

Due Diligence Steps to Successful Hotel Assessment Appeals - By Jim Popp, Esq.
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Hotel properties command ever increasing per room sales prices, resulting in the probability of ever increasing property taxes on hotels. Owners are frequently contacted by tax lawyers and consultants who offer their services to challenge property taxes. However, because of the escalating sales prices many owners express reluctance to challenge property tax valuations.

This hesitancy to challenge valuations remains true even though most owners are aware of the debate in the property tax arena concerning the exclusion of a hotel's business value from its property taxes. Nonetheless, when assessors don't deduct the business value when calculating property taxes, owners are still reluctant to contest the assessment. Happily, there is a movement afoot among hotel owners to conduct an initial due diligence to determine whether property tax challenges are appropriate. The following are some fundamental due diligence steps to be taken to ensure fair hotel property tax valuations:

Seek the Advice of Experienced Professionals : The first step is to discuss the process with professionals experienced in hotel property tax appeals. The focus should be to find a professional with specific experience in appealing hotel assessments. They should be expert in the methodology used to segregate the business value of the hotel property from the real estate value. They should be able to readily discuss the appraisal literature and legal precedents on hotel valuations. They should also have actual experience working with hotel appraisers on valuation cases. Finally, they should have access to hotel professionals in other states so that they have broad exposure to the varying approaches used around the country. Once chosen, these professionals can educate and inform the owner about the appropriateness of an appeal.

Retain an appraiser to prepare a property tax appraisal : Frequently, owners of hotels do not fully appreciate the potential for property tax reductions because they focus in their every day world on the value of the entire going concern rather than on the value of the real estate portion of the going concern. They are familiar with appraisals prepared for a sale or purchase or similar transactions, which are much different than appraisals prepared for property taxes purposes. Appraisals for property taxes specifically segregate the value of the real estate from the business value. Owner should consider retaining an appraiser with whom they have worked in the past and with whom they are comfortable..

Look for evidences of flag performance : Owners of hotels 'know' that flags bring value to the real estate and they 'know' that different flags bring different value. The difficulty is that owners generally lack evidence of the effect of flags on hotels. As a result, they often believe that it may be difficult to convince tax authorities of what they 'know.' Evidence is available of the effect of flags. For example, in Texas, the Comptroller of Public Accounts has available for public review the room revenues of every hotel in the state derived from the hotel occupancy tax and from private vendors such as Source Strategies. Owners in other states can use this data to demonstrate the impact of varying flags on the real estate.

These are a few of the due diligence strategies that busy owners should employ in the process of making decisions about whether to file property tax appeals. The goal is to find some initial assurance that in the face of rising hotel prices that tax authorities are taxing only the real estate and not the business value of the hotel.

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