

## Frequently Asked Questions (FAQ's) Questions about Indirect Cost Caps:

### 1. **What is an indirect cost cap?**

An indirect cost cap is a limitation on the reimbursement of indirect costs.

### 2. **What is the authority for indirect cost caps?**

Congress approves the legislation related to NIFA's programs. The legislation will identify any indirect cost limitations.

### 3. **Are indirect cost caps the same as indirect cost rates?**

No. Indirect cost caps are different from indirect cost rates.

An indirect cost cap is determined by Congress and included in a program's legislation. A cap is a limitation on the reimbursement of indirect costs. A cap represents the maximum amount of grant dollars available to recover indirect costs.

An indirect cost rate is calculated by an organization and approved by the cognizant federal agency. An indirect cost rate is the result of a process to identify indirect costs and direct costs. The rate is expressed as a percentage of indirect costs (numerator) and direct costs (denominator). The rate is used to distribute indirect costs to benefitting direct costs.

### 4. **I'm interested in applying for a grant. How can I determine if the grant program is subject to an indirect cost cap?**

You can determine if a grant program is subject to an indirect cost cap in several ways:

- a. Review the applicable legislation which will identify any indirect cost limitations. NIFA references each program's applicable legislation in the Request for Application (RFA) under a section entitled, *Legislative Authority and Background*.
- b. NIFA specifically identifies any indirect cost limitation in a section of the RFA entitled, *Funding Restrictions*.
- c. NIFA maintains an Indirect Cost Chart that identifies indirect cost limitations for each program located at: <https://nifa.usda.gov/resource/indirect-cost-chart>.

### 5. **My organization has several grants with other federal agencies that allow full indirect cost recovery. However, according to the Request for Application (RFA), NIFA's grant program contains a substantial indirect cost cap of 10% of Total Direct Costs (TDC). Our negotiated rate is much higher. Can we charge indirect costs directly to NIFA's grant to make up the difference?**

No. Costs must be treated consistently. If your organization routinely identifies certain cost categories as indirect costs, those same categories cannot be categorized as direct costs on NIFA's grant in order to circumvent an indirect cost cap. NIFA follows the Uniform Guidance (UG) found at 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*. 2 CFR 200.403(d) requires consistent treatment of costs. *A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.*

6. **We are interested in partnering with NIFA, but the program limits indirect costs to 10% of Total Federal Funds Awarded (TFFA). This is a severe indirect cost cap. We are a small organization and cannot absorb the indirect costs ourselves. What can we do?**

Unfortunately, not every program is right for every organization. An organization with limited resources must seriously consider the number of grants with indirect cost caps that it can accept, if any. NIFA discloses the existence of indirect cost caps in the Request for Application (RFA) to help organizations understand the maximum available indirect cost dollars. Some organizations may choose to discontinue the application process if unable to forgo full indirect cost reimbursement.

7. **The Request for Application (RFA) limits indirect cost reimbursement to 30 percent of Total Federal Funds Awarded (TFFA) which is equivalent to 42.857 percent of the Total Direct Costs (TDC). How does 30% of TFFA equate to 42.857% of TDC?**

You can convert 30% of Total Federal Funds Awarded (TFFA) to Total Direct Costs (TDC) as follows:

$$\begin{array}{lcl} \text{Allowable indirect costs} & = & 0.30 \text{ TFFA} \\ \text{Direct costs} & = & 0.70 \text{ TFFA} \end{array}$$

$$0.30 \text{ TFAA} / 0.70 \text{ TFAA} = 42.8571\%$$

8. **The Request for Application (RFA) limits indirect costs to 30% of Total Federal Funds Awarded (TFFA). We are preparing our application budget and the proposed grant is totaling \$1,000,000. Therefore, the maximum allowable indirect costs is \$300,000. The grant includes subrecipients who are also requesting indirect costs. Are the maximum allowable indirect costs of \$300,000 to be divided among us and our subrecipients?**

NIFA's indirect cost caps have traditionally been separately applied at each level. As a result, the prime recipient is allowed up to 30% of Total Federal Funds Awarded (TFFA). Similarly, the subrecipient is allowed up to 30% of the total subaward. However, remember that allowable indirect cost reimbursement is the lesser of: (a) the approved rate for the prime recipient and subrecipient; or (b) the statutory limitation.

9. **Our cognizant agency approved a 57% indirect cost rate applicable to Modified Total Direct Costs (MTDC) which is defined as total direct costs less equipment and subcontracts greater than \$25,000. However, NIFA's Request for Application (RFA) states indirect costs may not exceed 42.857 percent of the Total Direct Costs (TDC). Should we use 42.857% applicable to TDC, since it's lower than our approved rate of 57% applicable to MTDC?**

No. The 42.857% cap is not an indirect cost rate, but rather a limitation on the maximum grant dollars available to recover indirect costs. Organizations must always use their approved indirect cost rates. NIFA follows the Uniform Guidance (UG) found at 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*. The UG requires an approved Negotiated Indirect Cost Rate Agreement (NICRA) or de Minimis rate in order to obtain indirect cost reimbursement. Therefore, organizations must always use their approved rate up to the maximum allowable indirect cost dollars as determined by the limitation. Therefore, allowable indirect cost reimbursement is the lesser of: (a) the negotiated rate; or (b) the statutory limitation.

Frequently, an organization's approved rate is higher than the indirect cost cap, but actually results in less indirect costs. As a result, the organization is entitled to the lesser amount. Consider the following example:

**Example:** ABC Organization's approved negotiated rate is 57 percent, applicable to Modified Total Direct Costs, MTDC, (total direct costs less equipment and subcontracts greater than \$25,000). NIFA's grant program limits indirect costs to 42.857 percent of Total Direct Costs (TDC). ABC Organization's grant budget is identified below. What are ABC's maximum allowable indirect costs?

	<u>57% IDC Rate</u>	<u>42.857% IDC Cap</u>
Salaries and Wages	\$ 75,000	\$75,000
Travel	5,000	5,000
Consultants	20,000	20,000
Equipment	10,000	10,000
Subcontracts (1)	<u>100,000</u>	<u>100,000</u>
Total Direct Costs	210,000	210,000
Indirect Costs	<u>71,250</u>	<u>90,000</u>
Total Costs	<u>\$281,250</u>	<u>\$300,000</u>

**Answer:** Maximum indirect costs are \$90,000 ( $\$210,000 \times 42.857\%$ ). ABC Organization's negotiated rate (57%) is higher than the indirect cost cap (42.857%). However, the negotiated rate is based on MTDC and therefore may not be applied to equipment and subcontracts greater than \$25,000. As a result, use of the negotiated rate results in less indirect costs ( $(\$210,000 - \$10,000 - \$75,000) \times 57\% = \$71,250$ ). Accordingly, ABC Organization's maximum allowable indirect costs are limited to \$71,250.

**10. My organization has an approved 10% de minimis rate applicable to Modified Total Direct Costs (MTDC). However, the Request for Application (RFA) states indirect costs are limited to 10% of Total Direct Costs (TDC). Should we use 10% of TDC or 10% of MTDC?**

The 10% cap is not an indirect cost rate, but rather a limitation on the maximum grant dollars available to recover indirect costs. Organizations must always use their approved indirect cost rates. NIFA follows the Uniform Guidance (UG) found at 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*. The UG requires an approved Negotiated Indirect Cost Rate Agreement (NICRA) or de minimis rate in order to obtain indirect cost reimbursement. Therefore, organizations must always use their approved rate up to the maximum allowable indirect cost dollars as determined by the limitation. Therefore, allowable indirect cost reimbursement is the lesser of: (a) the de minimis rate; or (b) the statutory limitation.

**11. My organization is applying for a NIFA grant with an indirect cost cap equivalent to 30% of Total Federal Funds Awarded (TFFA). We are not accustomed to dealing with indirect cost caps. There appears to be some confusion as to how to apply the indirect cost cap to the grant.**

The 30% cap is not an indirect cost rate to be applied to a grant's direct costs. Rather, the cap is a limitation on the reimbursement of indirect costs. Organizations must always use their approved indirect cost rates. From a bookkeeping perspective, indirect cost caps may be problematic for advanced accounting systems that automatically apply the approved indirect cost rate to allowable direct cost categories. Therefore, it may be necessary to "turn off" the automatic feature. Instead, a manual journal entry may be necessary to record indirect costs and to ensure

the 30% cap is not exceeded. This is just an example and there can be numerous other ways to achieve the same outcome.