

Indirect Cost Documentation Guide

Understanding and applying indirect costs to federal and state grants

What Are Indirect Costs?

Indirect costs are expenses that benefit multiple programs or activities and cannot be easily assigned to a specific project. Examples include administrative salaries, rent, utilities, and general office supplies. Federal regulations (2 CFR 200) allow you to recover these costs through an indirect cost rate.

Your Options for Indirect Costs

Option	Description	Best For
De Minimis Rate (15%)	Flat 15% rate on modified total direct costs; no negotiation required	Small organizations; those new to federal grants; simple projects
Negotiated Rate	Custom rate based on your actual costs; negotiated with cognizant agency	Organizations with significant overhead; multiple federal grants
No Indirect Costs	Charge only direct costs; forgo indirect cost recovery	When grant prohibits indirect costs; when tracking is too complex

De Minimis Rate (15%) - Simplified Approach

Per 2 CFR 200.414(f), organizations that have never had a negotiated rate may use a de minimis rate of 15% of modified total direct costs (MTDC).

What is MTDC?

Modified Total Direct Costs includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward. It excludes equipment, capital expenditures, rental costs, and the portion of subawards over \$25,000.

De Minimis Calculation Example:

Cost Category	Amount
Direct Salaries & Wages	\$50,000
Fringe Benefits	\$15,000
Materials & Supplies	\$10,000
Travel	\$5,000
Subaward (first \$25,000 of \$40,000)	\$25,000
Total MTDC Base	\$105,000
Indirect Costs (15% of MTDC)	\$15,750





Negotiated Indirect Cost Rate

If your actual indirect costs exceed 15%, you may benefit from negotiating a rate. This requires submitting an indirect cost rate proposal to your cognizant agency.

Who Is Your Cognizant Agency?

Entity Type	Cognizant Agency
Local governments	Federal agency providing majority of direct funding
Nonprofits (if assigned)	Federal agency with largest dollar amount of awards
State/local subrecipients	May use pass-through entity or state-negotiated rate

Documentation Requirements

Rate Type	Required Documentation
De Minimis (15%)	Written documentation of choice; maintain records supporting MTDC calculation; include statement in award budget
Negotiated Rate	Rate agreement letter from cognizant agency; cost allocation plan; supporting financial documentation

Important Reminders

- Check your grant agreement - some programs cap or prohibit indirect costs
- Once you use de minimis, you can switch to negotiated later (not vice versa)
- Document your indirect cost method choice in writing
- Ensure indirect costs are included in your approved budget
- Never charge the same cost as both direct and indirect

Resources

- 2 CFR 200, Subpart E - Cost Principles
- 2 CFR 200.414 - Indirect (F&A) Costs
- Your program officer or grants specialist
- State Single Audit Coordinator