

FINAL TANGIBLE PROPERTY REGULATIONS

§168 Partial Asset Disposition (PAD) Deduction

For Those Renovating Income Producing Properties



Benefits of PAD Optimization Include:

- Immediate tax savings through recognizing a loss on the disposition. This loss can immediately reduce taxable income, thereby lowering tax liability.
- Reduction of depreciation recapture upon sale of the property.
- Immediate deduction of demolition and disposal costs of the removed asset(s).
- Simplified record-keeping, of fixed asset schedules to accurately reflect the current state of the property.



Eligible Projects

- Income-producing properties.
- For-profit owners.
- Renovations of existing properties.
- Renovations placed in service in the current tax year.
- Assets depreciated under the Modified Accelerated Cost Recovery System (MACRS), including both real and personal property.



Ineligible Projects

- Tax-exempt owned properties.
- Renovations placed in service in prior tax years.
- Newly constructed buildings.
- Buildings with no remaining eligible tax basis.

— Case Study

A medical clinic renovated their facility. They refreshed the waiting area and exam rooms and upgraded their mechanical systems.

Through a PAD Deduction study, the clinic will receive an immediate \$725,000 deduction, yielding tax savings of \$268,000.

— Best Practice Tip

Contact an experienced team of specialty tax professionals to assess the potential benefit of a Partial Asset Disposition Deduction.

At a minimum, the team should:

- Quantify eligible assets.
- Prepare turn-key deliverables, including drafts of applicable Form(s).
- Coordinate with your CPA to claim the deduction.
- Provide complementary audit support.

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