

107TH CONGRESS  
1ST SESSION

# H. R. 2189

To amend the Internal Revenue Code of 1986 to allow the use of completed contract method of accounting in the case of certain long-term naval vessel construction contracts.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 14, 2001

Mrs. JOHNSON of Connecticut (for herself, Mr. JEFFERSON, Mr. McCRERY, Mr. SPENCE, Mr. HUNTER, Mr. WELDON of Pennsylvania, Mr. TAYLOR of Mississippi, Mr. SAXTON, Mr. SIMMONS, Mr. MALONEY of Connecticut, Mrs. JO ANN DAVIS of Virginia, Mr. SCHROCK, Mr. CUNNINGHAM, Mr. WICKER, Mr. VITTER, Mr. COOKSEY, Mr. CANTOR, Mr. SCOTT, Mr. PICKERING, and Mr. SHOWS) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow the use of completed contract method of accounting in the case of certain long-term naval vessel construction contracts.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. MODIFICATION OF ACCOUNTING RULES FOR**  
2 **CERTAIN NAVAL LONG-TERM CONSTRUCTION**  
3 **CONTRACTS.**

4 (a) **IN GENERAL.**—Section 460(e)(1) of the Internal  
5 Revenue Code of 1986 (relating to exception for certain  
6 construction contracts) is amended by striking “or” at the  
7 end of subparagraph (A), by striking the period at the  
8 end of subparagraph (B) and inserting “, or”, and by in-  
9 serting after subparagraph (B) the following new subpara-  
10 graph:

11 “(C) a qualified naval construction con-  
12 tract for which an election is made under para-  
13 graph (7).”.

14 (b) **QUALIFIED NAVAL CONSTRUCTION CONTRACT.**—  
15 Section 460(e) of the Internal Revenue Code of 1986 is  
16 amended by adding at the end the following new para-  
17 graph:

18 “(7) **QUALIFIED NAVAL CONSTRUCTION CON-**  
19 **TRACT.**—

20 “(A) **IN GENERAL.**—A taxpayer may elect  
21 to use the completed contract method of ac-  
22 counting with respect to any qualified naval  
23 construction contract.

24 “(B) **DEFINITIONS.**—

25 “(i) **QUALIFIED NAVAL CONSTRUC-**  
26 **TION CONTRACT.**—For purposes of this

1 subsection, the term ‘qualified naval con-  
2 struction contract’ means a contract—

3 “(I) entered into by the taxpayer  
4 with the Federal Government for the  
5 building, construction, reconstruction,  
6 or rehabilitation of a naval vessel, and

7 “(II) which the taxpayer esti-  
8 mates (at the time such contract is  
9 entered into) will be completed more  
10 than 24 months after the contract  
11 commencement date of such contract.

12 “(ii) NAVAL VESSEL.—For purposes  
13 of clause (i), the term ‘naval vessel’ means  
14 any vessel intended to be navigated in, on,  
15 or under the water.

16 “(iii) COMPLETED.—For purposes of  
17 this paragraph, the term ‘completed’  
18 means upon issuance of a letter of accept-  
19 ance or similar document by the Federal  
20 Government.

21 “(iv) ENTERING CONTRACTS.—For  
22 purposes of clause (i), a taxpayer shall be  
23 treated as entering into a contract with the  
24 Federal Government if the taxpayer is  
25 specified in the bid for such contract as

1           being a member of a team (for purposes of  
2           performing the work under such contract)  
3           that includes the person who entered into  
4           such contract.

5           “(C) EFFECT OF ELECTION.—An election  
6           under this paragraph shall apply to all con-  
7           tracts of the taxpayer which are entered into  
8           during the taxable year in which the election is  
9           made or any subsequent taxable year.

10          “(D) SEPARATE CONTRACT.—For pur-  
11          poses of applying this paragraph, in the case of  
12          a qualified naval construction contract which  
13          covers more than 1 vessel, each vessel covered  
14          by the contract shall be treated as a separate  
15          contract for the purpose of applying the com-  
16          pleted contract method, and the gross contract  
17          price and the total contract costs shall be allo-  
18          cated to each separate vessel contract in accord-  
19          ance with regulations prescribed by the Sec-  
20          retary.

21          “(E) EARNINGS AND PROFITS.—Section  
22          312(n)(6) shall not apply to a taxpayer which  
23          has made an election under this paragraph with  
24          respect to a qualified naval construction con-  
25          tract.”.

1           (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply with respect to contracts entered  
3 into after December 31, 2000.

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