

108TH CONGRESS
1ST SESSION

S. 774

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.

IN THE SENATE OF THE UNITED STATES

APRIL 3, 2003

Ms. SNOWE introduced the following bill; which was read twice and referred to the Committee on Finance

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,*

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

6 (a) IN GENERAL.—Section 460(e)(1) of the Internal
7 Revenue Code of 1986 (relating to exception for certain
8 construction contracts) is amended by striking “or” at the

1 end of subparagraph (A), by striking the period at the
 2 end of subparagraph (B) and inserting “, or”, and by in-
 3 serting after subparagraph (B) the following new subpara-
 4 graph:

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

8 (b) QUALIFIED NAVAL CONSTRUCTION CONTRACT.—
 9 Section 460(e) of the Internal Revenue Code of 1986 is
 10 amended by adding at the end the following new para-
 11 graph:

12 “(7) QUALIFIED NAVAL CONSTRUCTION CON-
 13 TRACT.—

14 “(A) IN GENERAL.—A taxpayer who owns
 15 and operates a shipyard may elect to use the
 16 completed contract method of accounting with
 17 respect to any qualified naval construction con-
 18 tract for the building, construction, reconstruc-
 19 tion, or rehabilitation of a naval vessel at such
 20 shipyard.

21 “(B) DEFINITIONS AND SPECIAL RULES.—

22 “(i) QUALIFIED NAVAL CONSTRUC-
 23 TION CONTRACT.—For purposes of this
 24 subsection, the term ‘qualified naval con-
 25 struction contract’ means a contract—

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

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

10 “(ii) NAVAL VESSEL.—For purposes
11 of this paragraph, the term ‘naval vessel’
12 means any vessel intended to be navigated
13 in, on, or under the water.

14 “(iii) COMPLETED.—For purposes of
15 this paragraph, a contract shall be treated
16 as completed upon the issuance of a letter
17 of acceptance or similar document by the
18 Federal Government.

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

1 that includes the person who entered into
2 such contract.

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

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

19 “(E) EARNINGS AND PROFITS.—Section
20 312(n)(6) shall not apply to a taxpayer which
21 has made an election under this paragraph with
22 respect to a qualified naval construction con-
23 tract.”.

24 (c) EFFECTIVE DATE.—The amendments made by
25 this section shall apply with respect to contracts entered

1 into before, on, or after the date of the enactment of this
2 Act and completed (within the meaning of section
3 460(e)(7)(B)(iii) of the Internal Revenue Code of 1986,
4 as added by this section) after such date.

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