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2014 Hospitality Summit

Personal Property Tax Reporting Issues and Savings Opportunities

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Personal Property Tax Agenda

- Basis for annual reporting and assessment
- Considerations when building a new hotel/resort
- Considerations when purchasing an existing hotel/resort
- Filing the returns & identifying tax savings opportunities
- Monitoring assessments & tax liabilities

Personal Property Tax

Basis for Annual Reporting and Assessment

- A tax paid to local jurisdictions (i.e. counties, cities, or towns) on the value of business personal property owned, used, and/or leased by the business. This tax could be based on one of the following:
 - Cost less depreciation
 - Fair market value in exchange
 - Fair market value in continued use (or in place)
 - Opinion of value

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Basis for Annual Reporting and Assessment

- What is “Cost”? It varies by locality:
 - Historical cost
 - Generally the cost that was first paid when that asset was brand new, no matter how many years ago, and no matter who the owner was at the time
 - Original cost
 - Generally the original cost to the current owner when the current owner first purchased it
 - Acquisition cost
 - Price you paid for the asset when purchased; this would include the “value” assigned to the asset as a result of a purchase price allocation

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Basis for Annual Reporting and Assessment - Examples

State	Basis for Reported Cost	Summary *
Tennessee	Acquisition cost to current holder of property	List the original cost to you by the year acquired. Original cost is defined as the gross capitalized cost before depreciation.
Utah	Acquisition cost to current holder of property	Acquisition cost may correspond to the cost new for new property, or cost used for used property; the cost to the current owner when purchased by the current owner.
Virginia	Historical cost when first acquired	Attorney General Opinion 09-109 states ..."the term "original cost" means the acquisition cost of property from the manufacturer or dealer, i.e., the original cost paid by the original purchaser of such property from the manufacturer or dealer. "

** These are general state examples; please see individual locality regulations for more specific information.*

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Building a New Hotel Property

- Associated costs with building a new hotel property:
 - Land / site improvements
 - Building construction costs
 - Soft costs, surveying, etc.
 - Furniture, fixtures & equipment
 - Pre-opening costs
 - Etc.

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Building a New Hotel Property

- Furniture, Fixtures & Equipment (FF&E)
 - Critical to maintain good records of purchases
 - Record asset purchases on individual basis, not lump sum
 - Track assets that transfer to another facility
 - Track when assets are replaced or disposed and remove them from ledger
 - Remodels – how are assets being accounted for?

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Purchase an Existing Hotel Property

- Furniture, Fixtures & Equipment (FF&E)
 - Purchase price allocation completed
 - Method for allocation – focus is generally on the real estate component of the purchase price. What is the cost or value assigned to FF&E?
 - Calculation of cost or value per key; or
 - Assignment of value to FF&E as a whole, based on the total purchase price or value assigned to real estate
 - Does the value assigned to FF&E make sense based on industry guidelines or comparables?

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Purchase an Existing Hotel Property

- Furniture, Fixtures & Equipment (FF&E)
 - Received a fixed asset ledger from prior owner
 - How detailed is the record keeping?
 - Is the detail complete and reasonable based on existing hotel amenities?
 - Are invoices needed to support prior lump sum purchases?
 - Other asset listings from on-site personnel

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Purchase an Existing Hotel Property

- Furniture, Fixtures & Equipment (FF&E)
 - Did not receive a fixed asset ledger from prior owner
 - Physical inventory
 - Use of an industry cost estimating guide
 - Comparison to similar hotels owned to estimate personal property on hand

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Purchase an Existing Hotel Property

- Furniture, Fixtures & Equipment (FF&E)
 - Once the complete/initial asset listing is identified, remember to:
 - Keep good records of new purchases (invoice copies) and ensure assets are not recorded in bulk
 - Ensure to tag disposed properly in your fixed asset system and general ledger; you want the two to match
 - During remodels, ensure good tracking of what property is replaced and when the old property is disposed

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Completing the Personal Property Returns

- Filing the returns & identifying tax savings opportunities
 - May feel like administrative burden, but take time to ensure filing is accurate and supportable
 - Tie your fixed assets to your general ledger
 - Review return instructions carefully based on your industry

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Completing the Personal Property Returns

- Filing the returns & identifying tax savings opportunities
 - Sample classifications/life tables of hotel property:

State	Type	Life	Depreciation
District of Columbia	Hotel FF&E	10 year	Floor of 25%
Maryland	Hotel F&F in room & lobby only;	4 year	Floor of 25%
	Hotel F&F elsewhere	10 year	Floor of 25%
Nevada	Hotel F&F	15 year	Floor of ~ 6.5%
Washington	Hotel FF&E including mattresses	8 year	Floor of 15%

Personal Property Tax

Completing the Personal Property Returns

- Filing the returns & identifying tax savings opportunities
 - Ensure you can support the costs filed or excluded, including disposals, in case of an audit
 - Can you file fair market value, or owner's opinion of value, of the personal property on the initial returns?

Personal Property Tax

Completing the Personal Property Returns

- Filing the returns & identifying tax savings opportunities
 - Understand definition of value in that jurisdiction.

Examples:

State	Premise of value
District of Columbia	Value in use
Virginia	Fair market value
Florida	Owner's opinion of value / Fair market value

Personal Property Tax

Completing the Personal Property Returns

- Filing the returns & identifying tax savings opportunities
 - Calculate expected assessed value, market value, and associated tax liabilities, when preparing the return
 - Know your expected assessment in advance
 - Appeal windows are generally short
 - Document your positions
 - Filing/classification positions taken
 - Value arguments made

Personal Property Tax

Summary

- Be aware of personal property reporting issues, classification requirements, and anomalies to address for your property type
- Obtain or maintain complete & accurate fixed asset register, and ensure it ties to the general ledger
- Maintain support for filing positions taken & opinions of value rendered
- Complete thorough review of assessment notices & tax bills received and question any that do not match your expected liability or budget

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