



PARTIAL ASSET DISPOSITION (PAD)

What is Partial Asset Disposition (PAD)?

Partial Asset Disposition (PAD) is a tax planning strategy under the IRS Tangible Property Regulations that **lets property owners write off the remaining undepreciated value of a building component that has been replaced, retired, or demolished, even while the overall property stays in use.**

Before these regulations, when an owner replaced a major system like a roof or HVAC unit, the leftover value of the old component stayed on the books and kept depreciating for decades, long after it was gone. **PAD fixes this by allowing an immediate deduction for the remaining basis of the disposed component in the year it is retired.** *The catch?* it is an annual election that must be claimed on a timely-filed return for that year.



Who Should Consider Partial Asset Disposition?

Partial Asset Disposition is primarily useful for:

- **Commercial property owners and landlords** who routinely update building systems.
- **Real estate investors** seeking to lower taxable income in years with large capital improvements.
- **Facility managers** overseeing large campuses or industrial sites with significant recurring upgrades.
- **CPAs and tax advisors** looking to maximize deductions for clients engaged in property renovations.
- **Owners of residential rental properties** making substantial replacements may also benefit.

Some Pros and Some Cons

✓ PROS	✗ CONS
Immediate Tax Deductions Writing off the remaining basis of the retired component reduces taxable income in the year of disposition, improving cash flow. Avoids "Ghost Assets" Keeps depreciation schedules aligned with reality by promptly removing disposed components from the books. Better Reflects Economic Value Financial statements more accurately represent true asset values and current property conditions.	Requires Detailed Records You need documentation separating the replaced component's cost from the original property, often a cost segregation study. Strict Timing Window The deduction must be claimed on a timely-filed return for the year of retirement. Miss that year and it is generally lost. Audit Exposure The IRS may flag dispositions that are poorly documented or incorrectly calculated.

Let's Look at a Real-Life Example

Consider Gary, a commercial property owner who tears off an aging roof and installs a new one for **\$500,000**. The old roof still carries **\$300,000** of undepreciated basis on his books. A Partial Asset Disposition election lets Gary **deduct that remaining \$300,000** in the year of the replacement instead of slowly depreciating a roof that no longer exists across a 39-year schedule!

1) Gary received immediate tax savings

- Wrote off the full \$300,000 of remaining basis this year rather than recovering it over 39 years.

2) Gary boosted cash flow

- Lowered his current tax liability, keeping more cash in the business now.

3) Gary cleaned up books

- Removed the retired roof from the depreciation schedule, ending a "ghost asset" that no longer existed.

4) Gary offset other income

- Used the deduction to reduce tax on rental and other business profits in the same year.

5) Gary accelerated the new roof too

- Because the replacement is a qualifying nonresidential improvement, much of the new \$500,000 roof may also be expensed up front under Section 179, depending on how the property is used. That pairs the write-off of the old component with fast recovery on the new one.

Our Final Thoughts

PAD is a valuable tool for owners and investors who regularly reinvest in their property. It rewards careful planning and strong documentation, and the timing rule is unforgiving: the election lives or dies with the return for the year of disposition. Paired with current expensing rules on the replacement, it can meaningfully lower tax burdens and improve after-tax returns. **Working with an Asset Strategy tax professional who is familiar with PAD and cost segregation is essential to stay compliant and capture the full benefit.**

Because investor situations and objectives vary this information is not intended to indicate suitability for any individual investor. This is for informational purposes only, does not represent legal or tax advice does not indicate suitability for any particular investor, and does not constitute an offer to purchase or sell investments. Please consult the appropriate professional regarding your individual circumstance. Advisory services are offered through Asset Strategy Advisors, LLC (ASA). Securities are offered through representatives licensed with either Concorde Investment Services, LLC (CIS), member FINRA/SIPC. bd-sd-r-a-3274-6-2026

Have Questions on Partial Asset Disposition?

Schedule a 15-Minute Discovery Call to Discuss!



www.assetstrategy.com/contact

(781) 235-4426

info@assetstrategy.com