

The Augusta Rule: A Simple Tax Benefit For Homeowners

By Reid Burrows



The “Augusta Rule” provides a unique tax benefit for homeowners who rent out their personal residences for short periods. Codified in Internal Revenue Code (“the Code”) Section 280A(g), this rule allows individuals to exclude certain rental income from their gross income, provided specific requirements are met.

The rule provides that if a dwelling unit is used by the taxpayer as a residence and is actually rented for less than 15 days during the taxable year, the income derived from that rental use is not included in the taxpayer’s gross income, making it tax-free. One caveat is that no deductions are allowed for expenses attributable to the rental use of the dwelling unit.

The Augusta Rule offers a significant tax advantage for homeowners in high-demand areas or during special events. For example, a homeowner in Augusta, Georgia, could rent their home for up to 14 days during the Masters tournament, potentially earning thousands of dollars in tax-free income. The taxpayer is not

required to report this income on their federal tax return, but should maintain records of the rental period, rental agreements, and evidence of fair market value in case of IRS inquiry.

This provision was designed to relieve homeowners of the administrative burden of reporting small amounts of rental income, particularly when homes are rented out for special events or short-term needs.

To benefit from the Augusta Rule, the taxpayer must satisfy the following criteria:

- The property must be a “dwelling unit,” as that term is defined in the Code,

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- The taxpayer must use the property as a residence during the year. Under the Code, this means personal use for more than the greater of 14 days or 10% of the days the unit is rented.
- The property must be rented for less than 15 days.
- The rental must be at a fair market rate. Charging below-market rent to friends or family may disqualify the income from exclusion.

As previously mentioned, no deductions are allowed for expenses incurred during the rental period, such as cleaning or advertising. However, the taxpayer may still deduct mortgage interest and property taxes as itemized deductions on Schedule A, provided the expenses are otherwise allowable and not related to rental activity.

To conclude, the Augusta Rule provides homeowners with a straightforward way to

earn short-term rental income without tax consequences, as long as the strict requirements are met. Careful record-keeping and adherence to the 14-day limit are essential to preserve this benefit. For those considering leveraging this rule, consulting a tax professional is advisable to ensure compliance and maximize the available tax advantages.