

Office of Grant Management
**General Guidance on
Calculating Indirect Costs**



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

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Introduction

This document provides introductory guidance to NEH applicant and recipient organizations on calculating [indirect costs](#) as part of an NEH grant or cooperative agreement application budget. This guidance does not supersede information and requirements on the development, calculation, and application of indirect costs and indirect cost rates in [2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#) and the [General Terms and Conditions for Awards to Organizations \(For grants and cooperative agreements issued January 1, 2022, or later\)](#).

Refer to the Notice of Funding Opportunity (NOFO) for statutory or administrative information regarding the allowability of indirect costs. NEH does not reimburse indirect costs under the following types of awards:

- construction
- endowments
- general operating support costs to State Humanities Councils (SHC)
- awards to individuals

What are Indirect Costs?

NEH Project Budget

Applicant organizations submit an NEH project budget using the [Research and Related budget form](#), unless otherwise instructed in the NOFO. You should prepare a project budget in coordination with your organization’s Institutional Grant Administrator (IGA) and/or Office of Sponsored Projects.

When preparing your budget, you must treat costs that you classify as direct or indirect consistently. You cannot assign a cost to an NEH award as a direct cost if you have allocated any other cost incurred for the same purpose to the award as an indirect cost ([2 CFR § 200.403\(c\)](#)).

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Direct Costs

Direct costs are salaries, services, and goods that are directly related to the project and are accounted for with a high degree of accuracy. Direct costs must align with the cost principles, including allowability ([2 CFR § 200.403](#)), reasonableness ([2 CFR § 200.404](#)), and allocability ([2 CFR § 200.405](#)). Examples include salaries and benefits for staff and consultants working on the project, project-related travel, and supplies and equipment used on the project.

Indirect Costs

Indirect costs represent administrative expenses associated with the cost of doing business that are not readily identified project activities. Indirect costs, also referred to as [facilities and administrative costs \(F&A\)](#), are incurred for the benefit or joint objectives of a specific project and organizational activities. These costs are allocated equitably across all of your organization's activities. Examples include costs for clerical and managerial staff, depreciation, office space rental, and utilities.

To recover indirect costs related to an NEH award, your organization must either negotiate an indirect cost rate with its cognizant agency prior to a federal award or elect to use a de minimis rate of 10% of modified total direct costs (MTDC) ([2 CFR § 200.414\(f\)](#)). In your application, you must include your project budget and the base, rate, and amount of indirect costs you will recover during period of performance.

Negotiated Indirect Cost Rate Agreements

A Negotiated Indirect Cost Rate Agreement (NICRA) is a formal written agreement between your organization and its [cognizant federal agency](#) describing how the organization will calculate indirect costs. A NICRA establishes the following to calculate indirect costs:

- base(s)
- rate(s)
- applicable period(s)

The rate(s) established in a NICRA are typically effective for a two- to four-year period. If your organization has a NICRA, you may apply to your cognizant agency for a one-time extension of a current agreement for a period of up to four years, in accordance with [2 CFR § 200.414 \(g\)](#).

De Minimis Rate

Organizations without a current or provisional NICRA

Per [2 CFR § 200.414 \(f\)](#), if you do not have a current or provisional negotiated rate (except for local governments claiming central service costs under [2 CFR 200, Appendix VII D.1.b](#)), you may choose to use a de minimis rate of 10% of modified total direct costs (MTDC). If you choose the de minimis, you must use the rate consistently for all federal awards until your organization chooses to negotiate its own indirect cost rate.

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Organizations with a NICRA but without an applicable rate

Your organization may also selectively apply the de minimis rate in cases in which it does not have an applicable rate. For example, research rates are not applicable to the scholarly research that NEH funds, except in rare circumstances. In cases in which an organization has only negotiated a research rate (see below for an explanation of rate types), the organization may apply the de minimis rate.

The de minimis uses a Modified Total Direct Costs (MTDC) base, which consists of:

“All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 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 \$25,000. 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 [\(2 CFR § 200.1\)](#).”

Acceptance of Indirect Cost Rates

NEH must accept valid and applicable indirect cost rates ([2 CFR § 200.414 \(c\)\(1\)](#)), or if no current or provisional negotiated rate exist, accept the de minimis rate, if requested in the application budget. NEH must use the negotiated rates in effect at the time of the initial award throughout the life of the award, except as provided in [2 CFR § 200.414 \(c\)\(1\)](#). If the rate agreement in effect at the beginning of the period does not cover the entire period of performance, then NEH will use the rate in effect for the last year of the negotiated rate agreement to determine indirect costs for the duration of the period of performance ([2 CFR Appendix III \(c\)\(7\)\(a\)](#)).

Once NEH issues an award, it is not obligated to make adjustments due to increases in your organization’s indirect cost rate agreement.

Likewise, recipient organizations that issue subawards (referred to as pass-through entities) must accept subrecipients’ applicable federally negotiated indirect cost rates. If no approved rate exists, the pass-through entity may negotiate an indirect cost rate with the subrecipient or accept the de minimis rate ([2 CFR § 200.332 \(a\)\(4\)](#)).

Negotiating New Indirect Cost Rates

If your organization does not have a current negotiated (including provisional) rate or has an expired rate, your organization may choose to negotiate a rate with its cognizant agency. If your organization wants to negotiate a NICRA and NEH is its cognizant agency, see [Guidance for Negotiating an Indirect Cost Rate Agreement with NEH](#).

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Reviewing and Calculating Indirect Costs using a NICRA

NICRA Structure

Applying the correct indirect cost rate requires an understanding of the structure of your NICRA. A NICRA generally includes the following information:

Effective date of the agreement
EIN (Employer Identification Number) of the organization
Organization name and address
Indirect Cost Rate type(s)
Common indirect cost rate types include: <ul style="list-style-type: none">• Provisional – an interim rate applicable to a specified period time pending the establishment of a final rate for that period.• Final – a permanent rate determined after an organization’s actual costs for a current year are known. A final rate is used to adjust indirect costs claimed based on a provisional rate.• Predetermined – a permanent rate, applicable to a specified current or future period based on a review of actual costs incurred during a prior period. A predetermined rate is typically not subject to adjustment.• Fixed rate with carry-forward – a rate with the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as a rate adjustment in future years.
Effective Period (“From” and “To”)
The period during which the indirect cost rate is applicable.
Applicable Rate Location
Locations for where the organization will perform most of the substantive work of the project. Common locations include: <ul style="list-style-type: none">• On-Site/Campus (organizations conduct activities in a space they either own or lease)• Off-Site/Campus (organizations conduct activities in a space for which they do not own or lease)
Type of programs that rates are applicable to
Common program types include: <ul style="list-style-type: none">• Other Sponsored Activities – programs and projects that involve the performance of work other than instruction and organized research.• Instruction – teaching and training activities of an institution except for research training.• All Programs• Organized Research – research and development activities of an institution that are separately budgeted and accounted for as scientific research and generally not scholarly inquiry of the type most often supported by NEH.

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Indirect Cost Rate (Allocation) Base Defined
The cost base describes the direct cost pool (types of costs and cost caps) to which the indirect cost rate is applied. Common bases for indirect costs include: <ul style="list-style-type: none"> • modified total direct costs (MTDC) • direct salaries and wages including (or excluding) fringe benefits • direct salaries and wages including vacation, holiday, sick pay, and other paid absences • total direct costs (TDC)
Fringe Benefit Rates
Provides the separate rates for allocating employee benefits (e.g., payroll taxes, vacation, sick, retirement, health care, bonus, deferred compensation, insurance).
General Terms and Conditions
Identifies any limitations on the use of the rates, the basis of accounting, rate specific information (such as fixed or provisional rates), the use of the NICRA by other federal agencies, and other information.
Special remarks (composition of the indirect cost pool)
Defines the costs that compose the indirect cost pool.

Calculating Indirect Costs

When calculating indirect costs, select the appropriate cost base, as established in the NICRA, to determine the direct costs to be multiplied by the applicable negotiated indirect cost rate. The result of this calculation represents the allowable indirect costs for the project.

This section provides two examples of calculating indirect costs.

Example 1: Applying a 34% Indirect Cost Rate using a MTDC base

Salaries	\$100,000.00
Fringe @ 28%	\$28,000.00
Equipment	\$50,000.00
Subawards	\$30,000.00
Contracts	\$-
Supplies	\$5,000.00
Travel	\$-
Other	\$10,000.00
Total Direct Costs	\$223,000.00
Total Indirect Costs (34%)	\$57,120.00
Total Project Costs	\$280,120.00

Base	MTDC	Rate	Indirect Costs
Modified Total Direct Costs, excludes equipment, capital expenditures, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.	\$168,000.00	X 34% =	\$57,120.00

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Example 2: Applying a 34% Indirect Cost Rate using direct salaries and wages, excluding fringe benefits, base

Salaries	\$100,000.00
Fringe @28%	\$28,000.00
Equipment	\$50,000.00
Subawards	\$30,000.00
Contracts	\$-
Supplies	\$5,000.00
Travel	\$-
Other	\$10,000.00
Total Direct Costs	\$223,000.00
Total Indirect Costs (34%)	\$34,000.00
Total Project Costs	\$257,000.00

Base	Direct Costs	Rate	Indirect Costs
Salaries excluding fringe	\$100,000.00	X 34% =	\$34,000.00

Definitions

Indirect costs – costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, your organization may need to establish a number of pools of indirect costs. Indirect cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived ([2 CFR § 200.1](#)).

Cognizant agency for indirect costs – The cognizant agency for indirect costs is the federal agency that is responsible for establishing cost allocation plans or indirect cost proposals on behalf of all federal agencies ([2 CFR § 200.1](#)). The cognizant agency is typically the federal

awarding agency that provides the largest amount of direct funding (as listed on the schedule of expenditures of Federal awards, see [§ 200.510\(b\)](#)) to a non-Federal entity unless OMB designates a specific cognizant agency for audit.

Facilities and administrative costs – Facilities costs are the overall costs of operating and maintaining facilities owned or leased by the organization in which activities that may directly or indirectly support your project are taking place. Examples include depreciation on buildings, equipment and capital improvement, interest on debt associated with certain

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buildings, equipment and capital improvements, and operations and maintenance expenses.

Administration costs include general administrative expenses that are not specific to the project but serve the entire organization. Examples include general administration and general expenses such as the director's office, legal, accounting, and administrative personnel.

References

- [2 CFR § 200.332 – Requirements for pass-through entities](#)
- [2 CFR 200 Subpart E, Cost Principles](#)
- [2 CFR § 200.414 – Indirect \(F&A\) Costs](#)
- [2 CFR Part 200, Appendix III – Indirect \(F&A\) Costs Identification and Assignment, and Rate Determination for Institutions for Higher Education \(IHEs\)](#)
- [2 CFR Part 200, Appendix IV – Indirect \(F&A\) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations](#)