# An Overview of the Tangible Property Disposition Regulations

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The authors provide an overview of the proposed disposition rules and offer tips and insights in considering how to implement them.



The treatment of property dispositions in the so-called tangible property regulations (TPRs)[1] has generated much uncertainty among taxpayers. Dramatic expansion in the use of general asset accounts (GAAs) under the temporary disposition regulations elicited considerable concern from taxpayers unaccustomed to accounting for fixed assets in any manner other than as single asset accounts. In response, the government has proposed new rules simplifying the way taxpayers may recover the basis of property that has been disposed of without having to resort to the use of GAAs. This article provides a high-level overview of the proposed disposition rules and offers tips and insights in considering how to implement the new rules.

## A. The Problem

Before Treasury's issuance of the temporary disposition regulations in December 2011, taxpayers could recover the remaining basis of property following a partial disposition only in very limited circumstances. Although the code[2] provides several avenues for recovering basis following the disposition of an entire asset — such as the recognition of gain or loss following a sale, exchange, abandonment, or destruction — partial dispositions were generally disregarded. The inability to recognize a loss deduction in those situations frequently resulted in a taxpayer's fixed asset records retaining tax basis for property that had been disposed of many years earlier.

For example, if the taxpayer constructs a new building, the entire construction cost — including the cost of the building's roof — becomes the property's depreciable basis. If the taxpayer is required to replace the building's entire roof 10 years into the building's depreciable life because of a construction defect,[3] the cost of the new roof generally would be capitalized, but before the temporary disposition regulations, the taxpayer was not permitted to write off the remaining basis of the defective roof that has been removed. The building physically has only one roof, but the taxpayer was required to concurrently depreciate two roofs. As a result, the taxpayer's fixed asset records would reflect the cost of the new roof (with its own depreciable life), as well as the ''stranded basis'' attributable to the roof that is now nothing more than a pile of salvage material.

The government sought to alleviate this problem when issuing the TPRs in temporary form in December 2011. Under the temporary disposition regulations issued as part of the overall project, the taxpayer could avoid the stranded basis situation

[1]The government issued the TPRs, a comprehensive package of temporary regulations applicable to a wide range of costs associated with tangible personal property, on December 27, 2011. T.D. 9564. These regulations applied to costs incurred to acquire, repair, and maintain tangible property, and also included rules governing the disposition of tangible property. The component of the TPRs addressing dispositions is referred to herein as the temporary disposition regulations. When finalizing most of the TPRs on September 19, 2013 (T.D. 9636), the government chose not to finalize the temporary disposition regulations and instead proposed a new set of regulations that, if finalized, would replace the temporary disposition regulations. 78 F.R. 57547. These proposed regulations are referred to herein as the proposed disposition regulations.

[2]The amendments made by the final TPRs to the temporary TPRs for acquisition and repair and maintenance costs are not relevant herein, and both will be referred to collectively as the TPRs.

[3]In many cases, roofing costs incurred after the building's initial acquisition or construction date will be deductible as repairs, rather than capitalized as an improvement. For a general discussion of the rules applicable in distinguishing between a repair and an improvement under the TPRs, see James Atkinson, ''An Analysis of the Final Repair Regulations,'' *Tax Notes*, Nov. 4, 2013, p. 535.

by immediately recovering the remaining basis of the first roof upon its disposition.

The use of GAAs has been available for several years, but traditionally, relatively few taxpayers have used them. Instead, most tangible property was depreciated as stand-alone assets — single asset accounts — or grouped with related assets with the same placed-in-service date and depreciation methods — multiple asset accounts. Briefly, a GAA is an account that becomes the depreciable unit for tax purposes, with its depreciable basis and modified accelerated cost recovery system recovery period reflecting those of the fixed assets it contains. The taxpayer has tremendous flexibility in determining what to place in GAAs, and it may place in a particular GAA one or more assets that share specific characteristics. For example, each asset in a given GAA must have been placed in service in the same year; each asset must be depreciated in the same manner; listed property may not be included in the same GAA as non-listed property; and property on which bonus depreciation has been claimed may not be grouped with property on which it has not.[4]

Within those limits, however, the taxpayer has significant flexibility in grouping assets within GAAs. For example, the taxpayer may choose to place in a particular GAA a single asset or thousands of assets sharing the requisite similarities. Doing so is straightforward procedurally. The taxpayer makes the GAA election by checking box 18 on Form 4562 filed for the year in which the assets are acquired, indicating that it is making a GAA election for assets acquired during the tax year. The taxpayer is allowed to cherry-pick which assets will be placed in a GAA in a given year, meaning the decision is not all or nothing for similar assets acquired during a given year. The taxpayer must maintain a schedule identifying the property contained in each GAA. The decision to place particular assets in GAAs generally can be revoked only with the IRS's consent but has no effect on whether otherwise identical assets acquired in later years must also be placed in GAAs.

The temporary disposition regulations adopted GAAs as the vehicle for addressing the stranded basis problem. Under the temporary regulations, if the taxpayer disposed of all or even a portion of an asset held in a GAA, it could generally choose whether to recognize the disposition as a tax event — recovering the basis attributable to the component that had been disposed of and adjusting the remaining depreciable basis of the GAA accordingly — or alternatively, disregarding the disposition for tax purposes, recognizing any proceeds up to the original cost basis of the asset as ordinary income (with no basis offset)[5] and continuing to depreciate the GAA without change. This allowed the taxpayer to choose whether to immediately recover the remaining basis of the roof that has been replaced in the above example and set up a new depreciation schedule for the new roof (allowing the taxpayer to carry the tax basis of only one roof at a time), or instead leave the GAA's basis intact and continue depreciating the remaining basis of the old roof over the remainder of its original MACRS recovery period as part of the GAA's depreciable basis as well.

This option also provided a second benefit. The TPRs require capitalizing the costs of replacing a component whose disposition gave rise to a recognized gain or loss.[6] The ability to forgo the loss deduction upon a partial disposition of a component from a GAA preserves the taxpayer's ability to deduct the cost of the replacement component when it could be shown that the replacement is a routine repair rather than a capital improvement under the TPRs' capitalization standards. For example, when a building incurs minor damage (such as a broken window), the available loss deduction is frequently less beneficial than the ability to deduct the cost of the repair. The optional recognition of partial losses from GAAs under the temporary disposition regulations preserved the taxpayer's ability to select the most tax-beneficial position.

This option was unavailable, however, for property not held in a GAA. If a taxpayer disposed of property held in a single asset account or a multiple asset account, it was required to stop depreciating the property upon disposition and recognize gain or loss on the disposition. This was the case even if the disposed property was replaced in an event properly treated as a repair under the capitalization standards of the TPRs. Because these same capitalization standards require capitalization of costs incurred to replace a component whose disposition gave rise to a properly recognized gain or loss, all component replacement costs would have been required to be capitalized. Because most repair costs relate to component replacements — for example, replacing a broken window is a replacement of a building component — taxpayers accounting for assets in single or multiple asset accounts would have very few repair deductions. This essentially

[4]Prop. reg. section 1.168(i)-1(c).

[5]Proceeds exceeding the original cost basis may be treated as section 1231 gain if all other conditions for that treatment are met.

[6]Reg. section 1.263(a)-3(k)(1)(i) through (iii).

made the use of GAAs a necessity, simply to preserve the repair deductions taxpayers were already taking.

The need to place property in GAAs to obtain flexibility for partial dispositions caused considerable consternation among taxpayers. Most taxpayers had limited experience with GAAs and little appetite for learning those rules for this one purpose. Further, the manner in which the temporary disposition regulations applied to partial dispositions required taxpayers acquiring tangible property to essentially look into the future to determine how to identify the components of assets likely to be disposed of, and to set up means to track the tax basis of those components in order to properly compute the eventual disposition loss.

In response to those concerns, the government chose not to finalize the temporary disposition regulations when the remainder of the TPRs (including the rules applicable to repair and maintenance costs) were finalized in September 2013. Instead, the government left the temporary rules in place for now, but proposed a completely different approach. If finalized, the proposed disposition regulations would provide taxpayers flexibility in accounting for partial dispositions, without the need to use GAAs.

### B. The Proposal

**1. Single asset accounts.** In contrast with the temporary disposition regulations, the proposed disposition regulations provide greater flexibility in accounting for dispositions when the tangible property is held in single or multiple asset accounts as compared with assets held in a GAA. For single asset accounts, the disposition of an entire asset remains subject to the long-established rules for recognizing gain or loss upon the sale, exchange, abandonment, or destruction of property. Basis is recovered, and the character of the gain or loss is determined under the generally applicable rules.

As with the disposition of an entire asset, disposition treatment also is required if the taxpayer disposes of a portion of the tangible property in any of four situations: (1) a casualty event; (2) a nonrecognition transaction under section 1031 or 1033;[7] (3) the transfer of a portion of the asset in a step-in-the-shoes transaction described in section 168(i)(7)(B);[8] or (4) a sale of a portion of the asset. If the partial disposition results from any of those events, the taxpayer must account for the proceeds as having occurred from a disposition, recognize (or defer) any gain or loss, and adjust the depreciable basis of the remaining portion of the asset. The taxpayer is not permitted to opt out of disposition treatment in these situations. Because gain or loss must be recognized, the taxpayer also has no flexibility in determining whether to forgo any gain or loss on the partial disposition in order to instead deduct the corresponding replacement costs as a deductible repair. The TPRs will require the replacement costs to be capitalized, regardless of their magnitude.[9]

For example, assume that the taxpayer has incurred costs to replace the roof of an existing structure. If the original roof was damaged or destroyed in a casualty event described in section 165, the TPRs require the taxpayer to account for the loss by applying the provisions of section 165 and adjusting the remaining depreciable basis of the building accordingly.[10] Similarly, if the taxpayer sells a one-half interest in the building, there has been a mandatory disposition under these rules, and the taxpayer must account for the gain or loss on the sale using the long-standing rules for doing so. The taxpayer may not choose to disregard the disposition and continue depreciating the asset.

The departure from current law (and from the temporary disposition regulations) lies in the treatment of other types of partial dispositions of non-GAA assets. Under the proposed disposition regulations, the default rule is to disregard the partial disposition except in the four situations listed above and to continue depreciating the asset without change. Essentially, there is no tax event. Because the taxpayer will not recognize gain or loss by reason of the disposition of a component of the asset, the taxpayer determines under the TPRs' general capitalization standards whether the replacement costs may be deducted as a repair or instead must be capitalized.

[7]Herein, a section 1031/1033 exchange. Although the like-kind exchange provisions of section 1031 and the involuntary conversion provisions of section 1033 are fundamentally different, those differences are not relevant for purposes of this discussion, and the two provisions will be referenced collectively.

[8]Herein, a section 168(i)(7)(B) transaction.

[9]When the disposition results from a casualty event described in section 165, the TPRs provide a special rule allowing the taxpayer to determine whether costs that exceed any mandatory basis adjustment may be treated as a deductible repair or instead as a capital improvement. Reg. section 1.263(a)-3(k)(4).

[10]While the regulations do not state that claiming the casualty loss under section 165 is mandatory, they do require that the taxpayer adjust the basis of the property to reflect the available casualty loss, regardless of whether it is claimed. Prop. reg. section 1.168(i)-8(d)(1). The government asserts that this mandatory basis adjustment in turn prevents the taxpayer from being able to claim a deduction for the cost of repairing the damage.

Unlike the temporary disposition regulations, however, the proposed disposition regulations allow the taxpayer to elect to treat the partial disposition as a tax event. To do so, the taxpayer need only reflect the gain, loss, or other deduction on its timely filed (including extensions) original tax return for the year. Further, if the asset is properly included in one of the asset classes of Rev. Proc. 87-56, 1987-2 C.B. 674, the taxpayer also must classify the replacement portion of the asset under the same asset class as the disposed portion of the asset, when the replacement portion is placed in service. Because the taxpayer will have recognized gain or loss upon the disposition of the component, the TPRs require the taxpayer to capitalize the costs of replacing that portion of the asset, even if the replacement would otherwise be treated as a deductible repair.[11]

Mechanically, the election results in the disposed portion of the asset being placed in its own single asset account as of the beginning of the year of the disposition, and a proportionate amount of the asset's total depreciable basis being assigned to that new asset account. The regulations allow the taxpayer to use any reasonable method to determine the basis allocable to that disposed portion. Gain or loss is then recognized as appropriate upon the disposition of that item, using its allocable basis. The remaining basis and depreciation reserve of the retained portion of the asset is adjusted accordingly.[12]

In application, this election is relatively straightforward. For example, assume the taxpayer replaces a building's elevator with an upgraded model, and that the building is not held in a GAA. If the taxpayer does not make the partial disposition election, the retirement of the old elevator is disregarded. Depreciation continues for the cost of the building, including the cost of the retired elevator, and the taxpayer does not recognize a loss for the retired elevator. If under the TPRs the taxpayer is required to capitalize the cost of the new elevator, the replacement elevator is a separate asset for depreciation purposes and for purposes of future dispositions. The result would be the same even if the taxpayer accounts for each structural element of the building — including each elevator — as a separate asset in its fixed asset system.[13]

Assume instead that the taxpayer does elect to treat the replacement of the elevator as a partial disposition under the proposed disposition regulations. Even though the building is the asset for disposition purposes, the election results in the elevator replacement being treated as a disposition, allowing the taxpayer to recognize the remaining basis in the retired elevator as a loss for that tax year. Because it has recognized a loss upon the disposition of the elevator, the TPRs require the taxpayer to capitalize the cost of the new elevator.[14]

**2. GAAs.** While the government has expanded the taxpayer's flexibility in how to account for the partial disposition of tangible property held in single or multiple asset accounts, the proposed disposition regulations carve back on that flexibility for assets held in GAAs. In short, the proposed disposition regulations restore the GAA rules that applied before the temporary disposition regulations. As such, although taxpayers have some flexibility regarding partial dispositions of property held in a GAA, it is relatively narrow.

The rules applicable to dispositions from a GAA are more complex than those applicable to non-GAA property. The first step in the analysis is determining whether there has been a disposition from the GAA. A disposition always will occur when the taxpayer disposes of an entire asset, whether by sale, exchange, retirement, abandonment, or destruction. The proposed disposition regulations look to all relevant facts and circumstances in determining the appropriate asset, but note that the definition of unit of property used elsewhere in the TPRs does not apply.[15] Building structural components, and portions thereof, are considered the asset for purposes of determining dispositions from a GAA.

Identifying partial dispositions from a GAA is more complex. A partial disposition will always be treated as a disposition if it arises from (1) a casualty event; (2) a section 1031/1033 exchange; (3) a section 168(i)(7)(B) transaction; (4) the sale of a portion of the asset; or (5) a transaction identified by the IRS as abusive.[16] However, as discussed below, even if the disposition does not fall within one of those categories, it still might be treated as a disposition if the taxpayer is eligible to make one of two elections.

When there has been a disposition of all or a portion of the asset, the proposed disposition regulations next require the taxpayer to determine whether any gain or loss arising from that disposition can (or must) be offset by a portion of the GAA's depreciable basis. Four categories of dispositions always result in some tax effect: (1) a technical termination of a partnership owning the GAA;

[11]Reg. section 1.263(a)-3(k)(1)(i) through (iii).
[12]Prop. reg. section 1.168(i)-8(h)(3).
[13]*See, e.g.*, prop. reg. section 1.168(i)-8(i), examples 1-2.
[14]*Id.* at Example 3.
[15]Prop. reg. section 1.168(i)-1(e)(2)(viii).
[16]Prop. reg. section 1.168(i)-1(e)(1)(ii).

(2) a section 168(i)(7)(B) transaction; (3) a nontaxable exchange under section 1031 or 1033; or (4) a transaction that the IRS has identified as abusive.[17] If the disposition (whether an entire asset or only a portion of an asset held in a GAA) falls into one of those categories, the GAA will terminate (in whole or part, depending on what has been disposed), the taxpayer recovers the tax basis allocable to the property that has been disposed from the GAA, and the GAA's remaining depreciable basis and depreciation reserve are adjusted appropriately.[18]

If there has been a disposition from the GAA that does not fall within one of those four categories, the taxpayer may choose to recognize a loss for the disposition only in two narrow situations. First, if the transaction results in the disposition of the last asset, or the last portion of an asset, from the GAA, the taxpayer may elect to terminate the GAA, recover any remaining depreciable basis, and recognize any gain or loss under the normally applicable provisions of the code.

If any portion of an asset remains in the GAA following the disposition, the taxpayer can choose to recognize the loss only if there has been a qualified disposition from the GAA. A qualified disposition will occur only if there has been (1) a casualty; (2) a charitable contribution; (3) the cessation of a trade or business or of a plant, process, or facility that used the disposed property; or (4) a nonrecognition transaction other than a section 168(i)(7)(B) transaction or a section 1031/1033 exchange.[19]

If any of these conditions is satisfied, the taxpayer may disregard the disposition and continue depreciating the GAA without change, or instead elect to recognize the loss from the disposition for tax purposes. If the taxpayer chooses not to elect partial disposition treatment, the GAA is wholly unaffected and continues to be depreciated without change. Any proceeds received from the disposition are recognized as ordinary income, with no basis offset.

If the taxpayer instead chooses to make a partial disposition election, the disposed portion of the property is treated as if it were placed in a separate GAA at the beginning of the year and assigned an allocable portion of the original GAA's basis. Upon the item's disposition, the allocable basis offsets any proceeds received upon the disposition, resulting in gain or loss under the normally applicable rules. As with partial dispositions from single or multiple asset accounts, the election is made simply by reflecting this treatment on the federal tax return for that year, with no requirement for a separate statement or form. The election is made on an asset-by-asset basis, allowing the taxpayer to strategically choose when and for which assets the partial disposition election will be made.[20]

For example, assume a manufacturer has placed into a single GAA six identical pieces of equipment placed in service at the same time, three of which are operated in a plant in South Carolina and one in a plant in Georgia. If the taxpayer sells the Georgia plant (including the equipment), it has two options regarding the treatment of the sale of the equipment. Because the disposition of the equipment did not result from a technical termination of a partnership or from either a section 168(i)(7)(B) transaction or section 1031/1033 exchange, the disposition will be disregarded unless it is either the disposition of the final asset held in the GAA (it is not, because three pieces of equipment remain in the GAA) or a qualified disposition, and the taxpayer elects to recognize the gain or loss.

Because the taxpayer has disposed of the plant where this equipment was operated, the equipment was the subject of a qualified disposition. If the six items of equipment were otherwise identical in terms of purchase price, condition, and other factors, it would be reasonable to assume that half of the GAA's value is allocable to three machines sold along with the Georgia plant. Under the proposed disposition regulations, the taxpayer can either disregard the disposition and continue depreciating the GAA without change (including the remaining basis of the three machines that have been sold), or recognize gain or loss on the sale of the three pieces of equipment and adjust the GAA's remaining basis and depreciation reserve accordingly.

### C. Planning Considerations

The proposed disposition regulations fundamentally shift the planning considerations surrounding dispositions of tangible property. Under the temporary disposition regulations, there was a clear advantage to placing tangible property — in particular, buildings — into GAAs. Many practitioners correctly told their clients that there was no discernible downside not only in making GAA elections for new acquisitions but also in making "late" GAA elections for property the taxpayer already owned. The guidance issued by the IRS

[17]Prop. reg. section 1.168(i)-1(e)(3)(iv) through (vii).
[18]Prop. reg. section 1.168(i)-1(e)(3)(iii)(A).
[19]Prop. reg. section 1.168(i)-1(e)(iii)(B).
[20]Prop. reg. section 1.168(i)-1(e)(3)(iii)(c).

instructing taxpayers how to implement the temporary regulations provided a clear roadmap for moving existing assets into GAAs,[21] and several taxpayers early adopted those rules in order to do so.

The proposed disposition regulations have now reversed this calculus. GAAs still retain some planning advantages and will be an attractive choice for many. For example, GAAs facilitate a taxpayer's ability to park fixed assets in a GAA and essentially set the cost recovery process to autopilot. Because the GAA itself is the depreciable asset and the majority of dispositions from that account can be disregarded — even after the taxpayer has sold the last remaining item held in a particular account — GAAs are an attractive means of recovering the cost of numerous relatively small items whose individual tax bases are impractical to track separately, and whose individual disposition will not generate a material amount of gain or loss. In those situations, GAAs may provide an attractive tool for reducing the taxpayer's administrative burden.

GAAs also may prove attractive to taxpayers that anticipate being in a net operating loss position for several years and would like the ability to forestall the cost recovery of the sale or exchange of individual assets. Again, because the GAA is the depreciable asset, the GAA can continue to be depreciated over its entire MACRS life, regardless of when the taxpayer sells or exchanges individual items held in a particular account.

Taxpayers using GAAs to pursue either of these planning objectives generally should consider placing only one asset in each GAA. Doing so — rather than having multiple assets per GAA — increases the taxpayer's planning flexibility using the election to terminate the GAA upon the disposition of the last asset in a particular GAA.

For most taxpayers, however, the use of GAAs will be considerably less attractive under the proposed disposition regulations. Whereas the taxpayer may choose whether to recognize a gain or loss upon a partial disposition from a GAA only in narrow circumstances, the taxpayer will nearly always have that flexibility when the property is depreciated outside a GAA. The taxpayer must recognize the loss in some circumstances (such as following a casualty event or a partial sale of the asset) but otherwise can choose on a transaction-by-transaction basis whether to ignore the disposition and claim the (generally) more favorable repair deduction or instead claim the loss deduction and capitalize the cost of replacing the disposed component. This determination will depend on whether the replacement will likely be treated as a deductible repair under the TPRs, and if so, the relative tax benefits of the loss deduction versus the repair deduction. Because this choice will be available for a wider range of dispositions than would be allowable if the property were held in a GAA, keeping the property in single or multiple asset accounts is an important way to preserve this flexibility.

The decision to place specific assets in a GAA or instead depreciate the item as a stand-alone asset is made on an asset-by-asset basis. As such, the taxpayer is free to place high-volume, low-dollar items in a GAA and essentially place the cost recovery of those items on autopilot, while at the same time retaining buildings or other high-cost property as single assets. The decision must be made in the year the property is placed in service, however, so well-advised taxpayers will develop a company policy identifying the categories of purchases that are to be placed in GAAs (and ensure that the appropriate election is made on Form 4562) and those items that are to be depreciated in single asset accounts.

Similarly, taxpayers should work with their tax advisers to understand the pros and cons of recognizing losses from partial dispositions both from single and multiple asset accounts, and in the narrow circumstances in which that election may be available for property held in a GAA. This discussion should include whether and how to recover any remaining stranded basis attributable to fixed assets that the taxpayer may have disposed of in prior years.

### D. Transition Guidance

In February, Treasury and the IRS issued the second installment of the transition guidance instructing taxpayers on how to implement the TPRs. While Rev. Proc. 2014-16, 2014-9 IRB 606, provides guidance for making accounting method changes regarding acquisition costs and repair and maintenance expenditures, recently released Rev. Proc. 2014-17, 2014-12 IRB 661, provides guidance for making method changes under both the temporary and proposed disposition regulations.

Because it is intended to apply to method changes made under the temporary and proposed disposition regulations, Rev. Proc. 2014-17 generally applies only to changes made for 2013 tax years, although some changes can also be made for 2014. While it purports to apply to method changes effective for 2012 as well, the guidance was not issued in time for most taxpayers to request those changes. A third revenue procedure applicable to method changes to be made under the final disposition regulations is expected to be issued once Treasury releases those final regulations later this year. There can be no guarantee about the scope or

[21]Rev. Proc. 2012-20, 2012-14 IRB 700.

application of that additional guidance, but Treasury has stated publicly that it likely will provide additional time for implementing some accounting method changes for dispositions of tangible property.

As has become common with transition guidance, Rev. Proc. 2014-17 provides taxpayers automatic consent to make any of the 55 available method changes and temporarily waives the otherwise applicable scope limitations. This generally means the taxpayer may file Form 3115 to make the desired method change effective for its 2013 tax year. A copy of Form 3115 is to be filed with the IRS service center in Ogden, Utah, with the original attached to the taxpayer's timely filed (including extensions) federal tax return for 2013. Because the scope limitations have been waived temporarily, the taxpayer may file Form 3115 even if it is currently being examined by the IRS (regardless of the so-called window periods) or has filed a similar method change request within the past five years.

Within those limits, Rev. Proc. 2014-17 permits accounting method changes in several broad categories, with different changes permitted depending on whether the tangible property subject to the change is held in a GAA. For example, changes are permitted for:

- making or revoking late GAA elections;
- late partial disposition elections for property not held in GAAs;
- how to group assets;
- how to identify disposed assets;
- whether and how to depreciate assets; and
- method changes following IRS adjustments to the taxpayer's application of the TPRs.

While Rev. Proc. 2014-17 is broad in scope, taxpayers should focus immediately on three elements of the guidance. First, taxpayers may make late partial disposition elections under the proposed disposition regulations to recover through a section 481(a) adjustment the remaining basis of tangible property not held in a GAA that has been disposed of in a prior year but is still being depreciated. Because Rev. Proc. 2014-17 makes this opportunity available only for method changes filed for a 2013 year of change, the window for doing so is relatively brief. A Form 3115 claiming the basis recovery as a section 481(a) adjustment would need to be filed with the taxpayer's original federal tax return for 2013. Although forthcoming guidance may provide an additional year for making these late partial disposition elections, it is uncertain whether and how the government would permit these changes for 2014.

Rev. Proc. 2014-17 also gives taxpayers a limited opportunity to make a late GAA election for property that the taxpayer owns as of the beginning of the year in which the method change is effective. Taxpayers are no longer permitted to retroactively place into GAAs property that has been disposed of in a prior year, but the ability to place into a GAA property acquired before 2012 and still owned as of the year of change may be attractive to companies seeking to minimize the administrative burden of tracking large volumes of small dispositions. This change also must be completed when the 2013 return is filed.

Finally, Rev. Proc. 2014-17 permits taxpayers to revoke prior GAA elections in some circumstances. In general, the taxpayer may revoke a GAA election that was made for property acquired before 2012 and owned at the time of the election, or for property that was placed in service in 2012 or 2013. Unlike for most of the other changes allowed by Rev. Proc. 2014-17, taxpayers may revoke an existing GAA election in either their 2013 or 2014 tax year. This gives taxpayers more time to weigh the various options for accounting for dispositions of property held in a GAA. Because the proposed disposition regulations make the use of GAAs less attractive to many taxpayers than was the case under the temporary regulations, taxpayers should consult with their tax advisers to ensure they choose the optimum alternative for their particular situation.

### E. Conclusion

Although the proposed disposition regulations are not yet final (and so may not be relied on as authority), the final version of these regulations likely will adhere closely to the proposed disposition regulations discussed here. As such, it is not too early for companies to begin considering how the new rules will apply to their fixed assets and to begin preparing a strategy for taking full advantage of the new rules. Taxpayers should pay particularly close attention to the accounting method changes permitted by Rev. Proc. 2014-17 that are allowed only for 2013. Time is of the essence to consider whether and how to take advantage of those opportunities.