CORRECT THE TAX TREATMENT OF PROPERTY REDEVELOPMENT COSTS

September 15, 2026

Dear Member of Congress:

As you consider additional policies aimed at lowering costs for consumers, creating well-paying jobs, and strengthening communities, we write to recommend a modest but meaningful tax change that would spur economic development, new housing construction, and neighborhood revitalization. We encourage Congress to remove the tax penalty that currently applies to property redevelopment by correcting the tax treatment of demolition expenses.

Current tax law discourages the replacement of vacant and obsolete buildings, and the redevelopment of languishing, underutilized properties—including properties that could otherwise be converted into housing, shopping centers, hotels, or mixed-use developments in supply-constrained areas. This treatment can delay or deter redevelopment projects that would otherwise support increased housing supply and commercial activity, particularly in high-cost areas and downtown corridors facing elevated vacancy rates.

Property owners currently incur a steep tax penalty when they demolish and replace an existing building. Specifically, any remaining tax basis in the demolished building must be added to the basis of the land where the structure was located. I.R.C. §280B. A taxpayer cannot claim the undepreciated basis as a loss in the year of the demolition. The basis cannot be expensed, and the property owner cannot continue to depreciate the basis over its prior tax life (or include the basis in the cost recovery period of the replacement property). Even though the demolished building ceases to exist, the taxpayer's basis in the building is not recovered for tax purposes until the underlying land is sold, which may not occur for years or decades.

This antiquated tax rule encourages property owners to hold on to empty buildings that are unsuitable for use simply in order to preserve depreciation deductions or to wait until the property is condemned as unfit for further occupancy so that an abandonment loss can be claimed. Treas. Reg. §1.167(a)-8(a)(4). The tax law should not dis-incentivize the demolition of vacant, boarded-up, and deteriorating buildings, nor should the tax law encourage taxpayers to wait until a building is effectively collapsing before the property is redeveloped. This counterproductive tax treatment can contribute to health and safety risks in the community and lower surrounding property values.

Making matters worse, actual demolition costs are also nondeductible. These costs include fees paid to a demolition contractor, the cost of hauling away debris, and expenses for grading the lot after a structure is removed. Similar to the basis of demolished buildings, demolition costs are capitalized into the basis of the nondepreciable land. These expenditures are nondeductible despite representing a current cash outlay associated with the larger redevelopment project.

In order to support residential, commercial, mixed-use, and redevelopment projects that expand housing supply and economic activity, Congress should modify the tax treatment of demolished buildings and demolition costs in two ways:

- First, Congress should clarify that any remaining tax basis in a demolished building is immediately deductible as a loss. This tax treatment would reflect economic reality. The demolished building ceases to have any economic value or any potential to generate economic income. Allowing property owners to recover the undepreciated basis of demolished buildings would encourage taxpayers to put properties to their best economic use.

- Second, since actual demolition costs are a cash outlay that will never be recovered and relate to an asset that no longer exists, these expenses should be immediately deductible as well.

Collectively, these tax changes should be paired with reasonable guardrails—such as requiring timely redevelopment or placement-in-service of a replacement structure—to ensure the policy supports productive investment and avoids purely tax-motivated demolition activity. Congress should also consider adopting special rules or exceptions for certified historic structures.[1]

Correcting the tax treatment of demolished buildings and demolition costs would better enable property owners to replace vacant and underperforming properties with new housing and mixed-use developments. It would facilitate the construction of new commercial corridors, that support shopping centers, hotels, and small businesses. Local property tax revenue would increase, as would jobs and economic opportunity. In many cases, the tax change would spur the redevelopment and revitalization of cities and neighborhoods. The supply of housing would expand where it is most needed, in city centers and close to where jobs are located. The change would encourage greater density, as opposed to outward sprawl. It would also complement efforts aimed at downtown and main street revitalization through property conversions. Lastly, it would do so by recognizing a simple principle: a building that no longer exists should not have its tax basis, or the costs of its demolition, tied up in nondepreciable land.

Thank you in advance for your consideration of this simple but significant correction to the tax code that would reverse the current tax penalty that applies to property redevelopment costs. If you or your staff have any questions or would like additional information, please contact: Ryan McCormick,

[1] Between 1976 and 1984, separate tax rules applied to demolition costs for historic structures. The current version of section 280B, which requires the capitalization of all demolished structures into the nondepreciable land, was enacted in the Deficit Reduction Act of 1984.

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American Resort Development Association
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