Greenland Contractors, Inc. v. Commissioner of Internal Revenue, 49 T. C. 32 (1967)

Construction contracts awarded through competitive bidding may be exempt from renegotiation under the Renegotiation Act of 1951, but subsequent modifications exceeding one-third of the original contract price are subject to renegotiation.

Summary

Greenland Contractors sought exemption from renegotiation under the Renegotiation Act of 1951 for profits from two contracts, DA-30-347-ENG-137 and DA-30-347-ENG-290, awarded for construction in Greenland. The court held that the original contracts were exempt as they were awarded through competitive bidding. However, modifications to Contract 290, which increased the price by over 78%, were subject to renegotiation because they exceeded one-third of the original contract price, as per Renegotiation Board Regulation 1453. 7(d). The decision underscores the distinction between original competitively bid contracts and subsequent modifications that may be considered negotiated procurements.

Facts

Greenland Contractors, a joint venture, was awarded two construction contracts by the U. S. Army Corps of Engineers for work in Greenland. Contract 137, awarded in 1955, involved constructing air base facilities and was awarded through a competitive bidding process. Contract 290, awarded in 1959, involved constructing radar sites and was also competitively bid. Both contracts were modified post-award, with Contract 290's modifications increasing its price by $9,937,000, or over 78% of the original contract price. The Renegotiation Board determined that Greenland Contractors realized excessive profits and subjected these profits to renegotiation.

Procedural History

The Renegotiation Board determined excessive profits on both contracts and Greenland Contractors appealed to the Tax Court. The Tax Court heard the case on stipulated facts and focused on whether the contracts and their modifications were exempt from renegotiation under the Renegotiation Act of 1951 and applicable regulations.

Issue(s)

1. Whether receipts from Contract 137 are exempt from renegotiation under sections 106(a)(7) and 106(a)(9) of the Renegotiation Act of 1951.
2. Whether receipts from modifications to Contract 290 are exempt from renegotiation under sections 106(a)(7) and 106(a)(9) of the Renegotiation Act of 1951.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. Yes, because Contract 137 was awarded as a result of competitive bidding and thus exempt under section 106(a)(9).
2. No, because the modifications to Contract 290 exceeded one-third of the original contract price, making them subject to renegotiation under Renegotiation Board Regulation 1453. 7(d).

Court’s Reasoning

The court analyzed the Renegotiation Act of 1951, focusing on section 106(a)(9), which exempts construction contracts awarded through competitive bidding. For Contract 137, the court found that the contract was awarded in conformity with the Armed Services Procurement Act’s requirements for formal advertising and competitive bidding, thus qualifying for exemption. The court rejected the argument that post-award discussions constituted negotiations, as the contract was awarded based on the initial bid. Regarding Contract 290, the court applied Renegotiation Board Regulation 1453. 7(d), which subjects modifications exceeding one-third of the original contract price to renegotiation. The court reasoned that the significant price increase from the modifications indicated negotiated procurements, justifying renegotiation. The court also considered the contemporaneousness of the regulation with the statute, the reenactment of the statute, and the consistent application of the regulation over time as factors supporting its validity.

Practical Implications

This decision clarifies that while original construction contracts awarded through competitive bidding are exempt from renegotiation, significant modifications may be subject to renegotiation. Contractors must be aware that changes to contracts, especially those increasing the contract price substantially, may be treated as negotiated procurements and thus subject to renegotiation. This ruling affects how contractors negotiate and document modifications to competitively bid contracts, emphasizing the importance of understanding the scope and limits of exemptions under the Renegotiation Act. Subsequent cases have referenced this decision when addressing the renegotiation of modified contracts.

© 2025 SCOTUSreports.com. All rights reserved.