FINAL TANGIBLE
PROPERTY REGULATIONS

§168 Partial Asset Disposition (PAD) Deduction

Case Study

Major Renovation Nets Owner **$1,300,000** in Tax Savings

The Owner

A Southwest-based manufacturer facing a major overhaul of an aging facility.

The Challenge

Because the facility was becoming obsolete, the manufacturer considered an addition, a renovation, or an entirely new facility.

The Approach

The owner worked with their specialty tax team to explore the potential tax implications of the three options.

The Solution

Through collaboration between the owner, construction team, tax council, and the tax team, it was determined that a renovation of the existing facility would best meet their needs.

The Results

Maximizing the eligible partial asset disposition deduction, while adhering to the guidance set forth by the IRS LB&I Process Unit, the first-year benefit lowered the net renovation cost by nearly 25%. Moreover, the PAD study will convert up to $3m from recapture to capital gains upon the sale of the building.

Existing Building Being Renovated

- Acquisition Type – *Purchase*
- Placed in Service – *2016*
- Original Purchase Price – *$11.3m (net land)*

Renovation Overview

- Placed in Service – *2025*
- Renovation Costs – *$4.6m*
- Renovation Type - *Interior rehab*
- Affected Areas – *Office & manufacturing*

PAD Deduction (A)	Onwer's Marginal Tax Rate (B)	Tax Savings (A) x (B) = (C)	Net Project Cost $4.6m - (C)
$3,530,000	37%	$1,306,000	$3,294,000

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