

# Guide to 2026 Tax Incentives *for* Construction and Real Estate



Tax incentives remain an important part of how construction and real estate companies plan projects and manage costs.

That hasn't changed. What has changed is the mix of incentives available under the One Big Beautiful Bill Act. Many clean energy credits have expired, and others are phasing out in 2026. At the same time, several key tax incentives were expanded and made permanent. The benefit comes from knowing where they fit in the life of a project.



Today's tax environment rewards planning. Understanding how depreciation, expensing, and project-related incentives apply creates an opportunity to improve cash flow and support better construction and investment decisions.



In this guide, learn more about key tax incentives available in 2026:

- Accelerated depreciation and expensing
- Research and development incentives
- Expiring clean energy incentives, including Sections 179D and 45L
- Planning considerations for applying these incentives in 2026

## Accelerated Depreciation and Expensing

Certain tax incentives allow businesses to deduct the cost of certain assets faster than traditional depreciation methods. This can improve near-term cash flow.

### Bonus Depreciation

Recent legislation restored and made 100% bonus depreciation permanent for qualifying property placed in service on or after **January 19, 2025**. This allows businesses to deduct the full cost of eligible property in the year it is placed in service, rather than spreading the deduction over several years.

For construction and real estate companies, bonus depreciation most often applies to equipment and other tangible assets used in operations or on job sites. Depending on the project, this may include **machinery, vehicles, computers, and certain building-related components** identified through proper cost classification. Property must be placed in service, meaning installed and ready for use, to qualify for the deduction.

### Section 179 Expensing

Section 179 provides another option for expensing qualifying property upfront. Under current law, the Section 179 limit is \$2.5 million, with the phase-out beginning at \$4 million. These higher thresholds give small and mid-sized companies **more flexibility** to deduct the cost of qualifying purchases in the year they are placed in service.

## For construction and real estate businesses, Section 179 may apply to:

- Equipment and machinery
- Certain software
- Qualified improvements to nonresidential buildings, including roofs, HVAC systems, fire protection and alarm systems, and security systems

Because Section 179 is limited by taxable income, it is often most effective for companies with consistent or higher projected earnings. In some cases, it may produce a more favorable result than bonus depreciation, particularly when owners want to be selective about which assets are expensed.

### Choosing Between Bonus Depreciation and Section 179

Both provisions allow for accelerated deductions, but they work differently. Bonus depreciation generally applies to qualifying property and is not limited by income, while Section 179 is elective and subject to income limits.

Comparing the two can help determine which approach best supports cash flow, project economics, and longer-term tax planning. For many construction and real estate companies, the strongest results come from using both incentives together.

*Tip:* Cost segregation studies analyze construction, renovation, or acquisition costs to identify components that may be depreciated over shorter recovery periods. While not a tax incentive, these studies can enhance the impact of bonus depreciation and Section 179 when completed during or shortly after a project is placed in service.

## Research and Development Incentives

Research and development incentives are often available to construction and real estate businesses. They can generally apply to design, engineering, and process improvement work that involves solving technical challenges or improving how projects are delivered.

### Section 174 R&D Expensing

Domestic research and development costs are again eligible for [immediate expensing](#). This is a change from prior years, when these costs were required to be amortized over five years.

For construction and real estate companies, **qualifying costs** may include design and engineering work, system optimization, modeling, testing, prefabrication development, and certain software costs. Immediate expensing improves the timing of deductions and better aligns tax treatment with when the work is performed.

### There is a retroactive opportunity available for a limited time.

Smaller companies with average gross receipts of **\$31 million or less** over the prior three years may amend federal returns for tax years 2022 through 2024 to claim the full deduction for qualifying Section 174 costs. In some cases, this may result in a refund. Detailed project and expense records are required before filing amended returns.

Larger companies are not eligible to amend prior filings. However, they may still be able to accelerate remaining deductions under the original five-year amortization rules through 2026.

## R&D Tax Credit

Construction and real estate companies may also qualify for the [R&D tax credit](#). The credit is based on **qualified research activities and related wages** and can provide a benefit beyond deductions alone. Eligibility depends on how technical challenges are addressed and documented throughout the project lifecycle. A [four-part test](#) is used to determine whether an activity qualifies.

Section 174 and the R&D credit often apply to the same activities but operate differently. Used together, they can support investments in innovation and improved project delivery.



## Clean Energy Incentives Approaching Expiration

Because of the One Big Beautiful Bill Act, several clean energy incentives have expired and others now come with firm deadlines. For construction and real estate companies, this makes timing especially important in 2026.

### Section 179D Energy Efficient Commercial Buildings Deduction

[Section 179D](#) provides a deduction for **qualifying energy-efficient improvements** to commercial buildings. To qualify under current law, a project must begin construction by **June 30, 2026**, and demonstrate reduced energy use compared with the applicable ASHRAE efficiency standard.

The rules apply to both **new construction and retrofit projects**. For example, a newly constructed office building that reduces energy use by at least 25% through more efficient HVAC and lighting systems may qualify. Similarly, an older warehouse may qualify if upgrades achieve comparable reductions in energy consumption.

The value of the deduction depends on the level of energy savings:

- **\$0.58 per square foot** for a 25% reduction
- **Up to \$1.16 per square foot** for a 50% reduction

Projects that meet prevailing wage and apprenticeship requirements may qualify for a higher deduction:

- **Between \$2.90 and \$5.81 per square foot**, depending on energy performance

Eligibility for Section 179D depends on when construction begins. The IRS recognizes two methods for establishing a construction start date:

- **Physical work test**, which requires that significant on-site work has begun
- **Five percent safe harbor**, which requires that at least 5% of total project costs have been incurred

These definitions are especially important for contractors and building owners seeking to lock in eligibility before the June 30, 2026 cutoff. **All projects must be certified by a qualified professional.**

### Section 45L Energy Efficient Home Credit

Section 45L is designed to reward builders of **energy-efficient residential units**, including both single-family and multifamily housing. Under current law, the credit expires for homes acquired after **June 30, 2026**.

The value of the credit generally ranges from **\$500 to \$5,000 per unit**, depending on the energy-efficiency standards met and whether prevailing wage requirements apply. Eligibility depends on meeting specific certification requirements, such as ENERGY STAR or Zero Energy Ready Home standards. As with Section 179D, timing plays a key role in determining whether a project qualifies.

## Strategic Considerations for 2026 and Beyond

As construction and real estate companies plan for 2026 and beyond, tax incentives continue to influence how projects are evaluated and how capital is allocated. While many of the incentives are already available, their impact depends on how early tax considerations are incorporated into project planning.

These conversations often start during design and engineering, when decisions about equipment, building systems, schedules, and costs are still flexible. For existing properties, reviewing capital plans and upcoming improvements can surface opportunities before work begins or assets are placed in service.

As portfolios grow, tax planning benefits from a higher-level view. Looking across projects helps teams prioritize investments, allocate capital with greater intent, and align tax outcomes with longer-term asset goals.

Looking ahead, the opportunity is to use tax incentives as an active planning tool rather than a year-end calculation. When timing, documentation, and investment choices are considered throughout the project lifecycle, incentives can help shape project decisions today and inform how portfolios are built over time.

## Moving You Forward

Want to learn more about these valuable tax incentives for a current or future project?  
Get in touch with our Construction & Real Estate team today.



## Contact Me

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