensed short-term rentals were assumed to account for a share of annual revenues proportional to their share of listings. Expenses were estimated based on the ratio of reported revenues to claimed expenses for individuals with business income in the industry “721198 - All other traveler accommodation” with positive revenues below \$150,000. We assumed that no expenses will be deducted after implementation of the measure. We also assumed that short-term rental profits were being taxed at a marginal federal personal income tax rate of 18%, which was estimated based on the income distribution of individuals with significant self-employment income (which would include income from a short-term rental business). Incremental income tax revenues were assumed to increase by 2% annually.

Sources of Uncertainty

Licensing status could only be assessed for AirBnB, the dominant booking platform, due to a lack of published listing microdata for other platforms. The cost could be somewhat higher if regulatory compliance is lower on other platforms. Deducted expenses as a share of revenues are highly approximate due to a lack of data on the actual expenses deducted by individuals operating unlicensed short-term rentals. The increase in tax revenues for the federal government could be lower if individuals operating unlicensed short-term rentals also fail to report that income or if Canada Revenue Agency is not able to detect such short-term rentals. Despite strong growth in the sector overall, the outlook for unlicensed short-term rentals is assumed to be poor given the ease of detection.

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¹ To address typographical errors, we corrected the formatting of claimed license numbers and identified a handful of fuzzy matches where a listing provided a license number within one character of a valid unmatched license for a short-term rental in their neighbourhood.

Data Sources

Operating Revenues of the Accommodation Services Sector by Province and CMA

Statistics Canada. [Table 33-10-0102-01](#)

Statistics Canada. Private Correspondence.

Ratio of Operating Revenues to Expenses for Individuals reporting Business Income in the Other Traveler Accommodation Industry

Statistics Canada. Custom tabulation based on Administrative Personal Income Masterfile.

Private Short-Term Rental Market Share by Province and CMA

Statistics Canada. [The growing share of private short-term rental revenue in the Canadian accommodation services subsector: Trends from 2017 to 2021.](#)

Private Short-Term Rental Market Listing Microdata

[Inside AirBnB \(for September 2023\)](#)

Valid Short-Term Rental Licenses

[City of Toronto Short Term Rentals Registry](#)

[City of Vancouver Business Licenses](#)

Quebec Ministry of Tourism, Response to Access to Information Request M40186

Table: Unlicensed Active Short-Term Rentals (STRs) for Selected Municipalities

Municipality	Available Listings	Of which: Active	Of which: Active SRT	Of which: Unlicensed Active STR	Of which: Not a hotel	% of Active STRs
Montreal	7,676	5,477	2,681	350	336	13%
Vancouver	6,695	4,616	3,325	491	470	14%
Toronto	14,603	8,979	4,445	183	165	4%
Total	28,974	19,072	10,451	1,024	971	10%

Notes

· Listings were derived from Inside AirBnB based on listings in September 2023. Available is defined as being available for at least one day over the next year. Active is defined as having one review in 2023. Short-term rentals are defined as rentals with a minimum rental duration less than 28 days. Unlicensed is defined as rentals which did not list a valid short-term rental license number. Hotels were identified based on standard listing descriptions.

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