

EXPENSING FOR FACTORIES



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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OB3) allows full and immediate expensing for construction costs for new factories, refineries, and certain other structures to ensure the tax code doesn't penalize companies that make physical investments that create American jobs.

BACKGROUND: A business income tax—if properly designed—shouldn't apply the tax rate to an amount that is *greater* than a company's profits. Therefore, the income tax usually allows companies to deduct legitimate business expenses. Historically, the tax code did **not** allow full and immediate deductions (expensing) for capital property. Instead, when companies bought and placed into service new property, they followed convoluted depreciation schedules loosely based on the expected life of the asset. By the time that taxpayers were allowed to fully deduct such costs, inflation and the time value of money would erode the value of such deferred deductions.

A key business reform in the 2017 Tax Cuts and Jobs Act (TCJA) was full and immediate expensing of equipment and machinery costs. However, TCJA left in place 39-year straight-line depreciation for factories and other structures, meaning companies could only deduct roughly 2.5% of such capital expenditures per year for 39 years.

What OB3 Did:

- Established full and immediate expensing for costs related to the construction of a factory or other structure that will be used in the manufacturing, production, or refining of tangible property (excluding food preparation for retail sales).
 - To qualify for the immediate deduction, construction on the structure must begin between January 20, 2025, and December 31, 2028, and the structure must be placed in service by December 31, 2030.

Why It Matters?

- The change explicitly addresses a key flaw in the business tax system that discourages investment in domestic manufacturing and production facilities.
- Expensing for factories and other production facilities is one of the most pro-growth provisions in OB3, especially if Congress makes it permanent.
- Full and immediate expensing for factories and other structures for roughly four years is a \$141 billion tax cut over 10 years, according to JCT estimates.

Where Can I Find the Changes? OB3 Sec. 70307; 26 U.S.C. § 168(n).

BOTTOMLINE: Full and immediate expensing for factories and other structures is the correct tax policy and should be made permanent. It would simplify business taxes and help ensure companies aren't punished for investing in expanded U.S. production.

