Construction Industry Update: What You Need to Know for 2026

Construction business owners face a rapidly shifting landscape in 2026, including heightened **I-9 enforcement**, new tax opportunities for **residential contractors**, record construction merger and acquisition (M&A) activity, tariff developments and the growing use of AI in construction. These changes are reshaping how construction companies manage compliance, cash flow, business value and operational efficiency. Kate Fluker, CPA CCIFP, Mark Underhill, CPA, CM&AA, CVGA, CAIM, and Micah Murphy, CPA examine the forces redefining how construction companies operate, compete and grow in today's environment.

IEEPA TARIFF REFUNDS FOR CONSTRUCTION COMPANIES

- Only the importer of record (or their authorized customs broker) is eligible to file for **IEEPA tariff refunds** through the ACE portal.
- If you were not the importer of record but paid significant tariff costs, contact your importer directly and request they pass along some or all of the refund.
- If you are the importer of record, gather your entry numbers, duty records, and broker data, and file a CAPE declaration via the ACE portal. Work with your CPA to properly record the refund receivable on your books.

HEIGHTENED I-9 ENFORCEMENT

- Since 2025, previously minor I-9 errors have been reclassified as substantive violations, with fines up to $3,000 per form.
- Construction companies face elevated risk due to high employee turnover, seasonal workforces, and field-based onboarding.
- Action steps: Audit your current I-9 population now, correct errors with strikethroughs (no whiteout), standardize your onboarding process with a trained point of contact, and establish an inspection response plan.

2026 TAX METHODS FOR RESIDENTIAL CONTRACTORS

- Effective for long-term residential contracts beginning in tax years starting after July 4, 2025, all residential construction contracts (including multifamily, student housing, and assisted living) now qualify for the same favorable tax methods previously reserved for home contracts (4 or fewer units).

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- Eligible contractors may now use the **cash method** or **completed contract method** regardless of company size, with no AMT prepayment required.
- Tell your CPA which contracts are residential – do not assume they already know. This change creates a genuine **tax deferral** opportunity that can keep more cash working in your business.

CONSTRUCTION M&A TRENDS AND BUSINESS VALUATIONS

- Nearly 900 construction deals closed in 2025, driven largely by private equity roll-ups in roofing, HVAC, plumbing, electrical, and metal fabrication.
- Add-on acquisitions account for nearly 60% of all deals, with an average deal size exceeding $50 million.
- Businesses with recurring service and maintenance revenue, diversified customer bases, and non-discretionary demand command premiums in today's market. Hard-bid project-only contractors typically trade lower.
- Valuations factor in numerous quantitative and qualitative factors, but the largest driver of value is risk. As businesses increase in size, their risk profile naturally improves increasing valuation multiples.

CONSTRUCTION SALE READINESS: A 3-YEAR ROADMAP

- **3 years out:** Clean up entity structure, eliminate personal expenses run through the company, and begin estate and gifting planning while business value is still building.
- **2 years out:** Improve your monthly close process (target 15 days), move to accrual/GAAP accounting, and develop a second layer of management that can run the business without you.
- **12 months out:** Review contracts and licenses, diversify your customer base if concentration is over 20%, and assemble your deal team (M&A attorney, CPA/transaction advisor, investment banker, and wealth manager).
- **6 months out:** Commission a sell-side **quality of earnings (QOE)** engagement to go to market with clean, defensible financials and minimize the risk of a re-trade.

Key reminder - An audit is not a substitute for a quality of earnings. Audited contractors routinely see adjustments during due diligence– every dollar found and supported by the seller can bring additional value to the owner. Anything left for the buyer to find can reduce your deal value by a multiple, and increase risk of a re-trade.

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AI IN CONSTRUCTION: WHERE TO START

- 92% of contractors report difficulty filling open positions, and 61% of construction companies are now using AI – up to 44% from the prior year.
- Think of AI like a new employee: give it a defined role, limit what information it can access, and always have a human review its output before it goes out the door.
- Highest-value use cases today: pre-construction estimating from historical job data, contract comparison and change tracking, **job cost reconciliation** (identifying miscoded costs), and drafting RFI responses and reports.
- Do not let AI commit to contract prices, change project schedules, make safety decisions, or make promises to customers without human approval.
- The right starting approach: Pick one workflow, build it to completion, measure the results, and then expand. Avoid the "shotgun" approach of starting 10 projects at once. Your people – not your IT department – are the key to a successful AI deployment.

BOTTOM LINE

The construction industry is navigating more change at once than it has in years – tighter compliance requirements, a historically active deal market, and a technology shift that is only accelerating. The companies that will come out ahead are not necessarily the largest or the most established; they are the ones that stay informed, take proactive steps to strengthen their operations, and surround themselves with the right advisors. Whether the priority right now is protecting cash flow, preparing for a future transaction, or finding efficiencies through AI, the window to act is open.