AIA Contract Documents

Construction Contracting Basics - Allowances

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The term "allowance" is commonly used in construction contracts. But what exactly does it mean? Generally, an allowance is an amount for the cost of items for which a party cannot determine with certainty when a bid or proposal is submitted. This could occur where a project's finish or level of quality have not been finally selected by the owner, or because of variations expected to occur after bidding. Allowances are used in cost or budget estimates until a more accurate number can be obtained.

In AIA Contract Documents A201®- 2017, General Conditions of the Contract for Construction, Section 3.8 addresses Allowances. Specifically, the A201 says:

§ 3.8.1 The Contractor shall include in the Contract Sum all allowances stated in the Contract Documents. Items covered by allowances shall be supplied for such amounts and by such persons or entities as the Owner may direct, but the Contractor shall not be required to employ persons or entities to whom the Contractor has reasonable objection.

§ 3.8.2 Unless otherwise provided in the Contract Documents,

.1 allowances shall cover the cost to the Contractor of materials and equipment delivered at the site and all required taxes, less applicable trade discounts;

.2 Contractor's costs for unloading and handling at the site, labor, installation costs, overhead, profit and other expenses contemplated for stated allowance amounts shall be included in the Contract Sum but not in the allowances; and

.3 whenever costs are more than or less than allowances, the Contract Sum shall be adjusted accordingly by Change Order. The amount of the Change Order shall reflect (1) the difference between actual costs and the allowances under Section 3.8.2.1 and (2) changes in Contractor's costs under Section 3.8.2.2.

§ 3.8.3 Materials and equipment under an allowance shall be selected by the Owner with reasonable promptness.

Under the A201, allowances cover a contractor's costs of materials and equipment delivered on-site and all required taxes, less trade discounts. The contractor's overhead costs, such as costs for unloading and handling at the site, labor, and installation, are excluded from the allowance, but should be included in the Contract Sum. Under Section 3.8.2.3, the contractor's actual cost incurred will be compared to the allowance amount. If there is a difference between the actual cost incurred by the contractor and the allowance amount, an adjustment to the Contract Sum will be made. In other words, the allowance is a placeholder for amounts included in the Contract Sum, until the actual costs are incurred by the contractor.

In addition to the bidding stages of a project, allowances are generally seen during the construction phase. For example, consider where a contractor's work includes installation of carpet. Since this portion of the work is known, the costs for unloading, handling, installation and other expenses related to the carpet can be calculated by the contractor as part of its bid or proposal. Given the allowance amount, overhead and profit can also be calculated. These elements are already included in the Contract Sum. The only unknown is the cost of the carpet itself, and that is the allowance figure. When the carpet is purchased for the project, the contractor should follow the proper change order procedures to adjust the Contract Sum. If the carpet costs more than the allowance, the Contract Sum is then adjusted by change order, which shall reflect the difference in price and changes in the contractor's costs.