

## INDIRECT COST GUIDE

*This guide is intended for the majority of the National Endowment for the Arts' (Arts Endowment) nonprofit applicants and awardees, which receive Federal funding exclusively or primarily from the National Endowment for the Arts. Therefore, the following questions and answers are simplified.*

*Indirect costs are not required and do not need to be included in a project budget for the Arts Endowment.*

*If you are part of a college or university check with your Research/Sponsored Programs/Grants Office for their guidance regarding indirect costs.*

### **(1) What is the difference between Direct Costs and Indirect Costs?**

Direct Costs are those expenses which can easily be identified and assigned to a specific production, project, or grant activity. Examples might include artist fees, project related materials and supplies, travel costs, and the salaries, wages, fringe, and other benefits of employees who are working directly on the project. All direct costs must be reasonable and allowable. See the Arts Endowment's **General Terms and Conditions** and [2 CFR 200 Subpart E – Cost Principles](#) (Uniform Guidance) for more information regarding unallowable costs.

Indirect Costs are overhead, administrative, or general operating expenses that are not readily identifiable with, or are difficult to assign to, a specific project. Nevertheless, these costs are still necessary to the operation of the organization, the performance of its activities, and the execution of its projects. Examples of indirect costs include the expenses associated with operating and maintaining facilities and equipment, depreciation, rent, utilities, supplies, and administrative salaries (for those staff not specifically working on the project, but whose roles are critical to organizational operations). The Arts Endowment acknowledges indirect costs are genuine and are incurred by organizations, and without them, organizations could not operate. However, you must ensure that you are not “double dipping.” The Uniform Guidance states that “costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both.”

### **(2) How do I choose whether or not to include Indirect Costs in my project budget?**

Whether or not you choose to include indirect costs in your project budget depends on your organization's financial management policies and practices. Some applicants and grantees prefer to only include direct costs in their project budget. Others may want to recover the indirect costs (or a portion of them) that are incurred as a result of implementing and meeting the goals of their project.

Whether or not you include indirect costs in your budget will not increase or decrease the competitiveness of your application or the amount of your grant award. We recommend you consult with the leadership of your organization and individuals responsible for its financial management in your decision making

regarding indirect costs. Some larger organizations, particularly colleges and universities, have institution-wide policies regarding how indirect costs should be addressed in grant applications and awards specifically, and in project budgets (for the Arts Endowment and otherwise) more broadly.

**(3) I want to include indirect costs in my project budget. How do I choose between the options for including indirect costs?**

If you want to include indirect costs in your project budget, you may choose **ONE** of the following.

- If your organization does **not** have a federally negotiated indirect cost rate agreement (or ICRA):  
**Option 1: Include a reasonable figure for “Overhead and Administrative Costs” as a line item under the “Direct Costs: Other” section, and leave the Indirect Costs section blank.** If your organization can easily document the discrete, specific expenses that would fit within this line item (i.e., payroll taxes, a percentage of facility electricity use, the percentage of staff time for the administrative support of a project), you may decide to use this option. The total dollar amount indicated in this line has to be reasonable and consistent with best practices in financial management. Most nonprofit organizations can account for overhead and administrative costs at a rate of about 10% - 35% of a typical project budget. However if you go with this option, it is important that you do not simply use a percentage of your project budget. You must be able to calculate the actual costs included in the line item.

**Option 2: Use a *de minimis* rate of up to 10% of your modified total direct costs.** At the application stage, you should, enter this figure as a line item under the “Direct Costs: Other” field for the budget section of the Arts Endowment’s Applicant Portal. At the funding offer stage or post-award, report this information by checking the box on the Project Budget form and entering an amount.
- If your organization **has** a federally negotiated Indirect Cost Rate Agreement,  
**Option 3: Use your negotiated indirect cost rate agreement.** In this case, indirect costs are prorated or charged to a project through a rate negotiated with the National Endowment for the Arts or another Federal agency. Please note it is rare for applicants and grantees to the Arts Endowment to have an ICRA. This option is most often relevant to colleges and universities (see #6, also).
- If your organization **has an expired** Federally negotiated Indirect Cost Rate Agreement,  
**Option 4: A non-Federal entity that had a past indirect cost rate agreement that is now expired may elect to charge the de minimis indirect cost rate (see “Expanded Use of the De Minimis Rate” in Part 200).** The de minimis rate may be used indefinitely.

Remember, you are not required to claim any indirect costs or overhead at all.

**(4) What is an Indirect Cost Rate Agreement (ICRA)?**

An ICRA is a tool for determining the proportion of indirect costs each program, project, or activity should bear at an organization. It is the ratio, expressed as a percentage, of the indirect costs to a direct cost base (the direct cost base is typically equivalent to a project's modified total direct costs, although there are other types of bases too such as a base of only salaries and wages).

**(5) Does my organization need an Indirect Cost Rate Agreement (ICRA)?**

Probably not. Most Arts Endowment applicants and grantees do not need an ICRA. You also do not need an ICRA to apply for or to receive a grant, and whether or not you have an ICRA will not increase or decrease the competitiveness of your application or the amount of your grant award. The ICRA is simply one method to allocate indirect costs – it is not an additional payment benefit. Only a small number of our applicants and grantees (typically colleges or universities) have or choose to obtain and use an ICRA. For the vast majority of nonprofit arts organizations which only get one or two Federal grant awards per year, negotiating and maintaining ICRA's require more effort than it's worth.

**(6) Does my organization need an Indirect Cost Rate Agreement (ICRA) from the National Endowment for the Arts, if we already have one negotiated with another Federal agency?**

No. If your organization already has an ICRA negotiated by another Federal agency, those rates can be used for grants from the National Endowment for the Arts. In most cases, the Federal agency providing the most Federal funds to an organization has the responsibility for negotiating the ICRA. In order to use an ICRA for Arts Endowment awards, rate negotiations must be kept current.

Note you may only use a Research indirect cost rate for applications to the Arts Endowment's Research program and research awards.

Some Federal agencies use a non-negotiated flat indirect cost rate for their specific grants. These non-negotiated flat rates are not transferrable to the National Endowment for the Arts. If your organization's never had a Federal ICRA, you have the option of using 10% *de minimis* rate on your project's modified total direct costs instead.

**(7) You keep mentioning Modified Total Direct Costs (MTDC)? What is that and how is it different from Total Direct Costs?**

Keep in mind that this terminology is Federal government-wide, and might not be relevant to your organization or to your Arts Endowment project.

Total direct costs are the total overall allowable expenses (base) that are directly linked to any given project, program, or activity.

Modified total direct costs have some limitations. Some costs may not be allowed, or may be reduced, such as only being able to include up to 50% of a particular cost in the base. In addition, MTDC do not include any one-time, extraordinary expenses such as capital expenditures, and equipment purchases that could potentially be part of the total direct costs of any given project, program, or activity (not necessarily your Arts Endowment project).

We review the project budgets you submit carefully and will reach out to you if we have any questions.

**(8) Where can I learn more about Indirect Costs and negotiating an Indirect Cost Rate Agreement (ICRA)?**

The [Interior Business Center](#) negotiates ICRA's on behalf of the National Endowment for the Arts. Their website provides FAQs and guidance on submitting an indirect cost rate proposal. Please keep in mind that preparing an indirect cost rate proposal is a great deal of work for an organization.

If your organization decides to submit an indirect cost rate proposal you must first contact Diane Biddle, Senior Lead Grants Management Specialist in the National Endowment for the Arts' Office of Grants Management prior to submission, at [grants@arts.gov](mailto:grants@arts.gov).

Only indirect cost rate proposals that are first vetted by the National Endowment for the Arts will be reviewed by the Interior Business Center.