MEMORANDUM FOR DISTRIBUTION

Subj: CLASS DEVIATION - FEDERAL ACQUISITION REGULATION (FAR) 31.203(c), INDIRECT COSTS

Encl: (1) DPAP memo dtd September 26, 2005

Enclosure (1) is provided for your immediate implementation and action, as appropriate. The Acting Director of Defense Procurement and Acquisition Policy has extended the deviation contained in DDP memorandum dated September 29, 1999. The September 29, 1999 memorandum authorized all Department of Defense contracting activities to deviate from the requirements of FAR 31.203(c) when costs disallowed under FAR 31.205-52 are required to be included in the indirect cost base. This deviation was previously extended until September 30, 2005. Enclosure (1) extends this deviation until September 30, 2008.

Please forward the enclosed memorandum to appropriate contracting personnel.

[Signature]
Chief of Staff/Policy
for DASN (MCQ MGMT)

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MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA(ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(Acquisition Management), ASN(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQG
EXECUTIVE DIRECTOR, LOGISTIC POLICY AND
ACQUISITION MANAGEMENT (DLA)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Class Deviation – Federal Acquisition Regulation (FAR) 31.203(c), Indirect Costs

On September 29, 1999, the Director of Defense Procurement authorized the attached deviation from the requirements of FAR 31.203(c) when costs disallowed under FAR 31.205-52 are required to be included in the indirect cost base. The original deviation expired September 30, 2002.

On September 9, 2002, the Director of Defense Procurement authorized an extension of the original deviation until September 30, 2005. This memorandum extends that deviation until September 30, 2008.

Any questions concerning this memorandum should be addressed to Mr. David Capitano, Senior Procurement Analyst, at 703-847-7486 or via e-mail at david.capitano@osd.mil.

Domenic C. Cipicchio
Acting Director, Defense Procurement and Acquisition Policy

Attachment:
As stated

ENCLOSURE(4)
MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,
ASN(K/C)/ASN
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING). SAF/AQC
DEPUTY ASSISTANT SECRETARY OF THE ARMY (PROCUREMENT)
EXECUTIVE DIRECTOR FOR PROCUREMENT MANAGEMENT (DLSC/DLA)

SUBJECT: Class Deviation—Federal Acquisition Regulation (FAR) 31.203(c), Indirect Costs

Effective immediately, all Department of Defense contracting activities shall deviate from the requirements of FAR 31.203(c) when costs disallowed under FAR 31.205-52 are required to be included in the indirect cost base.

Prior to April 15, 1996, the Cost Accounting Standards (CAS) measured, assigned, and allocated the costs of tangible capital assets acquired in a business combination under the purchase method of accounting on the basis of fair market value. This often resulted in an increase in the value of the assets over the pre-business combination book value; the increase is commonly referred to as the step-up amount. FAR 31.205-52 disallowed this step-up amount.

When assets that are valued at fair market value are included as part of the base for allocating indirect costs, CAS requires that indirect expenses be allocated to the entire fair market value, including any step-up amounts. FAR 31.203(c) renders unallowable that share of the indirect expenses that are allocable to the disallowed step-up amount.

The purpose of FAR 31.205-52 is to assure that the amount of depreciation of tangible assets and amortization of intangible assets the Government pays is not increased as a result of a business combination. However, in this situation, contractors should not be penalized by having their indirect cost recovery reduced. Therefore,
an authorizing a deviation from FAR 31.203(c). The deviation
relates only to the application of FAR 31.203(c) to costs disallowed
under FAR 31.205-52. Thus, when costs disallowed under FAR 31.205-52
are required to be included in the indirect cost base, the indirect
depenses proportionate to those disallowed costs will not be
disallowed on the basis of FAR 31.203(c).

This deviation applies to all future contracts. It also applies
to indirect rates applicable to open cost-reimbursement contracts,
provided that the final indirect rates have not been established (see
FAR 42.705) as of the date of this memorandum. The deviation also
applies to any other situations requiring that indirect costs be
settled before contract prices are established, provided that the
final indirect cost rates have not been established (see FAR 42.705)
as of the date of this memorandum.

This class deviation is effective through September 30, 2002.

Eleanor R. Spector
Director, Defense Procurement

cc: DSMC, Ft. Belvoir
COORDINATION
OUSD(AT&L)(DPAP)(POLICY)
SEPTEMBER 12, 2005

COORDINATION DUE NLT COB SEPTEMBER 20, 2005

SUBJECT: CLASS DEVIATION – FEDERAL ACQUISITION REGULATION (FAR) 31.203(c), INDIRECT COSTS

AO: DAVID CAPITANO, 703-847-7486

DCAA [Signature] Date 9/9/05