Look for Tax Savings in Hotel Personal Property - By Mark Hutcheson

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Property taxes, a major component of hotel operating expenses, directly affect the bottom line success of the property. As a result, a significant amount of attention focuses on the valuation of hotels for property tax purposes.

The valuation process concentrates primarily on segregating the going concern value of the hotel's entire business into real estate, personal property and intangible value components. Frequently the personal property aspects of the hotel get lost in the shuffle and the owner can suffer for it.

They get lost in the shuffle because the typical hotel valuation for property tax purposes starts with a consideration of the income attributable to the entire going concern of the hotel. The income is segregated based on its contribution from the real property, the personal property and the business value intangibles. If both real and personal property are subject to property taxes and intangibles are exempt, the allocation of income between personal and real property becomes somewhat irrelevant. The reason is that the greater the personal property value, the less the real estate value and vice versa, with the result that the total property tax liability remains the same because the total value remains the same.

Some situations exist, however, in which the total value and resulting total tax liability will not remain the same. In such situations special attention to the valuation of the personal property becomes warranted. The following demonstrate some scenarios in which attention to personal property values are particularly important:

1. Many states do not tax personal property. As a result, the value allocated to personal property under the income approach takes on greater significance. If the personal property value is reduced the tax liability of the property is reduced. Thus, the appropriate amounts of income attributable to such personal property as replacements and return on investment should be reviewed.

2. A large number of taxing units use a cost approach to value hotel real estate. Under a cost approach, the value of the personal property cannot be taken as a direct deduction. Consideration should be given to the appropriate useful life placed on the property and its market value at the end of its life. This is important because hotel property may wear out more rapidly than the schedule the taxing authority uses for personal property in general.

3. In addition to the typical deductions from income contributed by personal property, as mentioned above, consideration should be given to an additional deduction for income attributable to the specific rental of telephones, rental of exercise equipment and rental of similar items. This income may be characterized as income attributable to a business intangible and, therefore, not taxable.

4. Appraisal theory suggests that a hotel operator expects a recovery of her investment in personal property as well as a payment for the use of the investment, thus, a return of the investment plus a return on the investment. Any income above this return on and of the investment in personal property should be recognized as an intangible based on its value in use, because the income emanates from the ongoing business and is, therefore, not taxable.

Careful analysis of a hotel property's personal property using the information provided here could well result in additional property tax savings for a hotel property.

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