

What is Partial Asset Disposition (PAD)?

Partial Asset Disposition (PAD) is a tax planning strategy under the IRS Tangible Property Regulations that allows property owners to **write off the remaining undepreciated value** of a building component or structural improvement that's been replaced, retired, or demolished, even though the overall property is still in use.

Before these regulations, when a landlord or property owner replaced a major system like a roof or HVAC unit, the undepreciated value of the old component would stay on the books and continue to be depreciated over time, even though it no longer existed. **PAD remedies this by allowing an immediate deduction for the remaining basis of the disposed asset in the year of its retirement.**



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 minimize taxable income during 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 benefit.

Some Pros and Some Cons

✓ PROS	✗ CONS
<p>Immediate Tax Deductions</p> <ul style="list-style-type: none"> • Writing off the remaining undepreciated basis of the retired asset reduces taxable income in the year of disposition, improving cash flow. <p>Avoids “Ghost Assets”</p> <ul style="list-style-type: none"> • Keeps depreciation schedules aligned with economic reality by promptly removing disposed assets from the books. <p>Better Reflects Economic Value</p> <ul style="list-style-type: none"> • Financial statements more accurately represent true current asset values and property conditions. 	<p>Requires Detailed Records</p> <ul style="list-style-type: none"> • You need documentation that separates the cost of the replaced component from the original property, which could mean having a cost segregation study. <p>Potential For Missed Deductions</p> <ul style="list-style-type: none"> • Without proactive tracking, owners might overlook PAD opportunities, continuing to depreciate assets that no longer exist. <p>Audit Exposure</p> <ul style="list-style-type: none"> • The IRS may flag improperly calculated dispositions or lack of documentation.

Let's Look at a Real-Life Example

Consider a property owner Gary, who **replaces a \$500,000 roof** that still had \$300,000 in undepreciated basis. PAD lets Gary deduct that remaining **\$300,000 immediately**, creating substantial tax savings in the current year instead of continuing to depreciate it over, say, a 39-year period.

1) Gary received immediate tax savings

- Deducted the full \$300,000 remaining basis this year instead of depreciating it over 30+ years.

2) Gary boosted cash flow

- Keeps more cash now by lowering current tax liability.

3) Gary cleaned up books

- Removed "ghost assets," aligning financial statements with reality.

4) Gary offset other income

- Used the large deduction to reduce taxes on rental or business profits.

5) Gary simplified records

- No need to keep depreciating an asset that's already gone.



Final Thoughts

Partial Asset Disposition is a valuable tool for property owners and investors who regularly reinvest in their assets. It requires careful planning and strong documentation but can significantly lower tax burdens and improve after-tax returns. **Engaging a tax professional familiar with PAD and cost segregation is essential to ensure compliance and maximize this opportunity.**

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Have Questions on Partial Asset Disposition?



Schedule a 15-Minute Discovery Call to Discuss!



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