How the OBBBA Changes Construction Tax Strategy

The OBBBA introduces a number of shifts that hit right at the heart of construction tax strategies. Some of these affect how you deduct capital assets, handle interest, recognize income on long-term contracts and more. Here are the 10 biggest adjustments in how they might change your decisions.

Number 1: Bonus Depreciation and Section 179 changes. OBBBA makes 100% bonus depreciation permanent and retroactive to January 1, 2025. That means when you buy qualifying assets like machinery, vehicles, and heavy equipment, you can deduct the full cost in the year acquired. Section 179 expense caps have also been lifted. Now you can expense up to $2.5 million in assets, with phase outs kicking in at $4 million in total asset purchases.

Number 2: Interest Deductions Become More Favorable. Under prior rules, interest deductions were limited to 30% of earnings before interest and taxes. Now, OBBBA allows that limit to be computed using EBITDA, meaning depreciation and amortization get added back in.

Number 3: Immediate R&D Deductions Return. From 2025 through 2029, domestic research and experimental expenditures can be immediately deducted again. Past rules required amortizing these costs over multiple years. For construction companies involved in process improvements, energy efficiencies or tech driven building methods, this opens up a real opportunity.

Number 4: Permanent QBI Deduction for Pass-throughs. The 20% deduction for qualified business income, or QBI, is now permanently part of the tax code. That's a win if your construction business operates as an S corporation, partnership, or sole proprietorship, because it helps keep your effective federal rate lower, down to 29.6% in some cases.

Number 5: Expanded Deferral Option for Residential Construction Contracts. Previously, only smaller residential projects could use the completed contract method for deferring income. OBBBA broadens that to include larger residential developments like apartment buildings, condos, student housing, and mixed-use properties. Residential costs dominate. That means you can delay income recognition until the contract is substantially complete, which helps cash flow and softens accounting complexity.

Number 6: Subcontractors May Qualify Too. If you're a specialist in 80% or more of your contract costs tied to qualifying residential work, You might also take advantage of those deferral rules. It's not spelled out explicitly, but the treatment aligns with precedent in home construction tax rules.

Number 7: Green Energy Incentives Are Time Sensitive. OBBBA accelerates the expiration dates on two key credits. Section 170d for energy efficient commercial buildings, expires for projects begun after June 30, 2026. Section 40L for energy efficient residential homes, expires for homes acquired after June 30, 2026.

Number 8: More Flexibility with State and Local Tax Deductions. The SALT deduction cap rises from $10,000 to $40,000 between 2025 and 2029, though high-income taxpayers may face phase outs. For contractors in states with high taxes, this gives more breathing room for deductions and affects after-tax cash flow.

Number 9: Overtime Pay Deductions Go Above the Line. Through 2028, up to $12,500, or $25,000 for married couples, per person in overtime pay can now be deducted above the line. That can help boost employee take home pay and support retention when work demand is high.

Number 10: Estate and Gift Tax Exemptions Are Bigger. For construction business owners thinking about succession, OBBBA raises the exemption level to $15 million per individual and $30 million per couple, adjusting for inflation. That opens up more flexibility when passing assets or the business to the next generation.

With so many changes already in place or soon arriving, there are few areas you want to revisit. Reevaluate your 2025 estimated tax payments, examine project schedules and contract structures, maybe deferral methods now make more sense where they didn't before. Discuss with your tax advisor how your entity structure, financing, and deduction decisions may shift under those new rules. Check whether subcontracting work meets the 80% threshold to qualify for residential deferral. If you've been planning green construction projects, assess whether you need to accelerate timeliness to lock in incentives.

These steps don't have to all happen overnight, but a thoughtful review can help you align your strategies to the updated tax environment.