

United States General Accounting Office

**GAO**

Report to the Honorable Lawton Chiles  
United States Senate

January 1986

# TAX POLICY

## Congress Should Further Restrict Use of the Completed Contract Method



034481





United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-221074

January 17, 1986

The Honorable Lawton Chiles  
United States Senate

Dear Senator Chiles:

Your September 13, 1985, letter requested that we examine the use of the completed contract method of accounting by defense contractors in light of reports that many of the nation's largest and most profitable defense contractors have paid little or no federal income taxes. On September 30, 1985, we briefed your office on the status of our work. At that time, your office requested that we develop and analyze data on the extent to which publicly traded manufacturing and construction contractors use the completed contract method to defer federal taxes and to determine whether continued use of the method is justified. This report responds to the September 30 request.

One reason that contractors can report profits from long-term contracts<sup>1</sup> to stockholders during a particular tax year and yet pay little or no taxes for that year is that they can use one accounting method to report income to stockholders and a different method to report such income to the Internal Revenue Service (IRS). In most of the cases we reviewed, contractors used the completed contract method of accounting to report long-term contract income to IRS and a different method—primarily the percentage-of-completion method—to report income for public financial accounting purposes. Our review of 135 contractors who used the completed contract method for tax purposes showed that they deferred \$5.2 billion in taxes over the 5-year period from 1980 through 1984 as a result of using that method.

The completed contract method of accounting is an exception to the general concept that federal income tax liability should be determined and reported on the basis of tax year revenues and expenses. A taxpayer using the completed contract method does not report any revenues or expenses attributable to a long-term contract on an annual basis but instead waits until the contract is completed. Over the years, contractors have justified using the method mainly on the basis that due to inherent uncertainties in their trade, the profitability of individual projects was uncertain before completion. They have asserted that, as a result, they

<sup>1</sup>Only taxpayers who have long-term building, installation, construction, or manufacturing contracts that are not completed within the taxable year that they were entered into are eligible to use the completed contract and the percentage-of-completion methods for tax purposes.

could not make reasonably dependable annual estimates for tax purposes of the costs to complete or the extent of progress toward completion of particular long-term contracts.

We believe that manufacturing and construction contractors either have or should be able to acquire the expertise needed to make reasonably dependable annual estimates of project costs or progress for tax purposes. In this regard, most contractors in our review have shown confidence in their ability to estimate the costs to complete or the extent of progress toward completion of long-term contracts for financial accounting purposes. Furthermore, these estimates were viewed as reasonable by independent certified public accountants. We believe that the same estimates would suffice for tax reporting purposes and that the use of the completed contract method of accounting should not be allowed except for those contractors who can satisfactorily demonstrate to IRS that they cannot obtain reasonably dependable estimates of the costs to complete or the extent of progress toward completion of a particular contract.

## Objectives, Scope, and Methodology

As requested by your office, our objectives were to develop and to analyze data on the extent to which publicly traded contractors use the completed contract method to defer taxes and to determine whether continued use of the completed contract method is justified.

In order to identify the extent to which contractors use the completed contract method for tax purposes, we identified contractors who used the method for such purposes from a base of over 4,000 publicly traded companies. We used the following sources as our data base:

- The 1984 annual reports of the 4,000 publicly traded companies listed in the National Automated Accounting Research System (NAARS). Companies listed in the NAARS are those traded on the New York or American Stock Exchanges, certain companies traded over-the-counter, and other companies ranked by Fortune magazine.
- A listing of the 50 top federal contractors in 1984 developed by the General Services Administration. For those publicly traded contractors, we identified completed contract method users by analyzing their 1984 annual reports.
- A listing of 45 representative publicly traded construction firms provided by the Associated General Contractors of America. For these firms, we identified completed contract method users by analyzing their 1984 annual reports.

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From this data base, we identified 135 contractors that used the completed contract method for tax purposes. Of the 135 contractors, 88 were primarily manufacturing contractors, and 47 were construction contractors. (See app. I.)

Once we identified contractors using the completed contract method, we examined their publicly available annual reports for the 5-year period from 1980 through 1984. We used a 5-year period in order to avoid any abnormalities in the data due to either the start or the completion of a large number of contracts in any given year. From the annual financial reports and accompanying income tax notes, we identified for each firm: (1) pre-tax income, (2) total assets, (3) provision for taxes, (4) yearly deferred taxes—primarily federal, (5) cumulative deferred taxes, and (6) yearly deferred taxes attributable to the use of the completed contract method. This data provided us with the basis for our analysis.

We recognize that the contractors that we identified do not represent the universe of all completed contract method users. Given the sources comprising our data base, however, they should include the largest publicly traded contractors that use the completed contract method for tax purposes.

To determine whether continued use of the completed contract method for tax purposes is warranted, we (1) gathered information on the method's legislative and regulatory history from congressional, IRS, and Department of the Treasury records; (2) reviewed academic studies, accounting standards, and professional accounting and legal publications; and (3) discussed the use of and the justification for the use of the method with officials of IRS, a representative of the American Institute of Certified Public Accountants' (AICPA) Tax Accounting Subcommittee, members of a public accounting firm, representatives of construction and aerospace industry trade organizations, and officials of five major aerospace contractors. (See app. II.) The five contractors were selected by the Aerospace Industries Association of America, Inc., as being representative of the industry. We limited our contact to one accounting firm due to time constraints; however, as previously noted, our scope included discussion with a representative of the AICPA Tax Accounting Subcommittee who has an industry-wide perspective. Treasury Department officials told us that the Department was in the process of studying the policy issues involved and that they were not yet in a position to comment. They referred us to IRS officials for discussion of the technical aspects of long-term contract income tax accounting.

We performed our work between September and November 1985. The review was performed in accordance with generally accepted government auditing standards. However, at your request, we did not obtain official agency comments.

## Background on Long-Term Contract Accounting Methods

Treasury regulations allow taxpayers with long-term contracts to use one of two specialized accounting methods—either the percentage-of-completion or the completed contract method—to report revenues and costs attributable to such contracts.

Generally, a taxpayer using the percentage-of-completion method reports revenues attributable to a long-term contract in each year of the contract according to the portion of the contract that is completed during that year. The taxpayer may determine the portion of the contract completed during a given year by using an estimate of either (1) the percentage of total contract cost incurred in that year or (2) the percentage of work on the contract completed that year. Generally, all costs attributable to the long-term contract are deductible in the year in which they are incurred.

A taxpayer using the completed contract method does not report any revenues attributable to a long-term contract on an annual basis but instead waits until the contract is completed. Treasury regulations define “completion” and prohibit a taxpayer from delaying completion for tax purposes. The taxpayer using the completed contract method is required to delay deduction of costs allocable to the contract until contract completion. However, the taxpayer may deduct “period costs,” costs not directly allocable to the contract, in the year in which they are incurred. Treasury regulations identify which costs are regarded as contract costs and which are regarded as period costs.

Taxpayers electing to use the completed contract method generally argue that they cannot be certain of the amount of either profit or loss on a long-term contract until the contract is completed. Use of the method allows them to defer reporting such profit or loss until all factors affecting the computation of such amount are settled and certain. Thus, if a contract is profitable, taxpayers using the completed contract method pay no federal income tax on that profit until the contract's completion. If a contract results in a loss, taxpayers using the completed contract method cannot offset the loss against income until the contract is completed. The principal benefit to taxpayers from deferring the

reporting of profits lies in the time value of the money they retain by postponing tax payments.

## Treasury Extended Categories of Contracts for Which the Method May Be Used

Treasury first authorized the use of the completed contract method for tax purposes in 1918. At that time, the use of the method was generally limited to construction contracts. Treasury allowed the use of the method for construction contracts because it believed inherent uncertainties in the construction trade made the certainty of either profits or losses on long-term contracts—and hence any liability for taxes—unpredictable until the work was finished. These inherent uncertainties included changes in the prices of materials to be used, losses and increased costs due to strikes, weather hazards, penalties for delay, and unexpected difficulties in laying foundations because of sub-surface soil conditions.

In 1976, in revised regulations, Treasury extended the use of the method to long-term manufacturing contracts and provided more detailed rules for treatment of long-term contract costs. Treasury agreed with manufacturers that in many cases they, like construction contractors, could not be certain of the amount of either profit or loss until long-term contracts were completed.

Subsequently, Treasury reported that some contractors were realizing extensive but unintended tax benefits by using the completed contract method. Treasury found, for example, that some contractors were extending contract completion dates by such methods as (1) performing contract duties that were incidental to the primary product delivered and/or (2) modifying on-going contracts to require that additional units of the product be delivered. Treasury also found that contractors were writing off certain costs as current period costs that it believed should be charged more properly to the contract and therefore not deducted until the contract's completion. In 1982, because of these and other income manipulation techniques, Treasury recommended, among other things, that the Congress eliminate the completed contract method.

## 1982 Legislation Intended to Eliminate Unintended Benefits

Rather than bar the use of the completed contract method, the Congress decided that the use of the method should be allowed but that modifications should be imposed to restrict unintended benefits. In the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), the Congress required Treasury to modify its long-term contract regulations to clarify, among other things, when contracts are considered completed,

which costs should be allocated to the contract, and which costs should be charged as annual expenses (period costs). TEFRA's new cost allocation rules only apply to certain long-term contracts entered into in taxable years beginning after 1982.<sup>2</sup> On December 30, 1985, IRS issued final regulations to implement these changes.

Contractor representatives told us that, because of the effective date of TEFRA's cost allocation rules, the full effect of these rules will not be seen on contractors' financial statements until 1986. They also said that it may be several years until all pre-1983 contracts are completed. As a result, we are presently unable to evaluate the extent to which TEFRA's changes either have been or will be successful in restricting the unintended benefits. Regardless of whether the changes achieve the purposes that the Congress intended, however, contractors will still be able to use the completed contract method to defer taxes in those situations where they can obtain reasonably dependable estimates of the costs to complete or the extent of progress toward completion of a contract.

## Federal Contractors Defer the Largest Amount of Taxes Through Use of the Completed Contract Method

According to IRS officials and the contractors' annual reports that we analyzed, federal contractors are the major beneficiaries in terms of total taxes deferred due to the use of the completed contract method. Our analysis of 135 manufacturing and construction contractors using the completed contract method for the 5-year period from 1980 through 1984 showed that 20 federal contractors accounted for approximately \$4.36 billion in deferrals or 84 percent of all the deferrals that we identified resulting from the method's use.

Table 1 shows the extent to which the 135 contractors (88 manufacturers and 47 construction contractors) deferred taxes by using the completed contract method during the 5-year period from 1980 through 1984.

<sup>2</sup>Generally, other changes to the completed contract method apply to taxable years ending after 1982 without regard to when a contract was entered into.

**Table 1: Extent of Tax Deferral Due to the Completed Contract Method (CCM), 1980-1984 Cumulative<sup>a</sup>**

Dollars in billions

User	Pretax income	Provision for taxes	CCM deferral	Percent of taxes deferred
Manufacturers	\$56.7	\$21.5	\$4.9	23.0%
Construction Contractors	11.9	5.0	0.3	5.6
<b>Total</b>	<b>\$68.7<sup>b</sup></b>	<b>\$26.4<sup>b</sup></b>	<b>\$5.2</b>	<b>19.7%<sup>c</sup></b>

<sup>a</sup>Some contractors did not use the completed contract method until 1981 or later.

<sup>b</sup>Does not add due to rounding.

<sup>c</sup>Percentage is an average, not a total.

Table 2 shows the amount of annual tax deferrals due to the use of the completed contract method that are attributable to the 88 manufacturers and the 47 construction contractors reviewed.

**Table 2: Amount of Annual CCM Deferral for 47 Construction Contractors and 88 Manufacturers<sup>a</sup>**

Dollars in billions

Year	Total CCM deferral	Construction contractors' deferral	Manufacturers' deferral
1980	\$1.16	\$0.18	\$0.98
1981	1.30	0.17	1.13
1982	1.89	0.05	1.84
1983	0.66	(0.04) <sup>b</sup>	0.70
1984	0.20	(0.08) <sup>b</sup>	0.28
<b>Total</b>	<b>\$5.21</b>	<b>\$0.28</b>	<b>\$4.93</b>

<sup>a</sup>Some contractors did not use the completed contract method until 1981 or later.

<sup>b</sup>Negative quantities occur because taxes paid on completed contracts exceed taxes deferred on continuing contracts.

Among the 47 construction contractors and the 88 manufacturers are the 20 largest federal contractors that use the completed contract method (see app. I). Table 3 shows the extent to which these contractors account for the total amount of taxes deferred by the 135 contractors in our data base.

**Table 3: Extent of Total Tax Deferrals Due to the 20 Largest Federal Contractors That Use CCM<sup>a</sup>**

Dollars in billions		
Year	Total CCM deferral	Largest federal contractors' deferral
1980	\$1.18	\$0.88
1981	1.31	0.93
1982	1.88	1.59
1983	0.66	0.65
1984	0.20	0.32 <sup>b</sup>
<b>Total</b>	<b>\$5.21<sup>c</sup></b>	<b>\$4.36<sup>c</sup></b>

<sup>a</sup>Some contractors did not use the completed contract method until 1981 or later.

<sup>b</sup>Largest federal contractors' deferral exceeds total deferral because total includes net negative deferral by construction contractors as shown in table 2.

<sup>c</sup>Does not add due to rounding.

## Difficulties of Income Estimation Do Not Justify Use of The Completed Contract Method

As previously noted, the use of the completed contract method for tax purposes has been largely based on the argument that construction and manufacturing contractors have unusual difficulty in estimating annual income from long-term contracts. Our analysis of the 135 contractors who used the completed contract method for tax purposes showed, however, that 103 contractors (62 manufacturers and 41 construction firms), including 16 of the 20 largest federal contractors, used the percentage-of-completion method for financial statement reporting purposes. These statements were reviewed for reasonableness by independent certified public accountants. The AICPA prefers that contractors use the percentage-of-completion method for financial reporting when they can make reasonably dependable estimates of the costs to complete or the extent of progress toward completion of a contract. The fact that these 103 contractors could estimate annual revenues and costs attributable to long-term contracts for financial accounting purposes indicates to us that they are capable of obtaining reasonable annual estimates for tax purposes. Of the remaining 32 contractors, 8 used the completed contract method for financial statement reporting purposes, and 7 used an accrual-shipment method.<sup>3</sup> We could not determine what method was used in the remaining 17 cases.

The difficulties that manufacturers and construction firms experience in estimating annual income on long-term contracts relate to the risks associated with these particular businesses. Sound business practice requires

<sup>3</sup>Generally, under an accrual-shipment method, sales are accounted for when the goods are shipped, when the goods are delivered or accepted, or when the title passes to the customer.

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that common risks and characteristics be considered when contractors prepare the estimates that form the basis for their project bids. AICPA Statement of Position 81-1, issued in 1981, states:

“For entities engaged on a continuing basis in the production and delivery of goods or services under contractual arrangements and for whom contracting represents a significant part of their operations, the presumption is that they have the ability to make estimates that are sufficiently dependable to justify the use of the percentage-of-completion method of accounting. Persuasive evidence to the contrary is necessary to overcome that assumption. The ability to produce dependable estimates is an essential element of the contracting business.” (Underscoring supplied.)<sup>4</sup>

The AICPA went on to note that business risks are a part of the business environment and the estimating process. Furthermore, it noted that improvements in the state of the art in estimating allow business risks to be taken into account. The AICPA statement continues:

“Business enterprises engaged in contracting . . . are exposed to numerous business risks that vary from contract to contract. The reliability of the estimating process in contract accounting does not depend on the absence of such risks . . . .

The present business environment and the refinement of the estimating process have produced conditions under which most business entities engaged in contracting can deal adequately with the normal, recurring business risks in estimating the outcome of contracts . . . inherent hazards that make otherwise reasonably dependable contract estimates doubtful involve events and conditions that would not be considered in the ordinary preparation of contract estimates and that would not be expected to recur frequently, given the contractor’s normal business environment.” (Underscoring supplied.)

According to representatives of one public accounting firm, all contractors either have the ability themselves to make reasonably dependable estimates of income from long-term contracts or can obtain the necessary expertise from outside sources. They said that the size of a contractor’s business is not related to the contractor’s ability to make reliable estimates.

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<sup>4</sup>Notwithstanding this, AICPA had opposed the 1982 Treasury proposal to eliminate the completed contract method for tax purposes. See “AICPA opposes elimination of completed-contract method of accounting,” The Tax Advisor, May 1982, pp. 304-306.

IRS officials told us that they saw no reason why either the cost or the completion estimates used in reporting profits and losses on long-term contracts for financial accounting could not also be used for tax accounting purposes. They said that their experience has been that contractors maintain excellent revenue and cost data. Likewise, they said that if the estimates used in making computations under the percentage-of-completion method are good enough for financial reporting, they should be good enough for tax reporting.

## Users' Arguments for Retaining the Completed Contract Method

Two contractor groups, construction and aerospace manufacturers, have been among the most vocal in supporting the continuation of the completed contract method for tax purposes. Construction contractor representatives stated that the completed contract method is essential because of the high degree of uncertainty and small profit margins characteristic of construction contracts. They said that each contract that a construction contractor undertakes contains a unique set of factors (soil, climate, fluctuating cost of materials, etc.) that increase the uncertainty of making a profit. Furthermore, they stated that because of fixed-price contracts (agreements to construct projects for an established amount), which are characteristic of the construction industry, and intense industry competition, profit margins are generally small and the ultimate profitability of projects is uncertain until completion.

The representatives also said that construction contractors' working capital (the excess of current assets over current liabilities) is restricted due to a procedure called retainage, which allows those who hire contractors to withhold a portion of their progress payments as a lever to ensure quality work until the job is completed. According to construction industry representatives, the amount of retainage usually either equals or exceeds their profit. They contended that this situation makes determining either the gain or the loss on a contract even more uncertain, since project owners may withhold the retainage until any disputes concerning the project are resolved.

Contractor representatives claimed that, with this situation of uncertainty and narrow margins, elimination of the completed contract method could force many small contractors into bankruptcy, since a portion of the funds that they use for working capital would be needed to pay tax liabilities that would be based on projected profits. Construction representatives noted, however, that the detrimental effects of this situation could be mitigated if the Congress, in modifying or eliminating the completed contract method, allowed a sufficient phase-in period. They

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indicated that such a phase-in period would allow them to make appropriate changes in their bid pricing practices.

As previously noted, we believe that many of the risks faced by construction contractors are factored into their bids, thus mitigating the uncertainties that they face.

The arguments made by the aerospace industry are similar to those of the construction industry. Aerospace industry representatives also claimed that they are subject to a high degree of uncertainty in the outcome of contracts and, in addition, cited contracts that have resulted in losses. Aerospace representatives pointed out that it is extremely difficult in their industry for officials to estimate whether a profit will be made. In some cases, representatives told us that company officials do not know the profitability of a contract, if any, until the project has been almost completed. Representatives stated that profit expectations seldom are achieved despite the application of complex estimating techniques.

Like the construction industry, aerospace representatives maintained that variable factors, such as labor, material costs, and inflation, are more uncertain in their industry due to the length of time that it takes to complete projects such as major weapons systems. Furthermore, they said that due to the long time periods involved, projects are susceptible to changes required by technological advancements and that such changes occur even after design and engineering have been completed and the production process has begun. According to these representatives, changes in design are more the rule than the exception, and such changes are not only difficult to price out but also frequently result in disputes and litigation.

The representatives also pointed out that if they use the percentage-of-completion instead of the completed contract method, they will have to use estimates in reporting income. They stated that many of the companies now using the completed contract method used the percentage-of-completion method previously and that in their experience IRS frequently challenged their estimates of completion. Aerospace representatives elaborated that, although their long-term contract income computations were based on estimates, the subsequent IRS audits of those returns were based on actual performance, and, therefore, the companies' estimates were frequently questioned. They contended that if prohibited from using the completed contract method they would be forced to return to the uncertainties and complexities that existed

before. They pointed out that one of the reasons that Treasury extended the use of the completed contract method to manufacturing contracts in 1976 was to ease administration for both IRS and the taxpayers.

We discussed reporting of long-term contract income as it applied to the aerospace representatives' arguments with IRS officials. The officials told us that IRS has no more problem examining and auditing taxpayers who use the percentage-of-completion method than they do examining and auditing taxpayers who use the completed contract method. As previously noted, IRS officials saw no reason why the estimates used by contractors on long-term contracts for financial reporting purposes could not also be used for tax accounting purposes. Furthermore, the officials stated that in comparing the two methods, the percentage-of-completion method would be the better method for recognizing annual income. With regard to possible problems in tax administration, IRS officials told us that eliminating the use of the completed contract method would not create any significant administrative problems; they said that such a change might in fact simplify administrative functions for IRS agents. They said that IRS agents and examiners had no great difficulties with contractors using the percentage-of-completion method before manufacturers were allowed to use the completed contract method in 1976.

Aerospace industry representatives also told us that the large-scale tax deferrals of recent years would be curbed due to Treasury's proposed revisions to the completed contract method. They stated that once these revisions are fully implemented, the companies' effective tax rates will be significantly increased. They said that any attempt at this time to restrict the use of the method is premature and should not be undertaken until the effect of Treasury's revisions can be assessed.

However, as we noted earlier, regardless of whether the revised regulations successfully restrict the unintended benefits of the completed contract method, which the Congress hoped to control by enacting TEFRA, contractors using the completed contract method will continue to benefit from tax deferrals resulting from such use. In 1984, the contractors whose financial reports we reviewed deferred taxes of approximately \$200 million through use of the completed contract method.

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## Conclusions

The completed contract method of accounting is an exception to the general concept that federal income tax liability should be determined and reported on the basis of tax year revenues and expenses. A taxpayer using the completed contract method does not report any revenues or

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expenses attributable to a long-term contract on an annual basis but instead waits until the contract is completed. Over the years, contractors have justified using the method mainly on the basis that, due to inherent uncertainties in their trade, the profitability of individual projects was uncertain before completion. They have asserted that, as a result, they could not make reasonably dependable annual estimates for tax purposes of the costs to complete or the extent of progress toward completion of particular long-term contracts.

We believe that manufacturing and construction contractors either have or should be able to acquire the expertise needed to make reasonably dependable annual estimates of project costs or progress for tax purposes. In this regard, most contractors in our review have shown confidence in their ability to estimate the costs to complete or the extent of progress toward completion of long-term contracts for financial reporting purposes. Furthermore, these estimates were viewed as reasonable by independent certified public accountants. We believe that the same estimates would suffice for tax reporting purposes and that the use of the completed contract method of accounting should not be allowed for tax purposes except for those contractors who can satisfactorily demonstrate to IRS that they cannot obtain reasonably dependable estimates of the costs to complete or the extent of progress toward completion of a particular contract.

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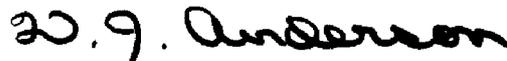
## Recommendation

We recommend that the Congress not allow the use of the completed contract method for income tax purposes except in those instances where taxpayers can satisfactorily demonstrate to IRS that they cannot obtain reasonably dependable estimates of the costs to complete or the extent of progress toward completion of a particular contract.

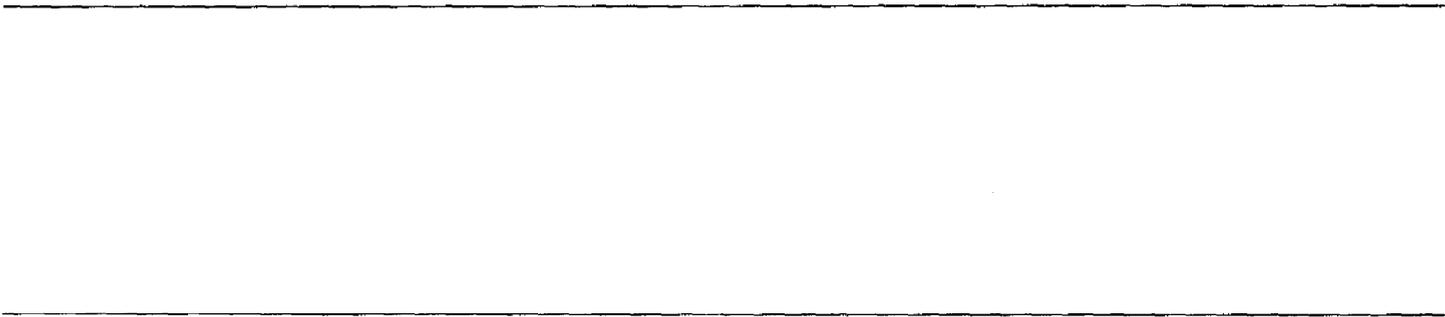
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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies of this report to the Secretary of the Treasury, the Commissioner of Internal Revenue, various Senate and House Committees, Members of Congress, and other interested parties.

Sincerely yours,

A handwritten signature in black ink that reads "W. J. Anderson". The signature is written in a cursive style with a large, stylized "W" and "A".

William J. Anderson  
Director



# One Hundred and Thirty-Five Companies Included In the U.S. General Accounting Office Data Base

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## Manufacturers

Acme Precision Products, Inc.	M/A-Com, Inc.
AEC, Inc.	Martin Marietta Corp.*
Allen Group, Inc.	McDonnell Douglas Corp.*
Allis-Chalmers Corp.	Morton Thiokol, Inc.
Anadite, Inc.	Motorola, Inc.
Andersen 2000, Inc.	MPSI Systems, Inc.
Aydin Corp.	Newcor, Inc.
Base Ten Systems, Inc.	Nortek, Inc.
Biospherics, Inc.	Northrop Corp.*
The Boeing Co.*	Nuclear Metals, Inc.
Bucyrus-Erie Co.	Pittsburgh-Des Moines Corp.
Cronus Industries, Inc.	Proler International Corp.
Cross & Trecker Corp.	Raytheon Co.*
Computer Sciences Corp.	Reflectone, Inc.
Daniel Industries, Inc.	Rockcor, Inc.
Datametrics Corp.	Rockwell International Corp.*
Dataproducts Corp.	Rohr Industries, Inc.
Eaton Corp.*	Sanders Associates, Inc.
Edo Corp.	Selas Corporation of America
Electronics, Missiles & Communications, Inc.	SI Handling Systems, Inc.
EPSCO, Inc.	Sierracin Corp.
Gatx Corp.	The Signal Companies, Inc.
Gencorp, Inc.	The Singer Co.
General Dynamics Corp.*	Sperry Corp.*
Gleason Corp.	SPS Technologies, Inc.
The Goodyear Tire & Rubber Co.	Stepan Co.
Grumman Corp.*	Stewart & Stevenson Services, Inc.
Gulton Industries, Inc.	Sun Chemical Corp.
Helix Technology Corp.	Supreme Equipment & Systems Corp.
Hercules, Inc.	Syson Corp.
Honeywell, Inc.*	Tenneco, Inc.*
IC Industries, Inc.	Tenney Engineering, Inc.
Ingersoll-Rand Co.	Texas Instruments, Inc.*
Intergraph Corp.	Textron, Inc.*
Ionics, Inc.	Thermo Electron Corp.
ITT Corp.*	Tinsley Laboratories, Inc.
Johnson Controls, Inc.	Todd Shipyards Corp.
Joy Manufacturing Co.	Trinity Industries, Inc.
Justin Industries, Inc.	TRW, Inc.*
Kollmorgen Corp.	United Technologies Corp.*
L. B. Foster Co.	Wean United, Inc.
Litton Industries, Inc.*	Westinghouse Electric Corp.*
Lockheed Corp.*	Whitehall Corp.
Loral Corp.	Zurn Industries

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\*Indicates the federal contractors comprising table 3.

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**Appendix I  
One Hundred and Thirty-Five Companies  
Included in the U.S. General Accounting  
Office Data Base**

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**Construction Companies**

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ACMAT Corp.	Kasler Corp.
Air Products and Chemicals, Inc.	Koppers Company, Inc.
American Medical Buildings, Inc.	L. E. Myers Company Group
The American Ship Building Co.	Michael Baker Corp.
Ashland Oil, Inc.	Morrison Knudsen Company, Inc.
Bank Building & Equipment Corporation of America	McCormick & Company, Inc.
Blocker Energy Corp.	McDermott International, Inc.
Blount, Inc.	Newbery Energy Corp.
CBI Industries, Inc.	Parker Drilling Co.
Centex Corp.	Peabody International Corp.
Combustion Engineering, Inc.	Pennsylvania Engineering Corp.
CRS Serrine, Inc.	Perini Investment Properties, Inc.
Del E. Webb Corp.	Planning Research Corp.
Dravo Corp.	Punta Gorda Isles, Inc.
Dynalectron Corp.	Ratliff Drilling Co.
Elcor Corp.	Reading & Bates Corp.
Elgin National Industries, Inc.	Research-Cottrell, Inc.
Fischbach Corp.	Standard Shares, Inc.
Fluor Corp.	Stang Hydronics, Inc.
Foster Wheeler Corp.	Telecom Plus International, Inc.
Gulfstream Land & Development Corp	The Turner Corp.
Halliburton Co.	Ultrasystems, Inc.
Jacobs Engineering Group, Inc.	Universal Communication Systems, Inc.
Jupiter Industries, Inc.	

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# Persons GAO Interviewed Concerning the Completed Contract Method

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<b>Internal Revenue Service</b>	Richard Berken, Associate Chief Counsel (Technical), Corporation Tax Division Paulette Chernyshev, Associate Chief Counsel (Technical), Legislation and Regulations Division John Martin, Office of the Assistant Commissioner (Examination) Susan Sottile, Legislative Affairs Division
<b>Associated General Contractors of America</b>	John Sroka, Executive Director for Occupational Divisions Sally Brain, Director, Construction Economics
<b>Aerospace Industry</b>	John S. Nolan, representing the Aerospace Industries Association of America, Inc., Miller and Chevalier Alexander Zakupowsky, Jr., Miller and Chevalier LeRoy Haugh, Vice President, Aerospace Industries Association of America, Inc. John J. Brown, Staff Vice President for Taxes, Hughes Aircraft Co. Ronald Jaranko, Director of Taxes, TRW Inc. Dennis Crispin, Vice President for Taxes, The Boeing Co. Arnold Chiet, Director of Taxes, Martin Marietta Corp. David Flower, Director of Tax Affairs, Raytheon Co.
<b>Touche, Ross, and Co.</b>	Donald C. Wiese (Member, Tax Accounting Subcommittee, AICPA) Gillian M. Spooner Donald S. Grenough
<b>Others</b>	Donald Alexander, former IRS Commissioner Robert McIntyre, Citizens for Tax Justice

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