

## §460 Special rules for long-term contracts

Changes by P.L. 119-21 (H.R. 1, [OBBB](#), 7/4/25):

- SEC. 70430 to change “home” construction contract to “residential” construction contract, effective for contracts entered into in tax years beginning after 7/4/25.
  - This change also addresses AMT for these contracts: “Section 56(a)(3) is amended by striking “any home construction contract (as defined in section 460(e)(6))” and inserting “any residential construction contract (as defined in section 460(e)(4))”.

### (e) Exception for certain construction contracts

(1) In general. Subsections (a), (b), and (c)(1) and (2) shall not apply to—

(A) any ~~home~~residential construction contract, or

(B) any other construction contract entered into by a taxpayer (other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting under section 448(a)(3))—

(i) who estimates (at the time such contract is entered into) that such contract will be completed within the 2-year period beginning on the contract commencement date of such contract, and

(ii) who meets the gross receipts test of section 448(c) for the taxable year in which such contract is entered into.

In the case of a ~~home~~residential construction contract with respect to which the requirements of clauses (i) and (ii) of subparagraph (B) (determined by substituting ‘3-year’ for ‘2-year’ in subparagraph (B)(i) for any residential construction contract which is not a home construction contract) are not met, section 263A shall apply notwithstanding subsection (c)(4) thereof.

(2) Rules related to gross receipts test

(A) Application of gross receipts test to individuals, etc. For purposes of paragraph (1)(B)(ii), in the case of any taxpayer which is not a corporation or a partnership, the gross receipts test of section 448(c) shall be applied in the same manner as if each trade or business of such taxpayer were a corporation or partnership.

(B) Coordination with section 481. Any change in method of accounting made pursuant to paragraph (1)(B)(ii) shall be treated as initiated by the taxpayer and made with the

consent of the Secretary. Such change shall be effected on a cut-off basis for all similarly classified contracts entered into on or after the year of change.

(3) Construction contract. For purposes of this subsection, the term “construction contract” means any contract for the building, construction, reconstruction, or rehabilitation of, or the installation of any integral component to, or improvements of, real property.

~~(4) Special rule for residential construction contracts which are not home construction contracts. In the case of any residential construction contract which is not a home construction contract, subsection (a) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1989) shall apply except that such subsection shall be applied—~~

~~(A) by substituting “70 percent” for “90 percent” each place it appears, and~~

~~(B) by substituting “30 percent” for “10 percent”.~~

(54) Definitions relating to residential construction contracts. For purposes of this subsection—

(A) Home construction contract. The term “home construction contract” means any construction contract if 80 percent or more of the estimated total contract costs (as of the close of the taxable year in which the contract was entered into) are reasonably expected to be attributable to activities referred to in paragraph (43) with respect to—

(i) dwelling units (as defined in section 168(e)(2)(A)(ii)) contained in buildings containing 4 or fewer dwelling units (as so defined), and

(ii) improvements to real property directly related to such dwelling units and located on the site of such dwelling units.

For purposes of clause (i), each townhouse or rowhouse shall be treated as a separate building.

(B) Residential construction contract. The term “residential construction contract” means any contract which would be described in subparagraph (A) if clause (i) of such subparagraph reads as follows:

“(i) dwelling units (as defined in section 168(e)(2)(A)(ii)), and”.