# QIP and Partial Asset Disposition. The Double Deduction Most Owners Miss.

By Timothy C. Franklin · July 7, 2026 · 6 min read

Last year I bought a commercial building and gutted it. New roof, new flooring, new HVAC: a full renovation. When it came time to look at the tax side, I wanted to claim QIP on everything going in and a Partial Asset Disposition on everything coming out.

Then I hit the same wall most owners hit: to write off the old components, you need to know their original cost basis. The building came to me as a single purchase price. Nobody had ever broken out what the HVAC was worth separately from the roof or the flooring. It was all just "the building."

That is the gap. And it is the reason a cost segregation study is not just about accelerating depreciation on what you buy. It is the foundation you need to claim every deduction available when you eventually renovate.

When you renovate a commercial property, you already know you are spending money. What most owners do not know is that the tax code gives you two separate ways to take it back. Not one. Two. The first is Qualified Improvement Property: it accelerates the depreciation on everything new you put in. The second is a Partial Asset Disposition: it allows you to write off everything old you threw out.

Used together, they can turn a $200,000 renovation into more than $250,000 in first-year tax deductions. Most owners claim neither. Not because they do not qualify. Because they did not know to ask.

## What is Qualified Improvement Property?

Qualified Improvement Property, or QIP, is defined under IRC Section 168(e)(6). It covers any improvement made to the interior of a nonresidential commercial building that was already placed in service. The improvement cannot be original construction, an enlargement of the building, an elevator or escalator, or a change to the building's internal structural framework.

Everything else that happens inside the building qualifies: new flooring, updated lighting, a replaced HVAC system, renovated bathrooms, a complete tenant buildout.

Without the QIP designation, interior improvements depreciate over 39 years. With QIP, those same improvements become 15-year property, eligible for bonus depreciation. Under current rules, that means potentially 100% of the cost in year one.

> *You spend $200,000 on a renovation. QIP turns that into a $200,000 deduction the same year. Not spread over 39 years. This year.*

## A brief history: this almost did not exist

The Tax Cuts and Jobs Act of 2017 was supposed to create QIP and give it a 15-year life with bonus depreciation eligibility. A drafting error in the final bill accidentally assigned it a 39-year life instead, making it ineligible for bonus depreciation entirely.

The CARES Act of 2020 fixed the error retroactively to January 1, 2018. If you made qualifying improvements between 2018 and 2020 and did not capture QIP treatment, you may still be able to claim what you missed without amending prior returns.

## What is a Partial Asset Disposition?

A Partial Asset Disposition, or PAD, is a tax election under Treasury Regulation 1.168(i)-8. When you replace a component of a building, the old component does not disappear from your tax records. If it was part of the original building basis, it is still sitting on your depreciation schedule generating a tiny annual deduction, even though you demolished it and hauled it away.

The PAD election lets you stop that. You recognize the disposed component as a loss in the year of disposition and write off its entire remaining depreciable basis at once. The year you replace your HVAC system, you get deductions for the new equipment and a loss deduction for whatever undepreciated basis remained in the old equipment.

## How they work together

QIP and PAD address opposite ends of the same renovation. QIP accelerates deductions on what you put in. PAD captures deductions on what you took out. In the same tax year, you can claim both.

| QIP | PAD |
| --- | --- |
| New improvements → 15-year property → eligible for 100% bonus depreciation → full deduction year one | Old components removed → elect to recognize loss → write off remaining basis → full deduction year one |

Here is a concrete example. You own a retail center and replace the HVAC system entirely. The new system costs $150,000. The old system had $52,000 of undepreciated basis remaining.

**With QIP and PAD:**

• New HVAC → QIP → 100% bonus depreciation → **$150,000 deduction**

• Old HVAC → PAD election → write off remaining basis → **$52,000 deduction**

• Total year-one deductions from one HVAC replacement: **$202,000**

**Without these elections:**

• New HVAC depreciates over 39 years → approximately $3,800 per year

• Old HVAC continues depreciating, never fully written off

• Year-one benefit from the same project: roughly $3,800

Same renovation. Same property. Same tax code. **$202,000 versus $3,800.**

## The catch: you need the numbers

The PAD election requires you to know the original cost of the component being disposed of. If your building was acquired as a single purchase, the entire cost was likely recorded as one line item. Nobody itemized the HVAC, the flooring, the roof, and the electrical separately. Without that component-level breakdown, you cannot support the PAD election.

This is exactly what a cost segregation study solves. A study done at acquisition creates a component-by-component record of your building: every asset, its original cost, its assigned depreciation class. That record becomes the foundation for every PAD election you make on future renovations.

If you did not get a cost seg study at acquisition, a retroactive lookback study can reconstruct that component detail from historical records, blueprints, and engineering analysis. Under IRS guidance, you can implement the lookback findings without amending prior returns by filing a Form 3115. PAD elections on prior-year disposals you already missed can also be claimed in the current year the same way.

## Who should be looking at this?

Any owner of nonresidential commercial real estate who has made, is making, or is planning any interior improvements: tenant buildouts, system replacements, remodeling, any renovation work that removes existing building components.

It also includes owners who have made improvements in prior years and never claimed QIP treatment or PAD elections. The window to recover those deductions is not necessarily closed. The more renovation activity a property has seen, the more likely there are PAD opportunities sitting unclaimed on the depreciation schedule.

## What to do next

The first step is knowing what your renovation is actually worth on paper: not just the contractor invoice, but the tax value. What you can deduct, in what year, and what the old components are worth as a write-off.

We do that analysis. You give us the property basics, we run the numbers, and we show you what QIP and PAD could put back in your pocket. No phone call required. No commitment. Just the answer.

IRS OFFICIAL REFERENCE

**IRS Publication 946: How to Depreciate Property (IRS.gov)**

Official IRS guidance covering depreciation methods, QIP classification, bonus depreciation, and component disposition elections.

## Find out what your renovation is really worth.

Run a free cost segregation estimate. We will show you what QIP and PAD could recover for your specific property. No phone call. No commitment.

**triplestarstrategy.com/free-analysis**