



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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ACQUISITION
TECHNOLOGY
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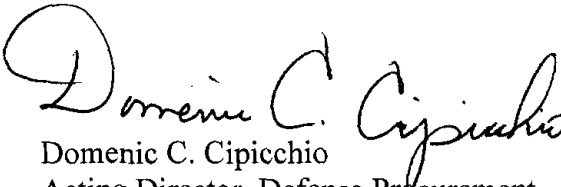
MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA(ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION MANAGEMENT), ASN(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY
EXECUTIVE DIRECTOR, ACQUISITION, TECHNOLOGY
AND SUPPLY DIRECTORATE (DLA)

SUBJECT: Contractor Costs – Donation of Employee Unused Leave for Hurricane Katrina Victims

A number of contractors have implemented, or are considering implementing, policies to permit their employees to donate leave to charitable organizations that are providing assistance to the victims of Hurricane Katrina. The Internal Revenue Service (IRS) issued IRS Notice 2005-68 on September 8, 2005, to facilitate such donations by making it clear that employee donations of leave would not constitute taxable income for the employee, and that the IRS would permit employers to treat these employee donations as either ordinary and necessary business expenses or charitable contributions. This IRS guidance applies to payments made to charitable organizations before January 1, 2007.

After careful consideration, we have concluded that such payments for vacation and personal leave, but not for sick leave, represent 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." In concert with the IRS guidance, we will permit this cost allowability treatment for payments made before January 1, 2007.

Please ensure this guidance receives the widest possible dissemination within the defense acquisition community. Questions may be directed to Mr. Christopher Werner of my staff at (703) 695-9764 or christopher.werner@osd.mil.


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

