Construction Insider

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Reconciliation Bill: Key Construction Industry Provisions

By Michael Vance

President Trump's Reconciliation Bill passed through Congress and was signed into law July 4, 2025. The law brought broad changes for individuals and businesses alike, and for our construction clients, we have compiled our top industry-specific takeaways from the bill:

- 100% Bonus Depreciation is back for good. This is huge news for our clients who buy equipment and vehicles necessary for their work. No additional requirements were added, and this applies to all property acquired after January 19, 2025.
- The Section 179 expensing limitation has increased from $1,250,000 to $2,500,000, and the phasedown threshold increased from $2,500,000 to $4,000,000. Both amounts will be adjusted each year for future inflation. Property placed in service for tax years after December 31, 2024, will qualify for these new limits.
- The 20% deduction for qualified business income (QBI) set to expire at the end of 2026 has now been made permanent for pass-through businesses. This act also has enhanced the phase-in thresholds to $75,000 for single filers and $150,000 for joint filers which will take effect for tax years beginning after December 31, 2025.
- The act increases State and Local Taxes (SALT) deduction from $10,000 to $40,000 for tax years 2025 to 2029, with a phaseout for high income taxpayers, or taxpayers with a modified adjusted gross income over $500,000 in 2025. This act does not address pass-through entity tax elections that have been used to work around the existing SALT cap.
- The act expands the exception to the percentage-of-completion method for certain residential construction contracts to include contracts that have four or more dwelling units, rather than limiting it to four or fewer dwelling units. This will allow applicable contracts to use more favorable accounting methods such as the completed-contract method.

- The Section 179D "Energy Efficient Commercial Building Deduction" is set to sunset on June 30, 2026. Before the act passed, taxpayers were eligible to deduct an amount equal to the cost of energy efficient commercial building property (EEBRP) placed into service that tax year. This applied for buildings where the EEBRP was planned on reducing 25% or more of total annual energy and power costs for interior lighting systems, HVAC, hot water systems, or building envelopment to comparable buildings meeting the minimum requirements. The act terminates the deduction for property constructed after June 30, 2026.
- The 45L "New Energy Efficient Home" tax credit for constructing qualified energy-efficient homes was set to pass after December 31, 2032. This credit allowed $2,500 for ENERGY STAR certified single family or manufactured homes, with a possible $5,000 for Zero Energy Ready Homes certification. There was also a $500 credit per unit for ENERGY STAR for multifamily units, with a possible $1,000 per unit for Zero Energy Ready Homes certification. These amounts could increase to $2,500 and $5,000 per unit if prevailing wage requirements are met. The act now moves the sunset date from December 31, 2032, to June 30, 2026, meaning all construction that begins after the new date will not be eligible to claim the credit.
- The Qualified Opportunity Zone (QOZ) have been made permanent by this act, while also introducing a series of new compliance requirements, allowing state governors to change QOZ designations every 10 years, and narrowing the definition of "low-income community". This bill also introduces the "Qualified Rural Opportunity Fund" (QROF) as a new category of fund created to target rural areas for development. This new category keeps the 90% "good" asset test but is required to be completely comprised of rural area, or any area with a population less than 50,000. The tax benefits from the QROF are greater than those for regular Qualified Opportunity Funds, such as, a rolling 30% basis step up after 5 years and a 50% reduction to the "substantial improvement" requirement. If you would like to know more about Qualified Opportunity Zones, please see our detailed article below.

Assurance Insights: Navigating Financial Complexities in the Construction Industry

By Elizabeth Oberg, CPA

The construction industry faces a unique set of financial reporting challenges, driven by project-based operations, variable cash flows, and shifting economic conditions. In this environment, reliable assurance services, such as audits and reviews, play a critical role in helping construction companies maintain financial transparency, meet stakeholder expectations, and support sound business decisions.

This article highlights several key assurance considerations for construction companies and how they can support financial clarity and operational efficiency.

Revenue Recognition: Managing the Complexities of ASC 606
One of the most significant accounting standards affecting the construction industry is ASC 606, Revenue from Contracts with Customers. This standard requires contractors to assess performance obligations, estimate total project costs, and recognize revenue based on the transfer of control, often using a percentage-of-completion method.

These estimates are central to the accuracy of financial reporting. During assurance engagements, auditors evaluate how management determines estimated costs, handles change orders, and applies consistent practices across contracts. This level of scrutiny helps ensure revenue is neither overstated nor deferred improperly, both of which can impact performance metrics and stakeholder trust.

Work-in-Progress Schedules: A Window into Project Performance
A contractor's work-in-progress (WIP) schedule is one of the most important financial tools available. It provides insights into whether jobs are over- or under-billed, whether loss contracts are being monitored, and how backlog and project timelines are evolving.

From an assurance perspective, WIP schedules are closely reviewed for:

- Timely and realistic updates to job cost estimates
- Accurate calculation of earned revenue
- Early identification of project risks and profit fade

Regular and accurate WIP reporting not only supports the audit process but also gives management better control over financial planning and project management.

Internal Controls: Protecting Project and Corporate Integrity

The decentralized nature of construction work, often involving multiple job sites, subcontractors, and field personnel, can introduce internal control risks. These risks are heightened when procurement, payroll, and billing processes are handled outside of centralized accounting systems.

An assurance engagement often includes a review of internal control systems to evaluate:

- Whether job costs are allocated correctly
- If segregation of duties is in place for key financial processes
- How change orders, pay applications, and lien waivers are managed

Strong internal controls help safeguard assets, reduce the risk of fraud, and ensure compliance with contract terms and regulatory requirements.

External Stakeholder Expectations

In today's construction environment, financial statement users include lenders, bonding agents, investors, and project owners. Each of these stakeholders relies on credible financial reporting to assess a contractor's ability to complete projects and manage financial risk.

A well-executed assurance engagement provides the financial clarity needed for:

- Securing financing and bonding
- Prequalifying for new work
- Supporting ownership transitions or strategic growth initiatives

Assurance reporting also demonstrates a contractor's commitment to financial integrity and operational accountability.

Looking Ahead: Adapting to Economic Shifts

As the construction sector responds to a range of challenges, from rising material and labor costs to interest rate pressures, having timely, reliable financial information is more important than ever. Assurance services help construction companies stay financially agile by validating assumptions, surfacing risk areas, and supporting informed decision-making.

Whether it's through an audit, review, or advisory support, assurance can offer a clearer picture of financial health, which is valuable not only during the reporting period, but throughout the year.

Qualified Opportunity Zones Made Permanent Under Reconciliation Bill

By Jimmy Barnett, CPA

The enactment of the One Big Beautiful Bill Act (OBBBA) introduces a host of new provisions that investors and fund managers should carefully consider. Among the most impactful are the updates to the Qualified Opportunity Zone (QOZ) rules bringing both expanded benefits and potential new challenges. These provisions were set to expire on December 26, 2026, however the OBBBA updates them and makes them permanent. To understand the significance that the OBBBA has on the QOZ provisions, it is important to understand the background of the program. Originally established under the Tax Cuts and Jobs Act of 2017 (TCJA), the Qualified Opportunity Zone (QOZ) program was designed to incentivize long-term investment in economically distressed communities. Investors who participate in a Qualified Opportunity Fund (QOF) under the TCJA could benefit from several significant tax incentives.

Qualified Opportunity Zone Property

The investments made by a QOF are required to be made in Qualified Opportunity Zone Property (QOZP). The QOZP can be qualifying real estate, operating businesses, and partnership interest or stock of companies that operate in opportunity zones. A QOF and its underlying investment are subject to IRS reporting requirements to certify that all investment requirements are met. The IRS imposes penalties on entities that do not meet the investment standards.

Gain Deferral

Investors have the opportunity to invest proceeds from realized capital or 1231 gains into a QOF and obtain a deferral of that income. Under the TCJA, the gains could be deferred until December 31, 2026, or the date that the investment inside the QOF was disposed of.

Partial step-up in investment basis

Investors who have invested eligible gains info a QOF may qualify for a step-up in basis related to their deferred gain. The TCJA stipulated two holding periods for this benefit. After 5 years, an investor would receive a 10% step up, and after 7 years an investor would receive an additional 7% step up.

This step-up in basis results in a permanent gain exclusion of an investors eligible gain investment and is a benefit of a QOF investment that is no longer available under the original rules due to the expiration of the QOZ provisions as they were originally enacted. Under the original rules, only investors who contributed eligible gains to a QOF prior to January 1, 2022, were eligible for this benefit due to the holding period requirements.

Permanent exclusion from income of QOF appreciation

The QOF benefit with the most potential upside is that investors have the opportunity to sell their QOF investment and exclude any gains from the sale from income making it tax free. If an investor made an investment of eligible gains into a QOF under the TCJA between 2018 and 2026 and holds the investment for a minimum of years, prior to the sale of that investment, they will receive a step-up in basis to Fair Market Value of that investment on the date of sale, or December 31, 2048, which ever is sooner.

QOF Compliance

These tax benefits, however, come with important compliance requirements intended to ensure that the program achieves its intended economic impact. On an annual basis, the IRS requires that a QOF must maintain at least 90% of its assets in Qualified Opportunity Zone property. The test is calculated based on an average of the 6 month and 12-month value of the QOF’s assets. On the surface, this requirement may seem simple, but it is important for fund managers to be aware of the testing dates and manage the investments effectively to avoid penalties.

Other requirements for QOF investments are specific to the type of investment the QOF has entered into. For real estate investments, the property must be either original use property or substantially improved. The IRS defines the term, substantially improved, in this context to mean that the fund must invest an amount equal to or greater than the property’s original adjusted basis into its rehabilitation.

These rules are critical for both maintaining eligibility and maximizing the benefits of the program.

The permanency and expansion of the Qualified Opportunity Zone program under the OBBBA marks a significant evolution in tax-incentivized investing. While these changes create meaningful opportunities, they also introduce new complexities. As always, the underlying economics of an investment must remain the priority.

HHM's Construction Services

At HHM CPAs, we serve a broad range of residential and commercial general contractors – along with many subcontractors – and have built a reputation as one of the most experienced accounting firms in the area for the construction sector. With extensive knowledge in the competitive and complex world of construction and contracting, HHM's advisors stay informed of industry developments and trends in the market that have direct impact on our clients. We provide proactive, long-term solutions to help keep our clients ahead in the construction world. Through our team members' active involvement in industry organizations as well as by earning constructionspecific designations, we maintain a real understanding of the key issues that affect your business.

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