Acquisition Price Allocation

Property, Transfer, and Recordation Taxes

The skillful management and mitigation of real property, personal property, transfer, and recordation taxes are often overlooked by even the most sophisticated property acquisition, management, or ownership professionals. Effective administration of these often significant taxes and fees begins during the due diligence process. Property owners and operators who fail to properly plan often pay more than their fair share of taxes or fees at “closing.” The flawed reporting that leads to those immediate, material overpayments also may drive inflated future property assessments and taxes that many times span the entire ownership period. It is therefore critical that parties considering the potential acquisition of Going Concern businesses—including but not limited to hospitality, resort, entertainment, medical, skilled care, retail, or other such real estate business platforms—carefully consider all available controls to guard against these risks. One such tool is Ryan's Acquisition Price Allocation (APA) report.

What is an Acquisition Price Allocation report?

APA is a study of buyer and seller assumptions related to the mutually agreed upon consideration paid during a particular transaction. It is focused on state and local tax, specific recordation, transfer, and property reporting and taxation requirements. An APA study documents the mathematics of the transaction, including the calculation of each component value, and provides narrative descriptions of the assumptions used by the parties. These reports provide buyers and sellers a more detailed and articulate document to summarize their assumptions upon agreement.

What are the benefits associated with an APA?

Many state or local jurisdictions nationwide require the filing of a deed or the disclosure of the purchase price when buying, selling, or refinancing real property. These filings often trigger transactional taxes such as transfer, recordation, deed excise, or documentary stamp, which are based upon the recorded value. Typically, that value is required to be the consideration paid for the real estate. However, taxpayers often mistakenly record the gross purchase price for the total assets of the business (TAB), instead of the price paid for the real property only. As the APA memorializes the gross TAB purchase price, and also the consideration paid for its subcomponents, taxpayers are able to correctly report only the real estate values, as generally required by law. The benefits of an APA may be immediate with respect to a reduced transfer and/or recordation tax burden, and may also carry on in perpetuity with subsequent real property tax savings.
**The Ryan Difference**

Ryan’s process enables buyers and sellers to appropriately account for the assets traded; ensuring parties pay no more than their apposite share of taxes triggered by that sale event. We effectively memorialize the buyer and seller assumptions for both the gross purchase price of the TAB and the four subcomponents (real estate land, real estate improvements, tangible personal property, and intangible property), allowing both parties to ensure agreement prior to closing. It’s never too soon to start planning for the state and local tax consequences of your pending transaction.

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### APA Benefits Example

Correct filing prevents $700k tax overpayment at closing + $525k annual tax savings after closing.*

![Diagram](exampleDiagram.png)

*Assuming 65% of TAB real estate purchase price, 2% transfer tax rate, and 1.5% real property tax rate

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“Ryan’s comprehensive hospitality industry and REIT experience, as well as their strategic approach to property tax, resulted in a substantial reduction of our tax liability in multiple jurisdictions across the country.”

Julie Crist
Manager, Property and Transaction Taxes
SUNSTONE HOTEL INVESTORS, INC.

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**Award-Winning Tax Services**

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