

Understanding Indirect Costs



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Policy Disclaimer

This document is intended solely to assist applicants and recipients in better understanding the Broadband Equity Access, and Deployment (BEAD) grant program, Digital Equity Act Grant Program, and the requirements set forth in the Notices of Funding Opportunity (NOFOs) and follow-on policies and guidance for these programs. This document does not and is not intended to supersede, modify, or otherwise alter applicable statutory or regulatory requirements, the terms and conditions of an award, or the specific application requirements set forth in the NOFOs. In all cases, statutory and regulatory mandates, the terms and conditions of the award, the requirements set forth in the NOFOs, and follow-on policies and guidance, shall prevail over any inconsistencies contained in this document.



Goals

Training Goals

Today's training will:

- 1 Define what Indirect Costs are.
- 2 Review Indirect Cost Rates and how they are calculated.
- 3 Explain the difference between the de minimis rate and a Negotiated Indirect Cost Rate Agreement (NICRA).
- 4 Review the components of a NICRA, including samples.
- 5 Review how to apply for a NICRA.
- 6 Discuss applicability of NICRAs to BEAD and Digital Equity programs.



What is an Indirect
Cost?

Indirect Costs

Indirect costs are costs incurred for a **common or joint purpose**, benefitting more than one cost objective **and not readily assignable** to the cost objective specifically benefited, without effort disproportionate to the results achieved.¹

RE M I N D E R



Indirect costs are a **legitimate cost** of doing business payable under a federal grant if the indirect costs are **reasonable, allowable, and allocable**.



Recipients cannot charge indirect costs to a grant unless **they are approved** in an applicant or recipient's budget.



Using indirect costs as **match** (especially unrecovered indirect costs) **may or may not** be allowable, depending on the terms and conditions of an award.

Note: For Institutions of Higher Education (IHE), the term facilities and administrative (F&A) cost is often used to refer to indirect costs.

“Facilities” is defined as depreciation on buildings, equipment and capital improvements, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. **“Administration”** is defined as general administration and general expenses such as the director's office, accounting, personnel, and all other types of expenditures not listed specifically under a “Facilities” subcategory.

¹ 2 CFR 200.1

Example Indirect Costs

While indirect costs may differ between recipients, some examples may include:

Indirect Costs Examples



Rent



Building Maintenance



Water/Sewage Bill



Facility
Management
Services



Electricity
Bill

Indirect Costs and Administrative Cost Caps

All **indirect costs must adhere to relevant statutory caps**. This is especially relevant if the program has an administrative cost cap, as a **large portion of indirect costs may be defined as administrative**.

Example Administrative Costs

Financial		Operations/Occupancy Costs		General	
<ul style="list-style-type: none">• Accounting• Auditing and audit preparations• Contracting• Budgeting and budget preparation• General legal services	<ul style="list-style-type: none">• Drawing down funds from the Automated Standard Application for Payments (ASAP)• Unfunded grant actions	<ul style="list-style-type: none">• Insurance• Maintenance• Depreciation on buildings	<ul style="list-style-type: none">• General Liability Insurance• General office supplies• Travel costs for grants administration	<ul style="list-style-type: none">• Salaries, wages and fringe benefits• Grants monitoring/reporting as	<ul style="list-style-type: none">required by NTIA• Grants-related policy and procedure development

The sum of indirect and direct administrative costs must be less than the statutory threshold, regardless of an entity's indirect cost rate. It's incumbent on entities to detail how they determined which indirect costs are administrative costs to ensure costs remain below relevant caps. **In some instances, the administrative cap may be too low to charge indirect costs.**

Frequently Asked Questions

Administrative and indirect costs are **inter-related but separate terms**. The following list provides key questions around each concept.

Indirect Cost and Administrative Cost FAQs

- Are all indirect costs administrative costs?
 - No. Certain indirect costs, such as utilities, may not be considered administrative **depending on entity type and program**.
- Are all administrative costs indirect costs?
 - No. There are a variety of **administrative costs**, such as salaries and fringe benefits for personnel time spent on grant administration activities, that are **direct costs**.
- Are all costs related to administration always subject to administrative cost caps?
 - No. Depending on the grant program, **certain administrative costs may not be subject to administrative cost caps**.

Always refer to program-specific guidance on cost caps when calculating indirect costs. Contact your Federal Program Officer with administrative cost questions and reach out to your Grants Officer with indirect rate questions.



What is an Indirect Cost
Rate?

Indirect Cost Rate

An indirect cost rate is a device for determining the amount of funds chargeable as “indirect” to a grant award. Indirect cost rates are:



Typically expressed as a **percentage of a defined base**, which is then used in a **formula** to calculate total indirect costs



Designed to provide a method for cost recovery that **equitably allocates costs** that are **not directly associated** with a single award, project, or cost objective.



Sometimes established through submission and approval of an **indirect cost rate proposal**, which recipients use to **substantiate** their indirect costs.

Indirect Cost Calculation

To calculate indirect costs, applicants or recipients must identify two values: their **indirect cost rate** & **direct cost base**.

Indirect Cost Rate: The value determined either through an organization's **Negotiated Indirect Cost Rate Agreement (NICRA)** or by use of **the federally-defined de minimis rate**. Notably, not all applicants can choose to use the de minimis rate.

Base: The accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal awards. For organizations using the de minimis rate, they must use Modified Total Direct Costs (MTDC), as described in 2 CFR 200.

$$\text{Indirect Cost Rate (\%)} \times \text{Base (\$)} = \text{Total Indirect Costs (\$)}$$

What is MTDC?

The MTDC is all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$50,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$50,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs and with the approval of the cognizant agency for indirect costs.¹

¹ Calculation of MTDC changed in October 2024 when updates to the Uniform Guidance went into place. For awards issued prior to October 1, 2024, refer to your award documents for calculation of MTDC.

Indirect Cost Calculation - Example

To calculate indirect costs, applicants or recipients must multiply the indirect cost rate by the direct cost base.

Sample Indirect Cost Rate Calculation

Indirect Cost Rate (%) x Direct Cost Base (\$) = Total Indirect Costs (\$)



$$20\% \times \$500,000 = \$100,000$$

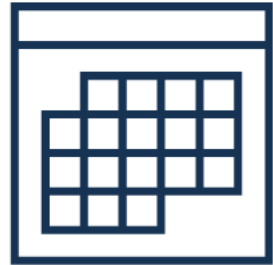


What is the De Minimis
Rate?

De Minimis

The de minimis rate is a percentage range that organizations may elect to use if they do not have a current NICRA and are not required to **use a NICRA**.¹ If using the de minimis rate, **applicants or recipients must use MTDC to calculate total direct costs.**

FY 2023 Uniform Guidance



De Minimis Rate: Up
to 10%

FY 2024 Uniform Guidance



De Minimis Rate: *Increase*
Up to 15%

Note: Depending on which version of the Uniform Guidance a grant award operates under, the **de minimis limit may be different, please refer to the terms and conditions of your award.**

¹ State, Local, and Tribal governments receiving more than \$35 million across all awards in a fiscal year are not allowed to use the de minimis rate in accordance with the requirements of 2 CFR Appendix-VII.



What is a NICRA?

NICRA Overview

Certain award applicants and recipients **must use a NICRA** in place of the de minimis rate if they **meet certain requirements** laid out in 2 CFR 200, while others may choose to use a NICRA in place of the de minimis rate. **Note, NICRA requirements are based on entity type.**

What is a NICRA?

- A NICRA is a legal document between the federal government and a recipient that formalizes an indirect cost rate which recipients can use in their budgets.
- Establishing a NICRA can **allow an entity to charge more indirect costs to their awards** than would be allowable under the de minimis rate.

When is a NICRA applicable?

- A NICRA can be used when a recipient either **cannot or chooses not to use the de minimis rate**. A NICRA **must be used** when a governmental department or agency (per 2 CFR 200 Appendix VII) **has an existing NICRA or receives more than \$35 million** in federal funds within a fiscal year (FY). A NICRA **may** be used if a governmental department or agency receives **less than \$35 million** in federal funds within an FY.

Where do you apply for a NICRA?

- Entities that do not already have a NICRA in place **will have to establish a NICRA** with their cognizant agency. An organization's cognizant agency is generally the agency that provides the entity with the largest dollar value of total federal awards in a fiscal year.

NICRA Reminders for IIJA Recipients

Infrastructure Investment and Jobs Act (IIJA) recipients, particularly for BEAD and Digital Equity Act Programs, should keep the following points in mind regarding NICRAs:

KEY NICRA REMINDERS



Many governmental departments and agencies who received funds from BEAD and Digital Equity Act Programs will **exceed the \$35M threshold** across all of their awards and therefore **must use a NICRA if there are indirect costs in their approved budget.**



Applicants to Digital Equity Act Programs should look at the **amount of total federal funding received in a fiscal year and appropriate 2 CFR 200 appendix** to identify whether they require a NICRA or can utilize the de minimis rate.



Once a recipient obtains a NICRA, that rate **will apply to all subsequent federal grants** until renewed.



Entities may request a **one-time extension of indirect rates** if they have a current NICRA.



How to Apply for a NICRA

High-Level NICRA Application Steps

Each agency has their own process for reviewing and approving NICRAs. In general, the process for an entity to establish a NICRA is:

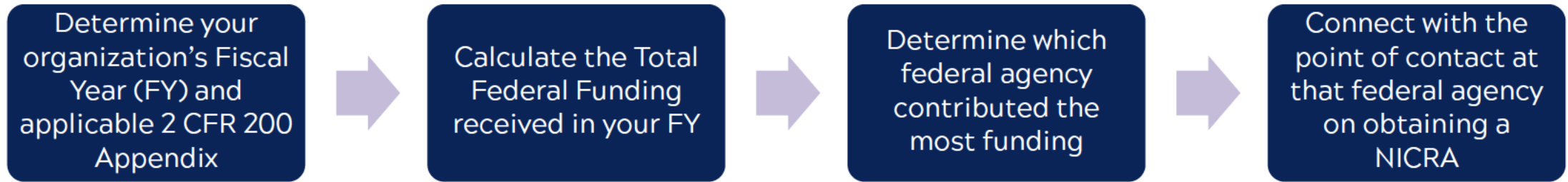
- 1 The entity determines its cognizant agency.
- 2 The entity prepares an indirect cost rate proposal.¹
- 3 The entity submits the indirect cost rate proposal to the cognizant agency.
- 4 The cognizant agency reviews the indirect cost rate proposal.
- 5 The cognizant agency provides either a provisional or final NICRA.
- 6 The entity applies the NICRA to its awards.

¹ State, Local, and Tribal governments receiving \$35 million or less across all awards in a fiscal year must still develop an indirect cost rate proposal in accordance with the requirements of 2 CFR Appendix-VII-to-Part-200 D.1.c. and maintain the proposal and related supporting documentation for audit.

Understanding Cognizant Agency

The first step to obtaining a NICRA is understanding an entities' Federal Cognizant Agency. Depending on the Federal Cognizant Agency, the process for obtaining a **NICRA may be different**.

HOW TO IDENTIFY



Note: Total Federal Funding received in an FY is by your agency's FY, not the Federal Government's!

Note: All agencies will require the creation of an Indirect Cost Rate Proposal!

Cognizant Agency: Department of Commerce

If an entity's cognizant agency is the Department of Commerce (DOC), they must take the following steps:

- ① **Determine if your entity has an existing or expired NICRA with DOC.**
 - Note: The National Institute of Standards and Technology (NIST) serves as the grants office for IIJA grants and will be responsible for issuing NICRAs.
- ② **If no NICRA exists, entities must electronically submit their indirect cost rate proposal, cost allocation plan, and all other requested documentation to faamoaudits@nist.gov, within 90 calendar days of the award start date.**
 - If Personally Identifiable Information (PII) or Business Identifiable Information (BII) is included in the submission, send an email to faamoaudits@nist.gov to request a secure link.
- ③ **If your entity has an expired NICRA with DOC, your entity should contact its applicable Grants Office (e.g., NIST or NOAA) for next steps.**

Note: If an entity already has a IIJA grant that requires a new NICRA, please refer to IIJA program-specific guidance.

Preparing an Indirect Cost Rate Proposal

To obtain a NICRA, entities must submit an Indirect Cost Rate Proposal. When creating a proposal, consider the following common steps:

Review Organization Structure and Functions

- Develop an organizational chart to explain various services and/or functions for each unit and explain which units are indirect functions of the organization.
- Determine the services that are allowable and allocable per the cost principles.

Review Federal and Non-Federal Funding

- Determine programs being funded, in detail as to the amount or percent of reimbursement of direct and indirect cost and any restrictions or references to statutes or regulations.

Review Accounting Structure

- Obtain a chart of accounts in which the actual dollars expended can be related to various programs and/or organization structure.
- Reconcile the accounting structure to the organization chart.

Prepare a Cost Policy Statement

- Develop a written policy that outlines the costs considered as direct/indirect, and the rationale to support those costs.

Indirect Cost Rate Proposal Checklist

Entities may need to prepare and submit an Indirect Cost Rate Proposal that includes some or all of the following items:

- ☒ **Administrative documents:** Including the organizational chart, standards for documentation of personnel expenses, and a signed cost policy statement
- ☒ **Indirect cost rate proposal:** Including a Personnel Costs Worksheet, Allocation of Personnel Worksheet, Fringe Benefits Worksheet, Statement of Total Costs, and Statement of Indirect Costs
- ☒ **Audited Financial Statements** (if available)
- ☒ **Certification that the indirect cost rate proposal was prepared in a manner consistent with the applicable cost principles set forth in 2 CFR 200 Subpart E.** The certificate must be signed by an individual, as determined by the cognizant agency.
- ☒ **A list of grants and contracts by federal agency, subagency, program office funding source, award amount, period of performance, and the indirect cost (overhead) limitations applicable to each.** This must be supported with copies of the approved federal grants or contracts notification awards

Reminder: Different federal agencies may have unique requirements related to an Indirect Cost Proposal for a NICRA. The list above is non-exhaustive.



NICRA Components

Sample NICRA #1

SECTION I: RATES							
<u>TYPE</u>	<u>APPROVAL</u>	<u>1</u> <u>FROM</u>	<u>1</u> <u>TO</u>	<u>2</u> <u>RATE</u>	<u>3</u> <u>BASE</u>	<u>LOCATION</u>	<u>5</u> <u>APPLY TO</u>
Indirect	<u>4</u> Fixed	07/01/2023	06/30/2024	15.17%	SW-1	Loc-1	AP-1
Indirect	Fixed	07/01/2023	06/30/2024	2.28%	SW-1	Loc-1	AP-2

(SEE SPECIAL REMARKS)

3 BASE

SW-1: Total direct salaries and wages including vacation, holiday, sick pay, other paid absences, and all applicable fringe benefits.

LOCATION

Loc-1: All Locations

Loc-1: All Locations

5 APPLY TO

AP-1: All Programs

AP-2: All programs except General Fund programs, Commerce program (2350), and the Personal Care Assistance (PCA) program (2801), and any other funds waived from the Statewide Cost Allocation Plan (SWCAP) billed to the department.

6 TREATMENT OF FRINGE BENEFITS: Fringe benefits are specifically identified to each employee and/or are charged individually as direct or indirect cost (as applicable). See Special Remarks section of this Agreement for more details.

7 TREATMENT OF PAID ABSENCES: Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

- 1 Effective dates of NICRA
- 2 Approved indirect cost rate
- 3 Defines the base
- 4 A **fixed** rate is an indirect cost rate where that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
- 5 Defines the application of rates to programs
- 6 Defines the treatment of employee fringe benefits
- 7 Defines the treatment of paid absences

Sample NICRA #2

SECTION I: RATES

TYPE	APPROVAL	¹ FROM	¹ TO	² RATE	³ BASE	LOCATION	⁶ APPLICABLE TO
Indirect	⁴ Final	10/01/2019	09/30/2020	2.64%	SW-1	All Locations	AP-11
Indirect	Provisional	10/01/2020	09/30/2021	4.09%	SW-1	All Locations	AP-11
Indirect	⁵ Provisional	10/01/2021	09/30/2022	2.64%	SW-1	All Locations	AP-11
Indirect	Provisional	10/01/2019	09/30/2020	4.10%	SW-1	All Locations	AP-12
Indirect	Provisional	10/01/2020	09/30/2021	3.97%	SW-1	All Locations	AP-12

(SEE SPECIAL REMARKS)

³ BASE:

SW-1: Total direct salaries and wages including vacation, holiday, sick pay, other paid absences, and all applicable fringe benefits.

⁶ APPLICABLE TO:

AP-11: All programs except the U.S. Department of Education programs that require a restricted rate per 34 CFR 75.563 and 34 CFR 76.563.

AP-12: The U.S. Department of Education (ED) programs that require a restricted rate per 34 CFR 75.563 and 34 CFR 76.563. This rate review and approval was performed by ED's Indirect Cost Division.

¹ Effective dates of NICRA

² Approved indirect cost rate

³ Base

⁴ A **final** rate is applicable to a specified past period based on the actual costs of the period. A final indirect cost rate is not subject to adjustment.

⁵ A **provisional** rate is a temporary indirect cost rate applicable to a specified period and is used for interim billings pending the establishment of a final rate for the period.

⁶ Defines the application of rates to programs

Other NICRA Content

The rest of a NICRA may contain agency-specific information and requirements, including:

- ☒ **NICRA use limitations:** These limitations may include federal-level use limitations as well as agency-specific conditions
- ☒ **Definitions of applicable rates.**
- ☒ **Closeout and post-closeout procedures:** Cognizant agencies may detail closeout-related requirements, which may include requirements to return funds after certain refunds, corrections, or transactions such as a final indirect cost rate adjustment
- ☒ **Requirements for communication with other federal funding sources:** Entities may be required to communicate their new NICRA to other federal agencies providing grant awards to the entity.

Reminder: Different federal agencies have unique processes and requirements for NICRAs. The list above is non-exhaustive and entities should always contact their cognizant agencies with questions and clarifications.



When is a NICRA
Applicable?

Indirect Cost Rates and IIJA Programs

What Indirect Cost Rate Should I Use?

BEAD and Digital Equity Act Program applicants and recipients must understand which indirect cost rate to use for their award if the approved budget contains indirect costs: either the **de minimis rate applied to the MTDC** or a **NICRA**.



Indirect Cost Rates will **differ** based on federal funds received in a FY, the FY the grant was awarded, and the **type of entity** applying and receiving funds (e.g., federally recognized Tribal Nation or nonprofit)



Governmental agency or organization recipients or applicants who receive **more** than \$35M in federal funds in a fiscal year **must** use a NICRA if the approved budget contains indirect costs

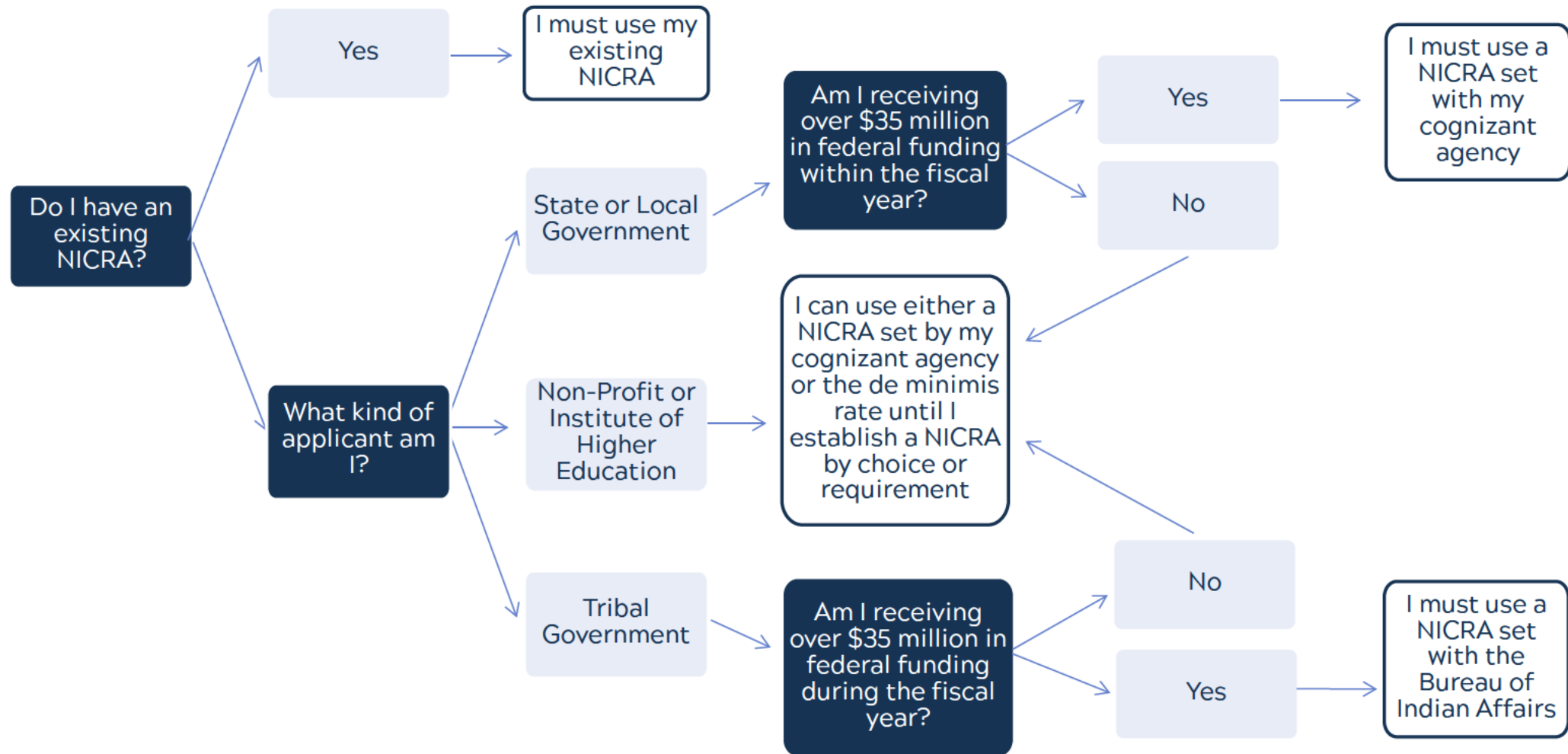


Governmental agency or organization recipients or applicants who receive **\$35M or less** in federal funds **may** use the de minimis rate applied to the MTDC or a NICRA

Reminder: While Indian Tribes fall under 2 CFR 200 Appendix VII, and therefore follow the same rules as state and territory governmental agencies or organizations, other types of applicants (e.g., nonprofits, hospitals, private companies) operate under separate rules found in appendices III - IX.

Indirect Cost Rates Flow Chart

Recipients can use the following flow chart to understand whether a NICRA is required.





Questions?

Thank You





Appendix

NICRA and NTIA Programs - Digital Equity

Given the wide variety of **Digital Equity Act Program recipients**, organizations should understand factors that influence NICRA applicability.

Do I Need to Submit a NICRA? Consider:

- **Type of organization:**
 - ☐ Different entity types have different NICRA requirements, and instructions for NICRA development are located in different 2 CFR 200 appendices.
- **Threshold limit for States and Territory recipients:**
 - ☐ If a State or Territory recipient/applicant's total amount of federal funds received* within their FY exceed the **\$35 million threshold**, they must obtain a NICRA letter.
 - ☐ If a State or Territory recipient/applicant received **\$35 million or less** in federal funds during their FY, they are not required to obtain a NICRA; they can use the up to **15% de minimis rate of the MTDC**.
- **Do I already have a NICRA?**
 - ☐ Only applicants with an existing NICRA are required to **submit their letter with their application**.
 - ☐ If an entity already has a NICRA, it **must be used**.
 - ☐ The NICRA must specify: (a) the final rate(s), (b) the base(s) to which the rate(s) apply, and (c) the period(s) for which the rate(s) apply.
- **What if I need or wish to develop a NICRA, but am currently using the de minimis rate applied to MTDC?**
 - ☐ Contact your Grants Specialist and Federal Program Officer for further assistance.

NICRA and NTIA Programs – BEAD

Given almost **all recipients are receiving more than \$35 million from NTIA alone**, BEAD recipients should understand NICRA applicability.

Do I Need to Submit a NICRA? Consider:

- **Threshold limit for States and Territory recipients:**
 - ☐ If a State or Territory recipient/applicant's total amount of federal funds received* within their FY exceed the **\$35 million threshold**, they must obtain a NICRA letter.
- **Do I already have a NICRA?**
 - ☐ Only applicants with an existing NICRA are required to **submit their letter with their application**.
 - ☐ The NICRA must specify: (a) the final rate(s), (b) the base(s) to which the rate(s) apply, and (c) the period(s) for which the rate(s) apply.
- **What if I need or wish to develop a NICRA, but am currently using the de minimis rate applied to MTDC?**
 - ☐ Contact your Grants Specialist and Federal Program Officer for further assistance.