

INDIRECT COST GUIDE

This guide is intended for National Endowment for the Arts (NEA) nonprofit applicants and recipients. Most NEA recipients receive federal funding exclusively or primarily from the NEA. Therefore, the following questions and answers are simplified.

Applicants for an NEA award are not required to include indirect costs in a project budget.

Applicants/recipients that are an Institution of Higher Education (IHE) should consult with their own Research/Sponsored Programs/Grants Office for guidance regarding indirect costs.

1. What is the difference between Direct Costs and Indirect Costs?

Direct costs are those costs that can be identified specifically with a federal award or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as direct or indirect costs. Examples of direct costs 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 Cost Principles section of the General Terms and Conditions applicable to your award and 2 CFR 200 Subpart E - Cost Principles for more information regarding allowable and 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 NEA acknowledges indirect costs are genuine and are incurred by organizations, and without them, organizations could not operate.

Costs incurred for the same purpose in like circumstances must be treated consistently as direct or indirect costs. This means that you must either charge the costs as direct costs or indirect costs to your budget, but not both.

2. How do I determine whether to include Indirect Costs in my project budget?

Whether or not you include indirect costs in your project budget depends on your organization's written financial management policies and practices. Some applicants and recipients prefer to only include direct costs in their NEA project budget. Other entities, in particular IHEs, 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.

Including indirect costs in your NEA project budget will not increase or decrease the competitiveness of your application or the amount of your award. You should consult with the leadership of your organization and individuals responsible for its financial management when determining whether to charge indirect costs. Some larger organizations, particularly IHEs, have institution-wide policies regarding how indirect costs should be addressed in federal award applications specifically, and in project budgets more broadly.

3. I want to include these costs in my project budget. How do I choose between the available options?

You may choose **ONE** of the following options for indirect costs:

a. If your organization does not have a negotiated indirect cost rate agreement (NICRA):

Option 1: Charge as direct administrative costs. You may include a reasonable figure for “Overhead and Administrative Costs” as a line item under the “Direct Costs: Other” section of your project budget and leave the Indirect Costs section blank. Only use this option 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). The total dollar amount indicated in this line must be reasonable and consistent with best practices in financial management. If you choose this 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 and provide source documentation for the costs.

Option 2: Use a *de minimis* indirect cost rate based on your modified total direct costs.

- For applications submitted to the NEA after October 1, 2024, and awards issued FY 2025 and later: The *de minimis* indirect cost rate is 15%.
- For awards issued FY 2024 and earlier: The *de minimis* indirect cost rate is 10%

b. If your organization has a current NICRA (including provisional rates):

Option 3: Use the appropriate rate from your NICRA. In this case, indirect costs are pro-rated or charged to a project through a rate negotiated with the NEA or another federal agency. It is rare for the NEA to be the cognizant agency for indirect costs, i.e., the federal agency responsible for reviewing, negotiating and approving cost allocation plans or indirect cost proposals on behalf of all federal agencies. (2 CFR 200 Appendix IV).

Note about Research Indirect Cost Rates. If you are claiming indirect costs under a NICRA, indirect cost rates applicable to research generally can only be used in project budgets for the NEA’s Office of Research & Analysis (ORA) awards. You must use rates applicable to other activities for most NEA

awards. Refer to the NEA guidelines applicable to your program, taking into account your own institutional guidance.

4. What is a Negotiated Indirect Cost Rate Agreement (NICRA)?

A NICRA 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 NICRA will define the appropriate base for your rate(s).

5. Does my organization need a NICRA?

Probably not. Most NEA applicants and recipients do not need a NICRA. You also do not need a NICRA to apply for or to receive a an NEA award. A NICRA will not increase or decrease the competitiveness of your application or the amount of your award funding. The NICRA is simply one method to allocate indirect costs. Only a small number of NEA applicants and recipients (typically IHEs) have or choose to obtain and use a NICRA. For most nonprofit arts organizations which may only receive one or two federal awards per year, negotiating and maintaining a NICRA may not be an advantageous use of time and effort.

6. Does my organization need a NICRA from the NEA, if we already have one negotiated with another federal agency?

No. If your organization already has a NICRA with another federal agency, you can use those rates for NEA awards, too. In most cases, the federal agency providing the most federal funds to an organization has the responsibility for negotiating the NICRA.

Some federal agencies use a non-negotiated flat indirect cost rate for their agency's specific awards. These non-negotiated flat rates are not transferrable for use at the NEA. If your organization has never had a NICRA, you have the option of using the *de minimis* indirect cost rate on your project's modified total direct costs (MTDC) instead.

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

For awards issued FY 2025 and later: MTDC means 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.

For awards issued FY 2024 and earlier: MTDC means 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**.

8. Where can I learn more about Indirect Costs and obtaining a Negotiated Indirect Cost Rate Agreement (NICRA)?

The Department of Interior's [Interior Business Center](#) negotiates NICRAs on behalf of the NEA. 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 a NICRA proposal you must first contact the NEA Office of Grants Management at grants@arts.gov. You will be routed to the appropriate staff member who can help you with your proposal

IMPORTANT: The NEA must vet your NICRA proposal before it can be reviewed by the Interior Business Center.