ONE BIG BEAUTIFUL BILL

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Twelve Ways the “One Big Beautiful Bill” Reshapes Construction Tax Planning

The newly enacted “One Big Beautiful Bill” (OBBB) introduces sweeping tax reforms that will significantly impact the construction industry. This landmark legislation—signed into law on July 4, 2025—includes a dozen key provisions that affect contractors, developers, and construction-focused pass-through entities.

Some of these changes take effect retroactively to the beginning of 2025, while others are scheduled to begin in 2026. As a result, advance planning is essential—not only to optimize tax positions under the new rules but also to accurately estimate and manage 2025 tax payments. This alert outlines the 12 most consequential provisions and what construction businesses should consider now to stay ahead of the curve.

1. 100% Bonus Depreciation Permanently Extended (Effective 2025)

Construction companies can now fully expense qualifying equipment and property in the year of purchase. This provision is not only retroactive to January 19, 2025, but has also been made permanent, eliminating the previous phase-out schedule.

Impact:

> This change enhances long-term planning certainty, improves cash flow, and encourages capital investment in machinery, vehicles, and other short-lived assets.
>
> Because this provision is now permanent, it provides construction firms with the certainty needed to strategically manage capital expenditures over the long term.

2. Section 179 Expensing Expanded

The maximum amount a taxpayer may expense under Section 179 has been increased to $2.5 million, with the phase-out threshold beginning at $4 million. The deduction is reduced dollar-for-dollar by the amount by which the cost of qualifying property exceeds $4 million.

Impact:

> This expansion allows construction firms—especially small to mid-sized businesses—to immediately deduct the full cost of qualifying property, such as equipment, vehicles, and software, up to the new limits.
>
> The permanence of this provision offers valuable predictability, enabling firms to confidently plan and execute capital investments without concern for shifting tax treatment.

3. Special Depreciation for Nonresidential Real Property Used in U.S. Production

The new law introduces a special depreciation allowance for qualified production property, allowing full and immediate expensing for certain nonresidential real estate used in manufacturing or production.

To be eligible, the property must meet all of the following:

- It must be nonresidential real property (e.g., factories, refineries, or production facilities),
- It must be used as an integral part of qualified production activity, such as manufacturing, production, or refining of a qualified product,
- Construction must begin between January 19, 2025, and December 31, 2028, and
- The property must be placed in service before January 1, 2031.

Impact:

This provision provides a powerful incentive for construction firms involved in building or upgrading U.S.-based production facilities.

It supports long-term investment in domestic industrial infrastructure and offers immediate tax benefits for qualifying projects.

4. R&D Expense Deduction Restored (2025–2029)

Taxpayers can now immediately deduct domestic research and experimental (R&E) expenditures paid or incurred after December 31, 2024.

Key Details:

- Domestic R&E expenses are fully deductible in the year incurred.
- Foreign R&E expenses must still be capitalized and amortized over 15 years.
- Small businesses with average gross receipts of $31 million or less will generally be permitted to apply this change retroactively to tax years beginning after December 31, 2021, by filing an amended return.
- All other taxpayers that incurred R&E expenditures between December 21, 2021, and January 1, 2025 will be permitted to elect to accelerate the remaining deductions for those expenditures over a one- or two-year period, beginning after December 31, 2024, via a change in accounting method.
- Procedural guidance is expected to be released by the IRS to on handling of prior year capitalized expenditures

Impact:

This change reverses the amortization rules introduced under the TCJA and supports innovation in construction processes and technologies.

It provides a strong incentive for firms to invest in productivity-enhancing tools and sustainable practices, with immediate tax benefits—especially for small and mid-sized firms.

Taxpayers impacted by this provision should evaluate their remaining estimated tax payments for 2025 to preserve cash flow and plan accordingly.

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5. 20% Deduction Made Permanent for Pass-Through Businesses (S Corporations, Partnerships, Sole Proprietors)

The 20% deduction for Qualified Business Income (QBI)—originally enacted under the Tax Cuts and Jobs Act—was previously set to expire at the end of 2026. The new law makes this deduction permanent for pass-through businesses, including S corporations, partnerships, and sole proprietors.

Impact:

This ensures continued tax relief for a broad range of construction firms that operate outside the C corporation structure.

With the deduction now permanently set at 20%, the highest effective federal tax rate for owners of these businesses is reduced from 37% to 29.6%.

This helps maintain parity with the 21% corporate tax rate for C corporations and allows business owners to plan with confidence, reinforcing the long-term viability of pass-through structures in the construction sector.

6. More Interest Expense Now Deductible for Capital-Intensive Businesses

The new law makes a permanent and favorable change to the limitation on business interest expense deductions. Previously, the deduction was limited to 30% of a business's taxable income before interest and taxes (EBIT). Under the new rule, the limitation is now based on 30% of taxable EBITDA—which means businesses can add back depreciation, amortization, and depletion when calculating their deduction threshold.

Impact:

This change allows businesses to deduct a larger portion of their interest expense, especially those that are capital-intensive and highly leveraged, such as construction firms with significant equipment or real estate investments.

By permanently shifting to an EBITDA-based threshold, the law provides greater flexibility and tax relief for firms that rely on financing to grow and operate.

7. Higher SALT Deduction Limit with Phaseout for High-Income Taxpayers

Under prior law, the deduction for state and local taxes (SALT) was capped at $10,000. The new law increases the SALT deduction cap to $40,000, adjusted annually for inflation, for tax years beginning January 1, 2025, through December 31, 2029. Beginning in 2030, the cap will revert back to $10,000. The adopted

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version of the bill increases the SALT cap and does not attempt to limit or address the various state enacted Pass Through Entity Tax workarounds (PTET) that taxpayers are currently using to avoid the existing SALT cap.

Phaseout for High-Income Taxpayers:

For tax years beginning in 2025, the deduction begins to phase down for taxpayers with modified adjusted gross income (MAGI) over $500,000, also adjusted for inflation.

The deduction is reduced by 30% of the amount by which MAGI exceeds the threshold, but it can never be reduced below $10,000, ensuring a minimum benefit remains available.

Impact:

This temporary increase provides meaningful relief for construction business owners and employees in high-tax states.

Importantly, with the expanded use of Pass-Through Entity (PTE) tax elections, many taxpayers may now be able to deduct real estate taxes on their homes that were previously limited under the $10,000 cap.

This change enhances planning flexibility and may significantly improve after-tax cash flow for eligible taxpayers.

8. Green Energy Credits Have Accelerated Timeline for Terminations

The new law shortens the availability window for several key green energy tax incentives that have been widely used in the construction and real estate sectors.

179D – Energy Efficient Commercial Building Deduction:

This deduction is now set to expire for construction that begins after June 30, 2026.

This change will significantly impact architects, engineers, and design-build firms that have historically claimed the deduction for their role in designing energy-efficient systems in government and non-profit buildings.

45L – Energy Efficient Home Credit:

The 45L credit, which provides incentives for the construction of energy-efficient residential homes, is also on track for termination under the same accelerated timeline.

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This will have a direct impact on homebuilders and residential developers, particularly those focused on sustainable housing.

Impact:

These accelerated terminations reduce the runway for planning and executing energy-efficient projects that qualify for federal tax incentives.

Construction firms, designers, and developers should evaluate current and upcoming projects to determine eligibility and consider accelerating timelines to preserve access to these credits and deductions.

9. Exception to Percentage-of-Completion Method for Certain Residential Construction Contracts

Under prior law, home construction contracts involving buildings with four or fewer dwelling units were eligible to use more favorable accounting methods, such as the completed-contract method, instead of the percentage-of-completion method (PCM). This allowed builders to defer revenue recognition until the homes were completed.

The new law expands this exception to include residential construction contracts involving more than four dwelling units, such as condominium complexes and multi-unit residential buildings.

Impact:

This change allows a broader range of residential construction projects to use more favorable accounting methods like the completed-contract method, enabling greater deferral of income until the project is substantially complete.

It provides significant tax planning flexibility and cash flow advantages for developers, builders, and contractors working on larger-scale residential developments.

10. Overtime Pay Exempt from Federal Income Tax

The new law introduces a **temporary above-the-line deduction** for qualified overtime compensation, providing targeted relief for workers who regularly exceed 40 hours per week.

Key Details:

- The deduction is capped at **$12,500 per individual** or **$25,000 for married couples filing jointly**.
- It applies to tax years **2025 through 2028**.

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- The deduction begins to **phase out** when a taxpayer's **modified adjusted gross income (MAGI)** exceeds **$150,000** (or **$300,000** for joint filers), adjusted annually for inflation.
- The deduction is only available if the **qualified overtime compensation is reported separately** on **Form W-2 or Form 1099**.

Definition of Overtime Compensation:

The bill defines qualified overtime compensation as **overtime pay required under Section 7 of the Fair Labor Standards Act of 1938**, which is compensation paid **in excess of regular rates** for hours worked beyond 40 in a workweek.

Impact:

This provision offers a meaningful tax benefit to employees in labor-intensive industries like construction, where overtime is common. It increases take-home pay, encourages workforce participation during peak periods, and provides a planning opportunity for employers and payroll providers to ensure proper reporting.

11. Permanent Increase in Estate and Gift Tax Exemptions

Beginning in 2026, the OBBB raises the lifetime estate and gift tax exemption amounts to:

- $15 million for single filers
- $30 million for married couples

These amounts will be indexed for inflation starting in 2026.

Impact on Construction Companies:

Many construction firms are privately owned, with the majority of owner wealth tied up in closely held stock. These shares often lack liquidity, making it difficult for heirs to cover estate tax liabilities without selling off business assets. The increased exemption thresholds provide welcome relief, allowing owners to transfer more wealth without triggering estate tax, thereby supporting business continuity and succession planning.

12. New Floors on Charitable Contribution Deductions

The OBBB introduces a minimum threshold—or "floor"—for deducting charitable contributions:

- 0.5% of adjusted gross income (AGI) for individual taxpayers
- 1% of taxable income for C-corporations

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Impact Example – Individual Taxpayer:

An individual with $1,000,000 in AGI must contribute at least $5,000 (0.5%) before any charitable donations become deductible. If the taxpayer donates $4,000, none of it would be deductible. If they donate $10,000, only $5,000 would be deductible under the new rule.

In Summary

In light of these sweeping changes, construction businesses should act swiftly to assess how the "One Big Beautiful Bill" will affect their operations, tax positions, and cash flow. With several provisions already in effect as of January 1, 2025, and others set to begin next year, proactive planning is essential. Companies should revisit their 2025 estimated tax payments, evaluate entity structures, and consider timing strategies for capital expenditures and project launches. As always, we recommend consulting with your tax advisor to tailor a response that aligns with your specific business goals and financial outlook.

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Client Alert: OBBB Expands Tax Relief for Residential Construction Projects

July 2025

The new One Big Beautiful Bill (OBBB) delivers a major tax break for builders and developers of residential housing. It changes the tax rules so that more residential construction projects can delay paying taxes on their income until the project is finished. These changes apply to contracts entered into in taxable years beginning after July 4th 2025

What Was the Old Rule?

Previously, only **home construction contracts**—typically single-family homes or small buildings with four or fewer units—could delay recognizing income until the project was done. Larger residential projects, like apartment buildings or condos with more than four units, had to report income as the work progressed, even if they hadn't been paid yet.

What's New?

The OBBB expands this tax benefit to include **residential construction contracts**, even for larger buildings with more than four units. The primary focus of this change was to fix the issue with high rise condo development and being forced to use PCM. The expanded definition and corresponding language opens the door to some additional opportunities for our contractor clients. Now, these projects can also delay recognizing income until the project is complete. There are two ways to qualify:

- **Residential construction contracts** (as newly defined) automatically qualify for the exception—no revenue or duration test required.
- Additionally, **construction contracts** (not necessarily residential) can qualify if the contractor's average annual gross receipts are under **$31 million** and the contract is expected to be completed within **three years** (an increase from the previous two-year limit).

In addition, **specialty subcontractors** may also qualify—if more than 80% of their contract costs are tied to work on qualifying residential construction projects.

What May Qualify as a Residential Construction Contract?

The following are some examples of projects that may qualify as residential construction contracts under the new rules. Each project must be evaluated based on its specific facts and circumstances:

- Apartment buildings with more than four dwelling units
- Penitentiaries
- Condominium complexes (now including high rise projects)
- Townhouse developments

- Senior living facilities (if primarily residential in nature)
- Student housing (if structured as residential units)
- Long-term care facilities
- Mixed-use buildings where the residential portion constitutes the majority of construction cost

What Types of Subcontractors May Qualify?

Subcontractors whose work is primarily tied to these types of residential projects may also qualify for the exception. Examples of potentially eligible trades include:

- Electrical contractors
- Plumbing and piping contractors
- HVAC and mechanical systems installers
- Framing and drywall contractors
- Roofing and insulation specialists
- Concrete and foundation subcontractors
- Fire protection and sprinkler system installers
- Elevator and lift system contractors
- Finish carpentry and cabinetry trades
- Flooring, tile, and painting subcontractors

As with general contractors, subcontractor eligibility depends on whether at least 80% of their contract costs are attributable to qualifying residential construction activities. A detailed analysis should be performed to confirm applicability.

Why This Matters

This provision offers a long-overdue and well-deserved tax incentive to the residential construction industry. By aligning tax recognition with project completion, it provides:

- **Improved cash flow** during the construction phase
- **Administrative relief** from complex tax accounting methods
- **Broader eligibility** that includes both general contractors and qualifying subcontractors

This change reflects a practical and meaningful recognition of the financial realities of residential construction and offers tangible benefits to those building and supporting the nation's housing infrastructure.

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