

EXPENSING FOR ROOFS AND BUILDING SYSTEMS



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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OB BB) ensures that midsize businesses can fully and immediately expense costs related to certain building improvements such as roofs, HVAC systems, security systems, and fire protection and alarm systems.

BACKGROUND: The "Section 179 deduction" is arguably the precursor to the better-known full expensing for equipment and machinery provision (Section 168(k)) that was a centerpiece of the 2017 Tax Cuts and Jobs Act (TCJA). Section 179 began in 1958 as 20% bonus depreciation on the first \$10,000 spent on certain new or *used* business equipment and machinery with a useful life of at least six years. The 1981 tax reform changed it to (100%) full and immediate expensing on up to \$5,000 of expenditures. Congress substantially increased the expensing amount in the 2000s and 2010s, especially in TCJA, which allowed \$1 million in immediate deductions. It also had an (inflation-adjusted) \$2.5 million phaseout threshold, so taxpayers purchasing qualified assets above the threshold would not qualify for the full \$1 million of Section 179 expensing. TCJA expanded the provision to explicitly include building improvements related to roofs, HVACs, security systems, and fire protection and alarm systems, which are not captured under TCJA's other key expensing provision (Section 168(k)).

What OB BB Did:

- Raised the maximum amount of costs related to Section 179 property (e.g., improvements to roofs and installation of HVAC, security, and fire alarm systems) for which a company can claim a full and immediate deduction from \$1.25 million per tax year to \$2.5 million, effective 2025.
- Extended out the annual cost threshold where the Section 179 deduction phaseout begins from \$3.13 million to \$4.0 million, effective 2025.

Why It Matters?

- Many small and midsize businesses elected to claim Section 179 deductions rather than the unlimited Section 168(k) deduction because Section 179 can be applied more flexibly and Section 168(k) *had been* scheduled to expire. Raising the threshold allows them more continuity in their taxes and accounting.
- Section 179 captures some major business spending items that would otherwise be disincentivized by delaying tax deductions for years after the expenditure.
- This provision is a \$25 billion tax cut over 10 years, according to JCT estimates.

Where Can I Find the Changes? OB BB Sec. 70306; 26 U.S.C. § 179(b).

BOTTOMLINE: Lawmakers should build on TCJA and OB BB by allowing full and immediate expensing for *all* capital assets. It would simplify taxes and avoid penalizing companies for making capital investments.

