

Supercharge Post-OBBBA Year-End Tax Planning

Monday, January 5, 2026 | [Barry A. Fischman](#)



Outlining key financial factors for construction business owners

The [One Big Beautiful Bill Act \(OBBBA\)](#) made several provisions of 2017's [Tax Cuts and Jobs Act \(TCJA\)](#) permanent and introduced new provisions with potential advantages for the construction industry. To make the most of the tax benefits now available under OBBBA, take a fresh look at your [tax strategies](#). Start to unlock savings by paying particular attention to the language within your contracts.

Tax Accounting Methods 101

For larger firms with sophisticated tax strategies, [Internal Revenue Code \(IRC\) Section 460](#) special rules for long-term contracts and its provisions are already a major area of focus. The OBBBA introduces significant changes that can affect how IRC Section 460 is applied.

Methods of tax accounting can vary depending on the language within your contracts. Revenue from construction contracts can be reported under several methods of accounting, each of which can produce different results.

Identify contracts that may represent deferral opportunities, starting with **work-in-progress (WIP)** schedules. Each project's WIP should be reviewed with the following in mind: the intended use of the project, the type of work involved and the percent completed. Your review of WIP schedules, along with thorough knowledge of the contract, can unlock the potential for tax deferrals associated with that project.

Long-term construction contracts are required to report income tax using the **percentage of completion method (POCM)**. However, exemptions can allow the use of alternative methods for home construction contracts or if the taxpayer qualifies as a small contractor.

OBBBA Expands POCM Exemptions

Home construction contracts include those involving a project in which 80% or more of the estimated total costs can be reasonably attributable to building, construction, reconstruction or rehabilitation of buildings containing four or fewer dwelling units.

Under the OBBBA, a wider range of construction projects are eligible for exclusion from the POCM requirement. Specifically, the home construction exception can now apply to residential construction contracts involving condominiums, apartment buildings, student housing, long-term care facilities and other buildings with multiple residential units. This change is effective for contracts entered into in tax years beginning on or after the date of enactment of the OBBBA (i.e., for contracts entered into in 2026 for calendar year taxpayers).

For the small contractor exception to apply, the following must be true:

- When the contract was entered into, the estimated completion date was within two years of the contract's commencement date.
- Over the three taxable years before the date the contract was entered, the contractor's average annual gross receipts amount to less than \$31 million.

If eligible for a POCM exemption, the contract in question may use another tax accounting method that may have tax advantages. Exempt contracts that are not subject to IRC Section 460 may elect to make use of other income tax methods, including the following:

- Cash basis
- Accrual method
- Accrual less retainage
- Completed contract method (CCM)

Under IRC Section 460, additional deferral options may be available to large contractors, including the following:

- 10% elective deferral
- Excluding retainage receivable and payable
- Allocating general and administrative expenses in accordance with IRC Section 460

Altering the method of accounting associated with a contract requires requesting a change by filing **Form 3115** with the IRS. To determine whether or not a change may be advantageous, review the tax accounting methods available based on contract terms and the exemptions detailed above.

Additional OBBBA Tax Opportunities

Beyond POCM changes, the OBBBA includes several provisions that should factor into 2026 tax planning strategies.

Bonus Depreciation & Section 179 Expensing

Under the OBBBA, the TCJA's 100% bonus depreciation is restored and made permanent. Bonus depreciation can be applied retroactively to property that is both acquired and placed in service after Jan. 19, 2025, and before Jan. 1, 2031. Under IRC

Section 179, the immediate expensing maximum has been increased to \$2.5 million, with the phase-out threshold beginning at \$4 million.

Research & Experimentation

One hundred percent of domestic research and experimentation (R&E) costs paid or incurred for tax years beginning after Dec. 31, 2024, can be deducted. The law provides some alternatives for deducting unamortized R&E expenses capitalized in 2022 through 2024, depending on the company size (which may lead to refunds from prior years). The new law provides options to capitalize the expenditures over 60 months or more.

'Qualified Production Property' Costs Deduction

Full and immediate deductions may be available for certain nonresidential real property used in manufacturing or production. Qualifying expenses are those relating to building or acquiring manufacturing, production or refining property placed in service before Jan. 1, 2031, and with construction beginning after Jan. 19, 2025, and before Jan. 1, 2029.

Qualified Business Income (QBI) Deduction/IRC Section 199A

Construction firms are often structured as pass-through businesses and may benefit from the 20% Section 199A/QBI deduction that is now permanent.

Net Business Interest Expense Deduction

After its introduction, the TCJA's business interest expense deduction was changed so that it was limited to 30% of earnings before interest and taxes (EBIT). The OBBBA restores the original TCJA limitation, effectively increasing the deduction base to 30% of earnings before interest, taxes, depreciation and amortization (EBITDA).

Focusing narrowly on the tax advantages introduced by the OBBBA should enable your year-end planning to progress efficiently while maximizing its impact on your bottom line. These areas likely represent the best new opportunities for tax savings available to construction firms and contractors under the OBBBA.

As always, the experience and knowledge of tax professionals can prove valuable in assessing tax strategies for the year ahead. That is particularly true in the wake of major legislation like the OBBBA, which includes significant changes to “business as usual.” The utility of professional insight is even more acute amid the challenges facing the industry today, with demand, labor and material price volatility, among other concerns, increasing the headwinds facing the industry. The tax opportunities presented by the OBBBA can prove instrumental in taking control of your finances and protecting profitability.

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