# Key Tax Law Changes Under OBBB: Impacts and Strategies for Construction Companies

Tax law updates and strategic planning for construction firms

Presenters:
Bryan Eto, CPA, CCIFP, CFE, CGMA
Principal/Construction Practice Leader
Lauren Pierson, CPA
Senior Manager
Christine Ulibarri, CPA, CCIFP
Principal

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# Presentation Agenda Overview

- Major Tax Law Changes Under OBBB: What’s New, Extended, or Permanent
- Depreciation and Expensing of Fixed Assets: Maximizing Deductions
- Research & Experimental Expenditures: New Opportunities
- Qualified Business Income (QBI) Deduction
- Business Interest Expense Limitation: Updated Rules and Calculations
- Green Energy Credits: Expirations and Transition Planning
- Residential Construction Contracts: New Percentage-of-Completion Exception
- Individual Tax Return Changes
- Navigating IRS Complications

# Depreciation and Expensing of Fixed Assets: Maximizing Deductions

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# 100% Bonus Depreciation: Permanent Extension and Application

**Permanent Bonus Depreciation**

The 100% bonus depreciation is now permanent, providing ongoing tax advantages for qualifying asset purchased after January 19, 2025.

**Eligible Assets**

- Assets with a class life of 20 years or less
- Can be purchased from a related party (unlike the limitations for section 179)
- Can be used assets – do not have to be new
- Vehicles – SUVs or trucks over 6,000 lbs. or 6ft bed length qualify for 100% bonus

# Section 179 Expansion: New Limits and Eligible Property, Including Special Rules for Nonresidential Real Property

**Higher Section 179 Limits**

OBBB increases the maximum dollar limit for expensing property under Section 179,

- Limitations: $2,500,000 max deduction.
- Phase out: $4,000,000 of qualifying property.

**Expanded Eligible Property**

More categories of property, including nonresidential real estate improvements, now qualify for Section 179 expensing under the new rules.

**Special Rules for Nonresidential Property:**

Expanded for qualified production property.

# Differences between Section 179 and Bonus Depreciation:

| Feature | Sec. 179 | Bonus Depreciation |
|---|---|---|
| **Deduction Type** | Fixed dollar amount | Percentage of asset cost |
| **Post-OBBB Changes to Deductions** | $2.5 million | 100% of cost (permanent from 2025 onwards) |
| **Phaseout Threshold** | Begins at $4 million (post-OBBB) | No phaseout |
| **Can Create Net Operating Loss?** | No | Yes |
| **Applies to Real Property?** | Yes (some improvements) | No |

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# Research & Experimental Expenditures: New Opportunities

# Immediate Deductions for R&E Expenditures and Accelerated Amortization

**Immediate Deduction Benefits**

OBBB permits immediate deduction of eligible research and experimental expenses for years beginning after 12/31/24.

OBBB corrects the expired TCJA provision to allow expensing through amended 2022-2024 tax returns.

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# Recapturing Unamortized Section 174 Expenses

**Small Taxpayer Provision – Contractors under $31 million gross receipt threshold:**

- **Options:**
  - Amend prior year tax returns and claim the expenses.
  - Elect to expense the unamortized 174 expenses in 2025 and/or 2026.
    - Statement in lieu of form 3115 if amending 2022-2024 tax returns.

**Contractors over $31 million gross receipt threshold:**

- Cannot amend prior year tax returns.
- Must elect to recapture the 174 expenses in 2025 and/or 2026.
- Automatic change for 2025 – no 3115 required.

# Polling Question

How many people do you have in your accounting department?

A) 1 -3
B) 4-6
C) Over 6
D) What is an accounting department?

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# Qualified Business Income (QBI) Deduction

# QBI 20% Deduction: Permanent Extension and Expanded Eligibility

**Permanent Deduction Extension**

The 20% Qualified Business Income deduction is now permanently extended

**Broadened Eligibility**

Minimum QBI deduction – Specified Services Trade or Businesses qualify

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# Business Interest Expense Limitation: Updated Rules and Calculations

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# Business Interest Expense – 163(j)

**Who is subject:** Entities/taxpayers who have average gross receipts of $31 million or more.

**Reverting to old calculation –** depreciation and amortization now added back to get to Adjusted Taxable Income (ATI)

**Interest Excluded:** Makes permanent floor plan financing being excluded from 163(j)

# 163(j) Comparison Example:

| Example C | 2025 under Prior Law | 2025 under the OBBBA |
| --- | --- | --- |
| Business Interest Expense | $3,500,000 | $3,500,000 |
| Depreciation Expense | $2,000,000 | $2,000,000 |
| Taxable Income | $6,000,000 | $6,000,000 |
| Adjusted Taxable Income | $9,500,000 (EBIT) | $11,500,000 (EBITDA) |
| Disallowed Interest Expense | $650,000 | $50,000 |

# Green Energy Deductions & Credits: Expirations and Transition Planning

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# 179D and 45L Credits: Expiration Schedule

**179D Credit Expiration**

The 179D credit for energy-efficient commercial ends for projects that begin construction after June 30, 2026.

Section 179D incentivizes energy-efficient upgrades to new and existing commercial buildings by offering deductions for qualifying HVAC, lighting, and envelope systems.

Importantly, higher deduction amounts can be claimed when projects meet prevailing wage and apprenticeship requirements. This has made Section 179D one of the most valuable incentives for energy upgrades, especially in the commercial sector.

**45L Credit Timeline**

The 45L credit for energy-efficient residential construction also has a set phase-out timeline. It was originally set to sunset at the end of 2032 that has been moved up to June 30, 2026 for homes leased or sold by that date.


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# Eligibility

**179D Deduction:**

- Applicable to new or existing commercial buildings over four stories.
- The deduction amount is based on the square footage and level of energy improvement that exceeds the baseline standards.

**45L Tax Credit:**

- Applies to single-family homes, multifamily buildings, condominiums, and other residential dwellings with no height restrictions.
- The credit amount varies based on compliance with ENERGY STAR certification and prevailing wage requirements.

# Eligibility

**45L Tax Credit:**

- To receive the highest credit, multifamily projects must meet the following criteria:
  - Projects must meet the Certification under the ENERGY STAR® Single-Family New Homes National Program Requirements Version 3.1 or the U.S Department of Energy's Zero Energy Ready Home (ZERH) guidelines.
  - The developer must have basis in the development during construction and sell or lease the dwelling units to homeowners or tenants for use as a residence.
  - Multifamily projects must also meet prevailing wage standards to receive the highest credit available.

# Residential Construction Contracts: New Percentage-of-Completion Exception

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# Eligibility Criteria for Contracts Entered After July 4, 2025

**Contract Eligibility Requirements**

Residential construction contracts meeting the OBBBA's updated definition may qualify for an exception to the percentage-of-completion method (PCM) of accounting. Eligible businesses can instead use the completed-contract method (CCM) or other approved methods.

**New PCM exception rules**

The exception largely mirrors the existing rules for home construction contracts, but it now includes multifamily construction that encompasses condominium and apartment projects. A residential construction contract is any one in which 80% of the total estimated costs are attributable to qualifying residential construction projects which can include condominium buildings, apartment complexes, long-term care facilities, senior living facilities and others.


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# Potential issues/considerations

**A few items to consider**

The law change only applies to contracts beginning on or after July 4, 2025.

For companies that have reviewed or audited financial statements, contracts will still be required to be reported under percentage of completion method.

Separate books and records may need to be kept to track contracts that are exempt from PCM and those that are required to still use PCM.

The exemption is available to specialty trade contractors and general contractors.

# Polling Question

Does your software create Contract Schedules?

A) Yes
B) No

# Individual Tax Return Changes

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# Key Tax Provisions

| Provision | 2025 under Prior Law | 2025 under the OBBBA |
| --- | --- | --- |
| Tax Rates | 10%, 12%, 22%, 24%, 32%, 35%, 37% (reduced rates expire after 2025) | 10%, 12%, 22%, 24%, 32%, 35%, 37% (reduced rates are made permanent) |
| Standard Deduction | $15,000 Single, $30,000 MFJ, $22,500 HOH (increased deductions expire after 2025) | $15,750 Single, $31,500 MFJ, $23,625 HOH (increased deductions are enhanced and made permanent) |
| Senior Deduction | $0 | $6,000 per qualifying taxpayer and/or spouse aged 65 or higher by year-end |
| Estate & Gift Tax Exemption | $13,990,000 (increased exemption expires after 2025) | $13,990,000 |
| Child Tax Credit | $2,000 per qualifying child | $2,200 per qualifying child |

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# Permanent Increase in Estate and Gift Tax Exemptions

**Higher Tax Exemptions**

The basic exclusion amount for estate and gift tax purposes is increased to $15,000,000, with an annual inflation adjustment, for estates of decedents dying and gifts made after December 31, 2025. The exclusion amount would have been reduced to $5,000,000 in 2026 under prior law.

**Impact on Business Succession**

The raised exemptions facilitate smoother succession planning for construction businesses by reducing tax burdens.


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# Higher SALT Deduction and Overtime Pay Deduction

**Higher SALT Deduction**

The state and local tax (SALT) itemized deduction limitation is made permanent. However, the maximum deduction amount is increased from $10,000 to $40,000 for taxable years beginning in 2025, with an annual inflation adjustment through 2029. After 2029, the maximum deduction will revert to $10,000.

The maximum SALT deduction for tax years 2025-2029 is further phased down based on Modified Adjusted Gross Income (MAGI). The reduction is 30% of the excess of MAGI over $500,000 in 2025 (adjusted annually for inflation through 2029). However, the deduction limitation cannot be reduced below $10,000. The deduction limitation is fully phased down to $10,000 once a taxpayer’s MAGI reaches $600,000 in 2025.

**Overtime Pay Deduction**

Qualified overtime pay is deductible up to $25,000 for MFJ taxpayers and $12,500 for Other Filers for tax years 2025-2028. This is also a below-the-line deduction available to both itemizing and non-itemizing taxpayers. Only the excess over the regular pay rate is deductible, not the total overtime pay. The overtime pay must be reported separately on Form W-2.

The overtime deduction is reduced when the taxpayer’s MAGI exceeds $300,000 for MFJ taxpayers ($150,000 for Other Filers). The deduction is fully reduced once the taxpayer’s MAGI reaches $550,000 for married filing joint taxpayers ($275,000 for other filers).


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# Expanded Charitable Contribution Deductions and Auto Loan Interest

**Expanded Charitable Contribution Deductions**

Non-Itemizers will be able to deduct charitable contributions of up to $2,000 for MFJ taxpayers ($1,000 for other filers) for taxable years beginning after December 31, 2025.

Itemizers new limitation of .05% of income floor before can claim on itemized deductions. This means a deduction will be allowed only to the extent the aggregate contributions exceed 0.5% of the taxpayer's Adjusted Gross Income (AGI). Therefore, if an itemizing taxpayer's AGI is $100,000, the first $500 of charitable donations for the year are not deductible.

**Auto Loan Interest**

Interest on qualified passenger vehicle loans originated after December 31, 2024, is deductible up to $10,000 for tax years 2025-2028. The deduction is reduced by $200 for each $1,000 by which the taxpayer's MAGI exceeds $200,000 for MFJ taxpayers ($100,000 for other filers). Qualified passenger vehicles include cars, vans, SUVs, and pickup trucks with gross vehicle weight ratings of less than 14,000 pounds. To qualify, the vehicle must be new and undergo final assembly in the U.S., and the vehicle's VIN must be reported on the taxpayer's return. This is a below-the-line deduction available to both itemizing and non-itemizing taxpayers.

# ARIZONA State Tax Credits

**Private School Tuition Credit (Form 323) PLUS Switcher Credit (Form 348)**
MFJ can contribute $1,535 PLUS $1,527 = $3,062.
Others $769 PLUS $766 = $1,535

**Public Schools (Form 322)**
MFJ $400. Others $200

**Qualifying Charitable Organization (Form 321)**
MFJ $987. Others $495.

**Qualifying Foster Care Organization (Form 352)**
MFJ $1,234. Others $618.

**Arizona Military Family Relief Fund (Form 340)**
MFJ $400. Others $200. (Must be paid by 12/31)

**S Corporation Private School Tuition Credits (Form 335/341-S)**
Flow through from the S-Corporation – minimum of $5,000 per S-Corporation. (Must be paid by 12/31)

# Excess Business Losses

**Excess Business Losses (Form 461)**

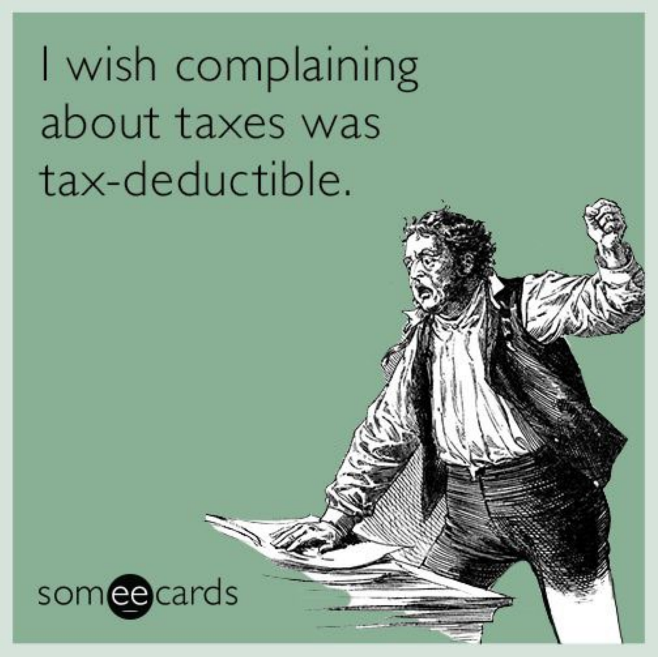
This rule is in effect for tax years beginning after December 31, 2020, and before January 1, 2029.

The amount of deductible business loss is capped at a specific threshold, which is adjusted annually for inflation. For the 2025 tax year, the limits are:

- $313,000 Other Filers.
- $626,000 for MFJ.

Any losses above the annual threshold are disallowed for the current year. However, they are not lost forever; they are converted into a net operating loss (NOL) carryover to the next tax year.

The resulting NOL carryover has its own restrictions in future years: it generally cannot be carried back to prior years (with limited exceptions under the CARES Act) and can only offset up to 80% of taxable income in the future year(s).



# Polling Question

Does your company have a retirement plan such as a 40k for employees?

A) Yes
B) No
C) No, but we are planning to implement one soon

# Navigating IRS Complications

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# Post-Shutdown Complexities and Compliance Challenges

**Large Backlog of unprocessed mail**

Includes refund requests, amended returns, responses to notices. The processing of refunds has significantly slowed down as well.

**Other limited activities during the shut down**

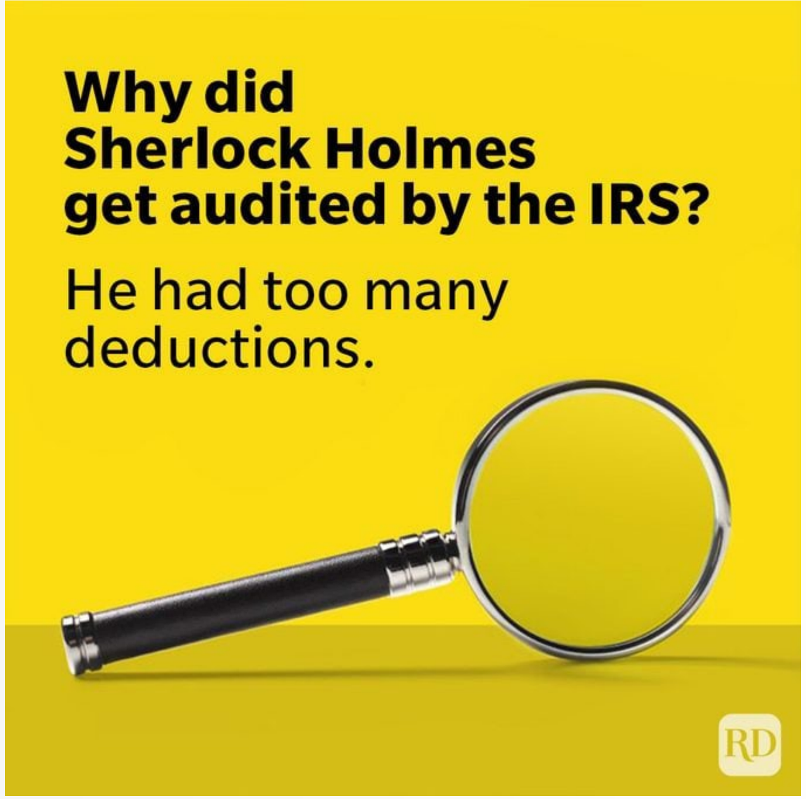
Refunds were not paid out during the shut down. But tax deadlines remained in place.

**Temporary disruption of enforcement activities**

The shutdown suspended most audits and examinations. They have resumed but there is a substantial reduction of workforce.

**Continued automated notices**

The shutdown did not stop the automated notices from being issued or the collection letters from being sent out even though the staff who handle responses and assist in resolving errors were furloughed. Some taxpayer face escalated collection efforts with now chance to correct errors on the IRS' side.

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# Mandate for Electronic IRS Payments

**OBBB Electronic Payment Mandate as of September 30, 2025**

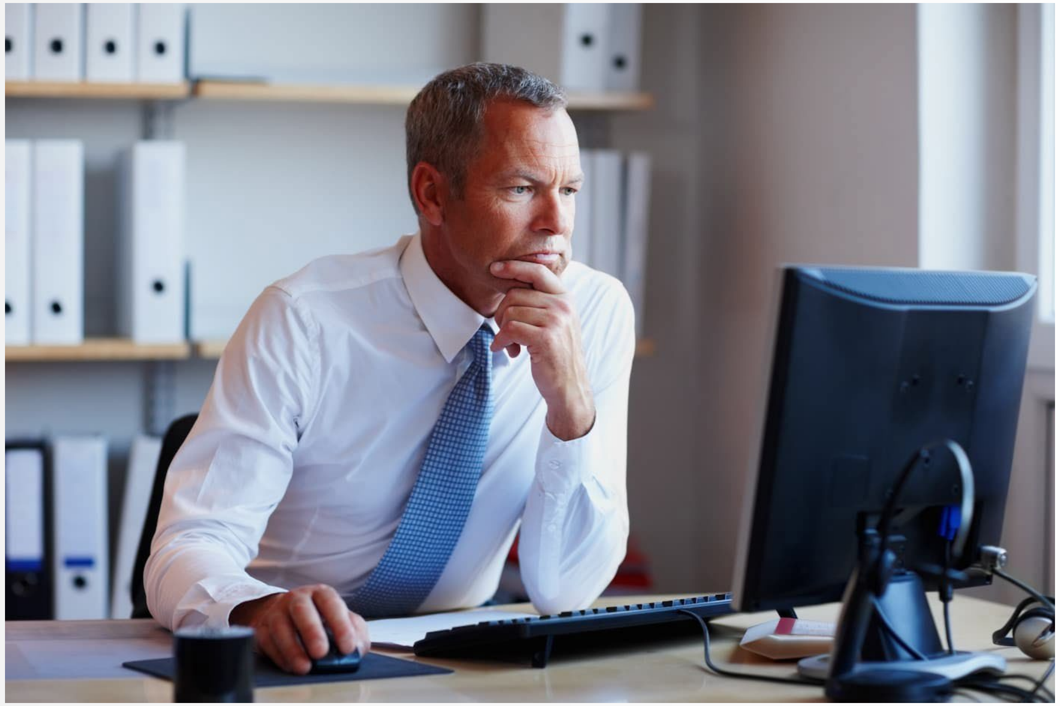
OBBB requires electronic payments for all IRS liabilities for all individuals, businesses, trusts and estates. IRS won't guarantee timely processing of payments via mailed in checks.

**IRS Refunds of Taxes**

IRS will not guarantee timely release of paper checks for refunds and encourages direct deposit options.

**How to pay electronically**

- IRS Direct Pay – online at IRS.gov
- EFTPS – enrollment is necessary
- Electronic Funds Withdrawal
- Debit or Credit Card – fees do apply



# Questions

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