**Example of a partial asset disposition (PAD) employing the Producer Price Index (PPI)**

Assumptions: Taxpayer purchased an apartment building and placed it into service in May of 1997. In June of 2018, the Taxpayer replaced all of the windows, with similar windows, in the apartment building for $396,203, net of removal costs of the old/prior windows. As all of the windows were replaced, the Taxpayer must capitalize the costs of the new windows and depreciate them over the class life for residential buildings. The Taxpayer, can however, deduct the net remaining depreciable basis of the old/prior windows employing the following partial asset disposition calculations using the Producer Price Index\* (PPI), in accordance with the tangible property regulations. Those example calculations are the following:

Cost of the replaced windows in June of 2018 $ 396,203

PPI for May of 1997 (131.6)\*

PPI for June of 2018 (204.70)\*

Cost of window replacement, as determined using changes in PPI

(Calculations: $396,203 times 131.6 divide by 204.70) 254,716

Less: depreciation taken on that amount during the period of May of

1997 through June of 2018 (1.605% for mid-month convention of 1997

Plus 2.564% for tax years 1998 through 2017, plus mid-month convention

of 1.391% for June of 2018 = 54.276% times 254,716) (138,250)

Equals the Partial Asset Disposition Employing the PPI Rollback Method $ 116,466

Thus, the partial asset disposition amount for the Taxpayer in 2018, if he or she elects to employ the partial asset disposition election in 2018, is a net deduction of $116,466. So. while the Taxpayer must capitalize its capital expenditure of $396,203, he or she is able to take a tax deduction related to the disposal of the net remaining depreciable basis of the prior capitalized windows of $116,466.

\*These PPI factors come from US Government BLS, found at <https://data.bls.gov/cgi-bin/surveymost?wp> employing the table for Final Demand (seasonally adjusted) WPSFD4 with 1982 as the base year. If the Taxpayer chooses another base year, the following table and PPI factors will change accordingly.

**PPI Table used in above example:**

