



September 1, 2025

Mr. Mathew Blum
Acting Administrator
Office of Federal Procurement Policy
Office of Management and Budget
Washington, DC 20503

Subject: Feedback on Federal Acquisition Regulation Overhaul – Parts 29 & 31

Dear Mr. Blum,

Representing nearly 300 of the nation's most innovative and capable aerospace and defense companies, Aerospace Industries Association (AIA) commends the various efforts underway to modernize and simplify regulatory frameworks, including the initiative to overhaul the Federal Acquisition Regulation (FAR). AIA appreciates the opportunity to provide informal feedback throughout the FAR Overhaul effort and has provided feedback on several of the revisions released to date.¹ We are pleased to now provide comments in response to the proposed changes contained within the model deviation guidance for FAR Part 29 (Taxes) & FAR Part 31 (Contract Cost Principles and Procedures).

While we hope that all comments below are considered, we emphasize the importance of reviewing and updating the list of unallowable costs identified in FAR Part 31. The revisions contained within the model deviation guidance for FAR Part 31 do not substantively change the framework of allowable and unallowable costs, much of which was defined decades ago and does not reflect the modern realities of doing business. As the FAR Overhaul aims to simplify and modernize federal procurement processes and make it easier for industry to do business with the government, AIA recommends the Office of Management and Budget (OMB) conduct a comprehensive review to assess and update the list of unallowable costs to better reflect modern business practices. AIA stands ready to partner with OMB and others, as appropriate, on such an effort.

FAR Part 29: Taxes

Clause Fill-In Requirements: FAR Part 29 retains language which requires contracting officers to insert the clause at 52.229-8, "Taxes-Foreign Cost-Reimbursement Contracts," and 52.229-9, "Taxes-Cost-Reimbursement Contracts with Foreign Governments," in solicitations and contracts that will be performed wholly or partly in a foreign country or will be entered into with a foreign government. AIA recommends revising the guidance in the revised FAR Part 29 and these clauses to explicitly require contracting officers to state the country in the respective clause when known, and modify the contract with no consideration, if such country becomes known after contract award. While the clauses at 52.229-8 and 52.229-9 include blanks for country information to be included, these blanks are often not completed by the contracting officer. By requiring these blanks to be completed, this change would address a common information gap and would reduce post-award administrative time to reconcile. AIA recommends the following sentence be added at the end of the revised FAR Subpart 29.402-2(a) and (b): "If known, insert the country or countries in the blanks of 52.229-8/52.229-9, as applicable. If not known prior

¹ [AIA Feedback on Revised FAR Parts 1, 10, 34](#); [AIA Feedback on Revised FAR Parts 11, 18, 39, 43](#); [AIA Feedback on Revised FAR Part 6](#)

to award, or either party becomes aware after the contract, the Contracting Officer must, without consideration, modify the contract by inserting the country or countries in the blanks of 52.229-8/52.229-9, as applicable.” (Citation: revised FAR Subpart 29.402-2(a) and (b)).

FAR Part 31: Contract Cost Principles and Procedures

Comprehensive Re-examination of Unallowable Costs: The revised FAR Part 31 does not substantively change the existing cost principles, including what costs are deemed unallowable. While a clear understanding of what costs are unallowable is important to ensure taxpayer dollars are spent responsibly and in line with public policy objectives, the FAR goes far beyond what Congress established as unallowable in statute.² The FAR includes several additional cost categories that are deemed unallowable based on regulatory interpretation, not congressional mandate. Many of these costs were defined decades ago and do not reflect the modern realities of doing business. For example, FAR Subpart 31.205-20, “Interest and Other Financial Costs,” can impede contractor access to third party financing, limiting the increasing availability of private-sector financing opportunities to support, complement, and reinforce defense and national security needs. Recognizing this, Section 822 of the Senate Armed Services Committee’s Fiscal Year 2026 National Defense Authorization Act contemplates statutory changes that would allow financing costs incurred for certain capital expenditures to be allowable and allocable. As another example, FAR Subpart 31.205-17, “Idle Facilities and Capacity,” discourages industry investment in excess capacity that may be needed for national security and emergency response, the importance of which has been highlighted by the ongoing conflict in Ukraine. These government-unique requirements do not reflect current practices or needs and serve to disincentivize private sector participation, limiting competition in the defense industrial base. AIA recommends the OMB comprehensively review and streamline the list of unallowable costs, including those identified below, to ensure it reflects statutory intent, modern business practices, and mission needs, thereby reducing unnecessary compliance burdens on industry while preserving fiscal responsibility. AIA recommends OMB collaborate with industry to review and modify the list and stands ready to partner with OMB in such an effort.

Inadvertent Impact of Unallowable Cost Revisions: The revised FAR Part 31 makes several revisions to the cost principles which appear to be minor and primarily an attempt to streamline language, but if implemented as written, could have a significant impact on what costs are deemed allowable or on compliance requirements for contractors. This includes:

- **Depreciation / Gains and Losses on Disposition of Impairment of Depreciable Property of Other Capital Assets:** The revised language at FAR Subpart 31.205-11 and FAR Subpart 31.205-16 updates the terminology “capital lease” to “finance lease” throughout consistent with the Financial Accounting Standards Board’s Accounting Standards Codification (FASB ASC) 842. While the change from “capital lease” to “finance lease” aligns with ASC 842 terminology, it introduces ambiguity regarding the treatment of interest components. Care must be taken to clarify the treatment of interest components and ensure that changes do not inadvertently restrict allowability. AIA recommends clarifying under what conditions the interest portion of finance leases is allowable to prevent inconsistent application. Additionally,

² Title 10, Title 31, and Title 41 of the United States Code

for consistency and clarity, AIA also recommends replacing “capital leases” with “finance leases” at revised FAR Subpart 31.205-16(c) and revised FAR Subpart 31.205-36(a).

- **Lobbying and Political Activity Costs:** The revised FAR Subpart 31.205-22 removes “federal” in reference to government employees. As this may inadvertently broaden the scope of unallowable costs, AIA recommends retaining the original language for clarity and statutory alignment (Citation: original FAR Subpart 31.205-22(a)(6)).
- **Professional and Consultant Services:** The revised FAR Subpart 31.205-33 removes important context which clarifies that “retainer agreements generally are not based on specific statements of work.” Without this context, the government may deem otherwise allowable retainer fees to be held to new and inappropriate documentation standards. AIA recommends restoring the original language (Citation: original FAR Subpart 31.205-33(f)).
- **Taxes:** The revised FAR Subpart 31.205-41 removes language that explicitly allows “reasonable costs of any action taken by the contractor at the direction or with the concurrence of the contracting officer” to be allowable. AIA recommends retaining this language to ensure contractors are not penalized for government-directed actions and to ensure consistency with long-standing policy (Citation: original FAR Subpart 31.205-41(a)(3)).
- **Travel:** The revised FAR Subpart 31.205-46, when referring to unallowable airfare costs in excess of the lowest price available, replaces the exception of “not reasonably available to meet mission requirements” with “an inability to meet mission requirements.” There is a significant difference in interpretation between “not reasonably available” and an “inability,” as the term “inability” essentially makes irrelevant any decision about what is “reasonable.” As this is an important distinction in determining allowability, AIA recommends retaining the original language (Citation: original FAR Subpart 31.205-46(b)).

Additionally, the revised FAR Subpart 31.205-46(d)(2) includes a reference to FAR Subpart 31.205-6(l)(3), which does not exist. As such, AIA recommends deleting the reference (Citation: revised FAR Subpart 31.205-46(d)(2)).

- **Costs Related to Legal and Other Proceedings:** The revised FAR Subpart 31.205-47 removes the word “generally” from the phrase: “The contracting officer must *generally* withhold payment of such costs.” This revision eliminates any discretion previously provided to the contracting officer and may result in the government deeming otherwise allowable costs unallowable. To avoid this, AIA recommends restoring the original language (Citation: original FAR Subpart 31.205-47(g)).

Additionally, the revised FAR Subpart 31.205-47 removes reference to the FAR Subpart 2.101, which provides a definition for what constitutes a “claim.” Eliminating this definition may lead to a broadening of the definition of “claim” and result in legal costs that were previously determined to be allowable (e.g., associated with a voucher, invoice, or other routine request for payment) deemed unallowable. To

ensure clarity and consistency with current practice, AIA recommends retaining the reference to FAR Subpart 2.101 (Citation: original FAR Subpart 31.205-47(f)(1)).

Application of Multiple Cost Principles: The revised FAR Subpart 31.204 eliminates language which clarified that, in instances where multiple cost principles apply, “allowability shall be based on the guidance contained in the subsection that *most specifically deals with, or best captures the essential nature of*, the cost at issue.” This prior guidance is replaced by language that states that “allowability must be based on the guidance contained in the section that addresses the specific cost.” Absent the original language, which directs use of the cost principle that “most specifically deals with the cost at issue,” the FAR does not offer guidance to consistently resolve situations where more than one cost principle under 31.205 is applicable. To ensure consistency, avoid delays due to disputes over the most appropriate cost principle, and avoid the risk of disallowing legitimate costs, AIA recommends restoring the original phrasing (Citation: original FAR Subpart 31.204(d)).

Fair and Reasonable Pricing: The revised FAR Subpart 31.102 eliminates prior language which emphasized the objective of negotiating “fair and reasonable” pricing. Eliminating this language could undermine a foundational principle of federal procurement. To support balanced and effective negotiations, AIA recommends restoring the original language (Citation: original FAR Subpart 31.102).

Determining Reasonableness: The revised FAR Subpart 31.201-3 changes the standard from “prudent person” to “reasonable person.” This change introduces ambiguity and could result in added cost and inefficiencies in the form of disputes and litigation as the terminology change could be interpreted as a substantive change in meaning. Additionally, the change in terminology could create a gap between the FAR Cost Principles and the Truthful Cost and Pricing Act, which continues to use the term “prudent.”³ To avoid confusion and align with statute, AIA recommends retaining the original “prudent person” standard or otherwise clarifying that the change in terminology is non-substantive and does not alter the current standard (Citation: original FAR Subpart 31.201-3(a)).

Advance Agreements: The revised FAR Subpart 31.110 removes language which previously clarified that “an advance agreement is not an absolute requirement and the absence of an advance agreement on any cost will not, in itself, affect the reasonableness, allocability or the allowability under the specific cost principles.” Eliminating this language may inadvertently lead to the understanding that an advanced agreement is required when dealing with difficulties in determining reasonableness, allocability, and allowability of costs. To preserve the current flexibility and intent, and avoid unnecessary administrative burdens and potential ambiguity, AIA recommends retaining the original language (Citation: original FAR Subpart 31.109(a)).

Additionally, the revised FAR Subpart 31.110 removes language which clarifies that both contracting officers and contractors should seek advanced agreement on the treatment of special or unusual costs. The removal of “and contractors” could be interpreted as prohibiting the contractor from seeking advanced agreements. To preserve the ability for both parties to seek such an agreement, AIA recommends retaining the original language (Citation: original FAR Subpart 31.109(a)).

³ 41 United States Code (U.S.C.) 3501, 10 U.S.C. 3701

Compensation for Personal Services: The revised language at FAR Subpart 31.205-6 regarding severance pay and compensation determination may dilute the role of the contracting officer and the government's obligation to share costs fairly. Specifically, the removal of "consider factors determined to be relevant by the contracting officer," broadens what factors should be considered and eliminates the responsibility of the contracting officer to determine such factors. Additionally, the removal of "the Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment," seems to reverse the long-held government position that it will cover its "fair share." To maintain accountability and fairness, AIA recommends reverting to the original language (Citation: original FAR Subpart 31.205-6(b)(2)).

Treatment of Subcontracts and Subcontractors: The revised FAR Subpart 31.205-47 removes the phrases "or subcontract" and "or subcontractor" in multiple places, including paragraphs FAR 31.205-47(b)(3)(i), (c)(1), (c)(2)(i), (d)(1), (f)(4), (f)(5), (f)(6), (g)(1), and (g)(2)(ii). The intent of removing "or subcontract" and "or subcontractor" in the paragraphs cited, while not removing it elsewhere is unclear (including revised FAR 31.205-11(f)(3); FAR 31.205-33(a), (d)(2), and (e)(1); FAR 31.205-47(b), (b)(2)(ii), (c)(2)(ii), and (f)(5)(ii); or FAR 31.205-52(a)). This could cause inconsistent interpretations of subcontract costs under these cost principles. To ensure clear and consistent application, AIA recommends ensuring uniform application to subcontracts and subcontractors throughout FAR Part 31.

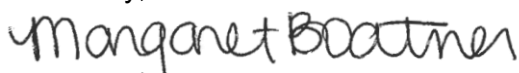
Credits: The revised FAR Subpart 31.201-5 omits language which clarifies that "the applicable portion of any..." credit (e.g., income, rebate, or allowance) relating to an allowable cost under a cost contract, received by or accruing to the contractor, must be credited to the government. Eliminating this language may cause a dispute regarding whether a credit that might exceed the allowable cost charged should be credited to the government. To avoid over-crediting beyond allowable costs, AIA recommends retaining the original language (Citation: original FAR Subpart 31.201-5).

Deletion of Key Definitions: The revised FAR Part 31 deletes several key definitions, including "labor market," "moving average cost," "original complement of low cost equipment," "termination of employment gain or loss," and "weighted average cost." While we understand the elimination of these definitions may be done with the intent of streamlining the section, these definitions provide essential clarity, and removal may lead to inconsistent interpretation and application. As such, AIA recommends retaining all original definitions (Citation: original FAR Subpart 31.001).

AIA applauds efforts to streamline, simplify, and modernize the federal procurement process. AIA and our member companies stand ready to partner with the OMB on the FAR Overhaul, and we look forward to reviewing and providing feedback on the revised FAR Parts as the effort progresses.

Thank you in advance for the opportunity to submit feedback. Please direct any questions to the undersigned at margaret.boatner@aia-aerospace.org or 703-358-1085.

Sincerely,



Margaret Boatner
Vice President, National Security Policy