



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

SEP 26 2005

ACQUISITION  
TECHNOLOGY  
AND LOGISTICS

In reply refer to  
DAR Tracking Number: 2005-O0009

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/AQC  
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](mailto:david.capitano@osd.mil).

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

Attachment:  
As stated





ACQUISITION AND  
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON DC 20301-3000

September 29, 1999

UP (CPF)

In reply refer to  
DAR Tracking Number: 99-00009

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES  
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,  
ASN(RD&A)/ABM  
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,



I am 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 expenses 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