

Law & Accounting

Proposed bill could reshape property tax liability for hotels

Colorado lawmakers are considering a significant overhaul of how the state taxes lodging properties, particularly hotels, resorts and condotels. [Senate Bill 26 116](#) would significantly change how assessors value lodging properties for real estate tax purposes by requiring specific income streams to be included under the income approach. The inclusion of these income streams would increase taxable values across much of the state's hospitality sector. The bill mandates inclusion of "net rental income" and "resort fee income" when determining taxable market value using the income approach. These modifications would likely apply starting late spring/early summer 2026, if enacted.

Key provisions

■ **Municipal lodging tax authority.** SB 26 116 would



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authorize municipalities, with voter approval, to levy a lodging tax up to the same rate and for the same uses currently allowed for counties. The tax would be administered and enforced by the state. Beginning January 2027, municipalities would no longer be able to levy or maintain any other form of tax on lodging or the business of providing lodging unless it conforms to the lodging tax framework established by this bill.

Existing municipal lodging related taxes may remain in place after 2027, provided they do not increase in rate, expand their tax base or materially alter revenue uses unless converted into a compliant municipal



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lodging tax. ■ **Income approach valuation requirements.** The most consequential change for hotel valuation appears in Section 4. Under the income approach to any lodging property, assessors would be required to include "net rental income" and "resort fee income." Each income stream must be capitalized at a market typical rate and incorporated into actual property value.

The bill defines "net rental income" as: "net operating income derived from renting the lodging property, including independently-owned units connected to the property, after subtracting typical market expenses and excluding

rents remitted to unit owners." This change would require assessors to include retained income streams associated with management of condominium units within a hotel's building envelope, even if such units are separately owned and assessed. The bill further defines "resort fee income" as: "net income generated from any fee or charge retained by the property," but excludes amounts remitted to counties, cities, special districts or other local governments.

Other provisions:

- Sections 5-6 would extend the temporary portable qualified-senior primary residence benefit into future property tax years.

- Section 7 would adjust the business personal property exemption beginning Jan. 1, 2027, setting a flat threshold of \$60,000 without inflation adjustments and eliminating state reimbursement for lost revenue.

- Sections 8-9 would bring municipal lodging taxes established under Section 3 under the Department of Revenue's administrative and electronic filing requirements.

Likely impact on hotels and other lodging properties

■ **Increased taxable value.**

Whether assessors may include "net rental income" and "resort fees" as net operating income when assessing hotels has been a hotly contested issue over the past 10 years. Section 4's income inclusion mandates would likely raise the taxable value of many hotels and lodging properties. Properties that previously excluded or only partially captured these cash flows would likely see higher actual values, which means higher assessed values (at the nonresidential assessment rate) and thus higher property taxes.

Assessors would be obligated to include those net income lines in valuation. And lodging property owners would no longer be able to argue that such fees are non real property revenue or should be excluded under cost or going concern theories.

■ Municipal lodging tax authority and preemption.

The bill's authorization of municipal lodging taxes up to 6%, contingent on voter approval, would create new tax burdens for guests and affect hotel net income (and therefore cap rates and value), depending on market pass through. Starting Jan. 1, 2027, the bill would preempt municipal lodging taxes that don't

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Next Steps for Hotel Owners and Asset Managers

To prepare for the potential passage of the bill, hotel owners and asset managers should think about doing the following:

1. Organize personal property asset tracking: Ensure accurate categorization of furniture, fixtures and equipment to fully benefit from the expanded \$60,000 BPP exemption

starting in 2027.

2. Model NOI effects: Quantify retained resort fee income and condominium rental flows. Run capitalization scenarios to estimate value increases and related changes in tax liability.

3. Audit management agreements: Identify income splits, focusing on

what revenue is retained by the property versus what is remitted to owners or governments.

4. Track municipal lodging tax developments in your cities: Post-2027 restrictions and potential new voter approved taxes up to 6% are relevant because they can affect net and, indirectly, valuation metrics.



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