

**ASSET ACQUISITION ALLOCATION ANALYSIS (A<sup>4</sup>)<sup>sm</sup>**  
**FOR HOTELS, RESORT AND MALL PROPERTIES FOR STATE & LOCAL TAX PURPOSES**

Paradigm's A<sup>4</sup> service is essentially an extension of the analysis performed for an asset acquisition that contains a significant Business Enterprise Value (BEV) component. Our model assigns appropriate returns on investment to each asset class (real, tangible personal and intangible personal property) thus resulting in a defensible real estate residual for state & local taxation purposes. Benefits include:

- Qualified Property Tax Due Diligence
- Reduced real estate tax exposure
- Reduced transfer/recordation tax liability
- Real estate transfer tax refunds for improperly recorded assets
- Tangible personal property inventory and fixed asset reconciliations
- Sales tax advisory
- Reduced Real Estate Tax Increase Exposure –
  - Acquisition of these types of properties includes business enterprise value components that are not assessable by state & local authorities.
  - In many taxing jurisdictions, these sales prices are employed in the assessment process, in part or whole.
  - When the real property component is identified using proven methodologies, the potential for increase can be reduced in proportion to the percentage of the transaction that is determined to be non-real property.
- Transfer/Recordation Tax Minimization-
  - Reduced vis-à-vis an unallocated sale due to the identification of the real property component of the transaction.
  - Because these taxes are only applied to the real property component, it is advisable to quantify the value and record it at closing.
  - The application of proven valuation methodologies greatly reduces the risk of exposure on audit.
  - Some states do have remedies for refunds
- Tangible Personal Property –
  - Inventory of assets is performed
  - Fixed Asset Listing from Buyer is "scrubbed".
  - Ghost assets are retired.
  - New cost basis for FF&E is established for TPP reporting in subsequent years.
- Bulk Sales Tax –
  - Sales tax liability resulting from the sale is quantified
  - Casual Sale exemptions are identified where applicable
  - The identification of the tangible personal property component of the transaction ensures appropriate taxation of sales tax to these assets as opposed to the State imposing an assessment independently.

## Frequently Asked Questions

Why have I not heard of this before?

- Since most tax departments are run by those from the Income Tax Field, State & Local Tax issues often take a back seat to Federal Tax matters. Our clients will tell you that they have come to rely on our work as an integral step in their acquisition process.

Who else is doing this?

- Our client list includes several of the most active hotel acquisition companies in the current market. References are available upon request. Our clients include REIT'S, Institutional Investors and Private Investors.

Why doesn't my property tax consultant do this?

- This is a special niche requiring expertise that exceeds the capabilities of a general property tax representative. Some of the accounting firms have been precluded from providing these services due to Internal Policy regarding Independence.

Is this like a Cost Segregation Study?

- No! In the preferred chronology, the A<sup>4</sup> is done prior to the Cost Segregation in order to identify the real property component of the subject. The Cost Segregation Study is then applied to the real property component of value.

Will my closing attorney be able to handle these items?

- We are very comfortable working with your closing attorneys and title company to make sure the correct numbers are recorded.

Does this service include due diligence with respect to the respective tax liabilities?

- Yes! We can assist your due diligence team in verifying property tax, transfer tax and sales tax estimates if we are brought in during DD. This includes the projected benefits of the A<sup>4</sup>.

Is this Product like a FAS 141 Purchase Price Allocation?

- No! Our product is specifically designed to follow the property, transfer tax and sales tax requirements of State & Local Taxing Jurisdictions.
- Our product is employed at closing and is not to be employed for GAAP or Federal Tax purposes.
- Buyers who apply Federal Tax Requirements to State & Local Tax applications will pay more than their fair share in property, transfer and sales tax.

## SAMPLE COMPARISON CALCULATIONS

### Assumptions

- \$50M Purchase Price of Full Service hotel
- Real Estate Tax Assessment of \$40M, \$800,000 in real estate tax
- transfer tax rate of 2.2%
- 10% allocation to personal property
- Sales Tax Rate of 5%

### STANDARD ALLOCATION

### PTG A<sup>4</sup>

<ul style="list-style-type: none"> <li>■ Real Estate Tax Exposure is \$5M value, \$100,000/yr. increase in tax</li> </ul>	<ul style="list-style-type: none"> <li>■ \$40M allocated to real property, no real estate tax exposure. <b>\$100,000 in tax savings per year.</b></li> </ul>
<ul style="list-style-type: none"> <li>■ Transfer Tax \$990,000</li> </ul>	<ul style="list-style-type: none"> <li>■ \$880,000 transfer tax, <b>\$110,000 in savings.</b></li> </ul>
<ul style="list-style-type: none"> <li>■ Tangible Personal Property Cost Basis is \$5M, \$100,000 in tax.</li> </ul>	Tangible Personal Property valued at \$3,000,000, supported by inventory and fair market value standards. <b>\$40,000 initial tax year benefit</b> with subsequent year benefit reducing in proportion to depreciation schedules.
<ul style="list-style-type: none"> <li>■ Bulk Sales Tax \$250,000</li> </ul>	<ul style="list-style-type: none"> <li>■ Bulk sales tax \$150,000, <b>\$100,000 in savings.</b></li> </ul>
Risk of real estate tax increase, overpayment of transfer tax, possible over payment or audit exposure from under payment of personal property tax and over payment of sales tax.	<b>\$350,000 in initial state &amp; local tax savings PLUS residual annual savings for real and personal property liabilities</b>

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