



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH, DEVELOPMENT AND ACQUISITION  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

JAN 17 2003

MEMORANDUM FOR DISTRIBUTION

Subj: CONTRACTOR COSTS - DONATION OF EMPLOYEE UNUSED LEAVE

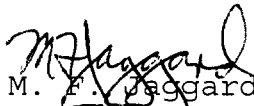
Encl: (1) DPAP memo dtd December 12, 2002

Ref: (a) OASN(RD&A)ABM memo dtd February 27, 2002

Enclosure (1) is provided for your immediate implementation and action, as appropriate. By reference (a), we advised that based on Internal Revenue Service (IRS) Notice 2001-69, the Director of Defense Procurement and Acquisition Policy (DPAP) had provided authority to treat contractor costs associated with employee donations of vacation and personal leave to charitable organizations, before January 1, 2003, as allowable compensation costs under FAR 31.206-6, rather than unallowable contributions under FAR 31.205-8. DPAP advised that this issue would be revisited when the IRS announced how it would treat these donations made after December 31, 2002.

By enclosure (1), DPAP has provided notification that the Internal Revenue Service has advised that it will not extend Notice 2001-69 and that its original income rules would be reinstated beginning on January 1, 2003. Accordingly, the DPAP guidance expired on December 31, 2002.

Please forward enclosure (1) to appropriate contracting personnel.

  
M. F. Haggard  
Chief of Staff/Policy  
for DASN(ACQ MGMT)

Subj: CONTRACTOR COSTS - DONATION OF EMPLOYEE UNUSED LEAVE

DISTRIBUTION:

NAVAIRSYSCOM (2.0)  
NAVFACENGCOM (ACQ 02)  
NAVSEASYSYSCOM (02)  
NAVSUPSYSCOM (02)  
SPAWARSYSCOM (02)  
MARCORMATCOM (M200)  
ONR (02)  
MSC (N-10)  
CMC (LB)  
SSP (SPN)  
NAVICP (02)

Copy to:

MARCORSYSCOM (CT)  
AGC (RDA)



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

1 2 DEC 2002

DPAP/P

MEMORANDUM FOR DIRECTORS, DEFENSE AGENCIES

ACTING DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(POLICY & PROCUREMENT), ASA(AL&T)  
DEPUTY FOR ACQUISITION AND BUSINESS  
MANAGEMENT, ASN(RD&A)/ABM  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AQC  
EXECUTIVE DIRECTOR LOGISTICS POLICY AND  
ACQUISITION MANAGEMENT (DLA)

SUBJECT: Contractor Costs – Donation of Employee Unused Leave

On February 11, 2002, I issued guidance permitting employee donations of unused vacation and personal leave made before January 1, 2003, to charitable organizations under a contractor sponsored plan to be treated as an allowable compensation cost under Federal Acquisition Regulation (FAR) 31.205-6, "Compensation for Personal Services," rather than an unallowable contribution under FAR 31.205-8, "Contributions or Donations." This guidance complemented Internal Revenue Service (IRS) Notice 2001-69, issued on November 13, 2001, which facilitated such donations after the September 11, 2001, terrorism attacks. It clarified that employee donations of leave made prior to January 1, 2003, would not constitute taxable income for the employee, and that the IRS would permit employers to treat these donations as either ordinary and necessary business expenses or charitable contributions.

In my memorandum, I indicated that we would revisit this issue when the IRS announced how it will treat employee donations of leave made after December 31, 2002. The IRS recently advised us that it will not extend Notice 2001-69 and that its original assignment of income rules will reassert beginning on January 1, 2003. Accordingly, I will not extend my guidance and therefore, it will expire on December 31, 2002.

Please disseminate this guidance to all appropriate organizations. My point of contact is Mr. Christopher Werner at (703) 695-9764 or e-mail: christopher.werner@osd.mil.

Deidre A. Lee  
Director, Defense Procurement  
& Acquisition Policy

cc: DAU, Ft. Belvoir



ENCLOSURE(1)