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Universities and Indirect Costs for Federally Funded Research

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SUMMARY

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The federal government is the largest source of academic research and development (R&D) funding in the United States, providing funds through more than two dozen federal agencies. U.S. colleges and universities, often referred to as institutions of higher education (IHEs), play a role in the U.S. R&D ecosystem and in supporting American innovation, competitiveness, and economic growth. In 2023, federal funding accounted for $53 billion of the $102 billion in R&D performed at IHEs. Federal support for R&D comprises two main types of costs—direct and indirect.

- *Direct costs* of research are those that can be readily identified with a specific project or program, such as salaries and laboratory supplies.
- *Indirect costs*—such as utilities, research administration, and library costs—cannot be readily connected to an individual project or program but nevertheless are necessary to conduct research.

The amount of federal funds that should be allocated to the direct costs, compared to the indirect costs, of federally funded R&D performed by IHEs has been a subject of debate since the 1940s. Broadly, the method and policies associated with determining federal reimbursement of indirect costs have varied (e.g., full reimbursement, negotiated rates, fixed percentage of direct research costs). As of May 2025, indirect cost reimbursements for IHEs are typically determined by an indirect cost rate that is pre-negotiated with the federal government and varies by IHE—ranging from 30% to 70%. In the first half of 2025, the National Institutes of Health (NIH), the Department of Energy (DOE), the National Science Foundation (NSF), and the Department of Defense (DOD) released policies that would impose a 15% indirect cost rate on all R&D awards to IHEs. At issue for Congress are the potential consequences of such changes (e.g., federal savings, effects on university R&D infrastructure) and whether, and to what degree, the federal government should support indirect costs.

As Congress assesses policies and potential actions related to indirect costs for federally funded R&D at IHEs, the evolution of how indirect costs have been determined and debated, including potential alternative approaches, may be of interest. For example, Congress has previously considered fixed indirect cost rates, capping indirect cost rates broadly or for a subset of IHEs, and freezing indirect cost rates (e.g., prohibiting IHEs from negotiating new rates, requiring the use of a previously determined rate or a specified percentage of a previously determined rate).

As Congress determines whether to act on indirect costs associated with federally funded R&D at IHEs, it may consider the potential benefits and concerns associated with various actions. For example, reducing or limiting federal funding for indirect costs at IHEs could result in savings for federal agencies. On one hand, such savings might be used to increase the number of research projects funded by the federal government, in addition to potentially incentivizing operational efficiency at IHEs. On the other hand, such changes may have a disproportionate impact on public research institutions or on smaller IHEs that lack the level of private-sector support or endowments to buttress their overall R&D efforts. Alternatively, allowing indirect cost rates to continue to be negotiated and to vary by IHE would enable indirect costs to fluctuate in response to cost differences due to geography, IHE organizational structure, and the types of research conducted. Such an approach, however, might limit Congress's ability to address long-standing critiques (e.g., lack of transparency in the use of indirect cost reimbursements and concerns that reimbursements are for less than the full amount of indirect costs).

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Introduction

The U.S. government supports a broad range of scientific and engineering research and development (R&D) that addresses a variety of concerns, including national defense, health, safety, the environment, and energy security. Federally funded R&D also may contribute to the development of the U.S. scientific and engineering workforce and may play a role in enhancing the global competitiveness of U.S. institutions and industries.

The federal government is the largest supporter of R&D performed by institutions of higher education (IHEs; i.e., colleges and universities). In 2023, the federal government funded over 50% of R&D performed by IHEs.[1] Federal support for R&D comprises two main types of costs: *direct costs*, which consist of researcher salaries, equipment, supplies, and other expenses that directly support or benefit an individual research project, and *indirect costs*, also known as facilities and administrative (F&A) or overhead costs, which fund the infrastructure and support services for R&D but are not easily attributed to a specific project.[2] The operation and maintenance of research facilities, administrative services (e.g., purchasing and payroll), and library expenses are examples of indirect costs. Therefore, federal indirect cost policies have been intended to sustain the research environment more broadly; such policies have been debated and have evolved since they were first established in the 1940s.[3]

In terms of costs incurred by IHEs in the performance of federally funded R&D, the proportion of federal funding allocated to the direct costs compared to indirect costs has been a long-standing subject of debate, reaching back to when the federal government became the primary supporter of R&D at IHEs soon after World War II. Policies in 2025 by the National Institutes of Health (NIH), the Department of Energy (DOE), the National Science Foundation (NSF), and the Department of Defense (DOD) to lower the proportion of federal funding that each agency would provide to IHEs for indirect costs have drawn congressional interest and reignited debate.[4]

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[1] CRS analysis of National Center for Science and Engineering Statistics (NCSES), "Table 2. U.S. R&D Expenditures, by Performing Sector and Source of Funds: 1953–2023," in *National Patterns of R&D Resources: 2022-2023 Data Update*, NSF 25-326, February 2025, https://ncses.nsf.gov/data-collections/national-patterns/2022-2023#data. Some data are estimated and may be revised. As of April 2025, the most recent year for which comprehensive data estimates are available is 2023. Per Table 2, in 2023, research and development (R&D) expenditures from institutions of higher education (IHEs) totaled $85.5 billion, of which federal funds accounted for $43.2 billion.

[2] 2 C.F.R. §§200.413-200.414.

[3] Vannevar Bush, head of the Office of Scientific Research and Development (OSRD) in the 1940s, noted in reference to the motivation for OSRD's overhead policy, "Any commercial concern that did not consider overhead [i.e., indirect costs] as part of its costs would not last long." In 1942, Vannevar Bush established an indirect cost reimbursement policy that allowed universities to receive overhead payments of 50% of salaries paid on OSRD contracts. See Pierre Azoulay et al., "Indirect Cost Recovery in U.S. Innovation Policy: History, Evidence, and Avenues for Reform," National Bureau of Economic Research, Working Paper 33627, March 2025, https://www.nber.org/papers/w33627; and Carol Gruber, "The Overhead System in Government-Sponsored Academic Science: Origins and Early Development," *Historical Studies in the Physical and Biological Sciences*, vol. 25, no. 2 (1995), pp. 241-268, https://www.jstor.org/stable/pdf/27757745.pdf (quote from Bush appears on p. 243).

[4] National Institutes of Health (NIH), Office of the Director, *Supplemental Guidance to the 2024 NIH Grants Policy Statement: Indirect Cost Rates*, NOT-OD-25-068, February 5, 2025, https://grants.nih.gov/grants/guide/notice-files/NOT-OD-25-068.html; Department of Energy (DOE), *Adjusting Department of Energy Grant Policy for Institutions of Higher Education (IHE)*, PF 2025-22, April 11, 2025, https://www.energy.gov/management/pf-2025-22-adjusting-department-energy-grant-policy-institutions-higher-education-ihe; National Science Foundation (NSF), *Policy Notice: Implementation of Standard 15% Indirect Cost Rate*, NSF 25-034, May 2, 2025, https://www.nsf.gov/policies/document/indirect-cost-rate; and Department of Defense (DOD), Secretary of Defense, "Implementation of a 15% Indirect Cost Cap on Assistance Awards to Institutions of Higher Education," May 14, 2025, https://www.cogr.edu/sites/default/files/
(continued...)

Specifically, NIH, DOE, NSF, and DOD have sought to cap the indirect cost rate (ICR) of federal awards to IHEs at 15%. However, as of the date of this report, implementation of a 15% ICR cap by NIH, DOE, and NSF has been suspended or is unclear because of ongoing court proceedings.[5] DOD's policy is set to go into effect for all new awards on June 4, 2025.

This report provides an overview of indirect costs, including how indirect costs are calculated; the history of debates over federal funding for indirect costs and selected federal activities associated with indirect costs, including recent actions by NIH, DOE, NSF, and DOD; and options and considerations for Congress regarding potential changes to current indirect-cost-related policies. The report focuses specifically on indirect costs associated with federally funded research at IHEs.

Research Costs and Federal Support

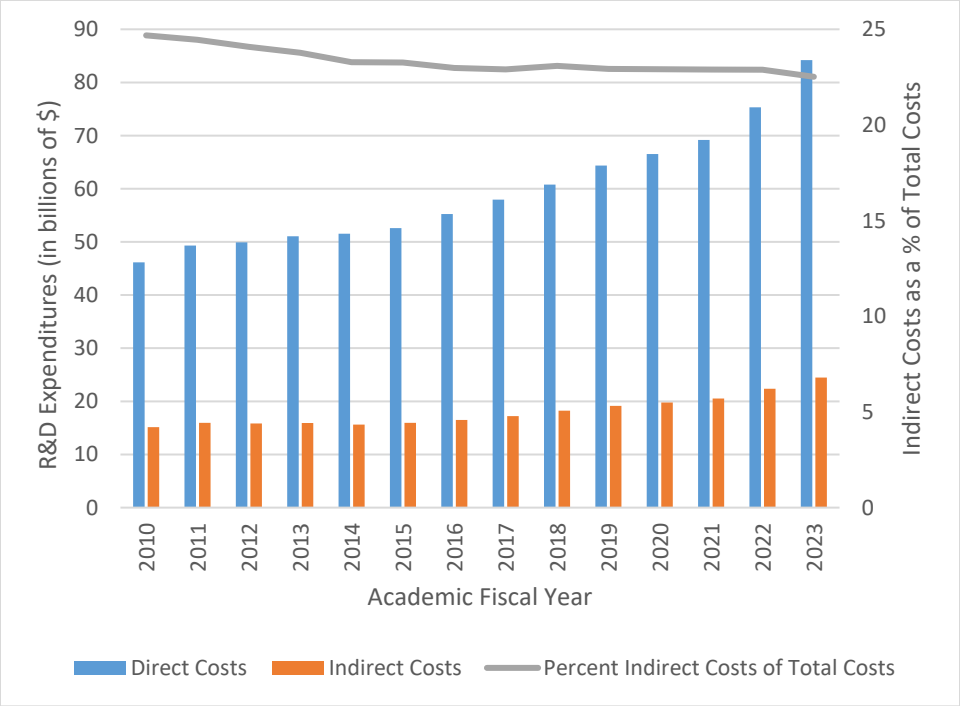
Federal research awards provide funding for both direct costs and indirect costs. According to data from the Higher Education Research and Development (HERD) Survey, conducted by the National Center for Science and Engineering Statistics (NCSES) within NSF, IHEs spent approximately $109 billion on R&D in FY2023, with federally funded R&D accounting for $59.6 billion, or 55%, of the total R&D expenditures reported. IHEs identified $84.2 billion of total R&D expenditures in FY2023 as direct costs and $24.5 billion as indirect costs.[6] Indirect costs for IHEs, as a percentage of total R&D expenditures reported by IHEs, have remained relatively steady for a number of years prior to 2023, ranging from 25% in 2010 to 23% in 2023 (see **Figure 1**).

Implementation%20of%20a%2015%20Percent%20Indirect%20Cost%20Cap%20on%20Assistance%20Awards%20to%20Institutions._.pdf.

[5] CRS Insight IN12516, *NIH Indirect Costs Policy for Research Grants: Recent Developments*, by Kavya Sekar and Marcy E. Gallo; Clare Zhang, "Judge Blocks DOE Move to Cut Indirect Cost Rate," American Institute of Physics, April 16, 2025, https://ww2.aip.org/fyi/judge-blocks-doe-move-to-cut-indirect-cost-rate; and Laura Spitalniak, "National Science Foundation Faces Lawsuit over 15% Indirect Research Cap," *Higher ED Dive*, May 7, 2025, https://www.highereddive.com/news/national-science-foundation-faces-lawsuit-over-15-indirect-research-cap/747385/.

[6] Michael T. Gibbons, *Higher Education R&D Expenditures Increased 11.2%, Exceeded $108 Billion in FY 2023*, NCSES, NSF 25-313, November 25, 2024, https://ncses.nsf.gov/pubs/nsf25313.

Figure 1. Annual Expenditures on Direct and Indirect Costs for Research and Development (R&D) Reported by Institutions of Higher Education



Source: CRS analysis of data from National Center for Science and Engineering Statistics, "Table 17. Higher Education R&D Expenditures, by Type of Cost, Highest Degree Granted and Institutional Control: FYs 2010-23," in *Higher Education Research and Development (HERD) Survey*, 2023, https://ncses.nsf.gov/surveys/higher-education-research-development/2023#data.

Notes: Bars shown are R&D expenditures per academic fiscal year, which is from July to June for most institutions; the trend line shows the change in indirect costs as a percentage of total (direct + indirect) costs, calculated by CRS. R&D expenditure, indirect cost, and direct cost data are nominal. According to the HERD Survey methodology, "The reporting of unrecovered indirect costs is another known source of error. The survey requests that the total amount of indirect costs associated with a research grant or contract be calculated and reported, including costs that were not reimbursed by the external funding source. ... In FY 2023, 5.0% of respondents reported unrecovered indirect costs as unavailable."

Indirect costs are charged using an ICR that is applied to a certain portion of the direct costs—known as *modified total direct costs* (MTDCs)—for each research award.[7] Direct and indirect research costs are subject to the cost principles contained in the Uniform Guidance (UG) issued by the Office of Management and Budget (OMB) at 2 C.F.R., Part 200, Subpart E. The UG establishes standards for determining the allowability of costs under a federal award. In general, a cost must be necessary and reasonable for the performance of the federal award, treated consistently across federally financed activities, adequately documented, and allocated in conformance with federal cost principles, including any limitations or exclusions.[8] The cost principles, in addition to other guidance associated with the management and administration of

[7] Per 2 C.F.R. §200.1, the modified total direct cost (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."

[8] 2 C.F.R. §§200.402-200.411.

federal awards to IHEs, were previously contained in OMB Circular A-21 (see the **text box** below).

Circular A-21 Revisions and the Uniform Guidance

The Office of Management and Budget (OMB) initially published Circular A-21, *Cost Principles for Educational Institutions*, in 1958. Over subsequent years, Circular A-21 underwent many revisions. Selected clarifying examples and recent updates are highlighted here. First, in May 1996, OMB officially replaced the term "indirect costs" with "facilities and administrative [F&A] costs."[9] Subsequently, an April 2024 final rule and guidance explained that "the term [F&A] cost is often used to refer to indirect costs by Institutions of Higher Education," but revised the definitions to refer to "indirect (F&A) costs."[10]

In 2005, OMB relocated Circular A-21 to Title 2 in the *Code of Federal Regulations* (2 C.F.R.). The move was part of an OMB initiative to establish 2 C.F.R. as a single location for the public to find OMB's guidance for grants and agreements and federal agency implementing regulations. In 2013, OMB published final guidance for "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," often referred to as the Uniform Guidance (UG). The UG consolidated and streamlined numerous OMB circulars pertaining broadly to federal awards, including Circular A-21, into a final guidance document. The UG is meant to provide a "governmentwide framework for grants management" and "reduce administrative burden for non-Federal entities receiving Federal awards while reducing the risk of waste, fraud and abuse."[11] The UG provides guidance for federal agencies only in their management of grants; statutory language or regulations associated with specific grant programs would have precedence over the UG.

Federal ICRs are usually pre-negotiated and vary by IHE. **Figure 2** illustrates the process for negotiating an ICR with the federal government. An IHE develops an ICR proposal by identifying, assigning, and distributing costs incurred over a base period, typically a year, in accordance with Appendix III of the UG, which specifies criteria for classifying and computing ICRs at IHEs.[12] The ICR proposal and supporting documents (e.g., audited financial statements) are submitted to the appropriate federal rate-setting agency (i.e., the *cognizant agency*), which is either the Department of Health and Human Services (HHS) or DOD. The applicable cognizant agency is determined by which of the two agencies provided the majority of federal funds to the given IHE over the most recent three-year period.[13] In cases where neither HHS nor DOD provides federal funding directly to an educational institution, HHS becomes the default cognizant agency for indirect costs assignment. Most IHEs negotiate their ICRs with HHS.[14] The rate-setting agency reviews the IHE's ICR proposal for accuracy and conformance with supporting documentation, analyzes the proposal to ensure that only allowable and allocable costs

[9] Office of Management and Budget (OMB), "Cost Principles for Educational Institutions," 63 *Federal Register* 29786, June 1, 1998, https://www.gpo.gov/fdsys/pkg/FR-1998-06-01/pdf/98-14078.pdf.

[10] OMB, "Guidance for Federal Financial Assistance," 89 *Federal Register* 30046, April 22, 2024, https://www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance.

[11] OMB, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 78 *Federal Register* 78590, December 26, 2013, https://www.federalregister.gov/documents/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards.

[12] 2 C.F.R. Appendix III to Part 200, *Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)*.

[13] The offices within each agency that negotiate indirect cost rates with IHEs are the Department of Health and Human Services' (HHS's) Program Support Center and Cost Allocation Services, and DOD's Office of Naval Research.

[14] Per 2 C.F.R. Appendix III to Part 200, "cost negotiation cognizance is assigned to the Department of Health and Human Services (HHS) or the Department of Defense's Office of Naval Research (DOD), normally depending on which of the two agencies (HHS or DOD) provides more funds directly to the educational institution for the most recent three years. Information on funding must be derived from relevant data gathered by the National Science Foundation. In cases where neither HHS nor DOD provides Federal funding directly to an educational institution, the cognizant agency for indirect costs assignment must default to HHS."

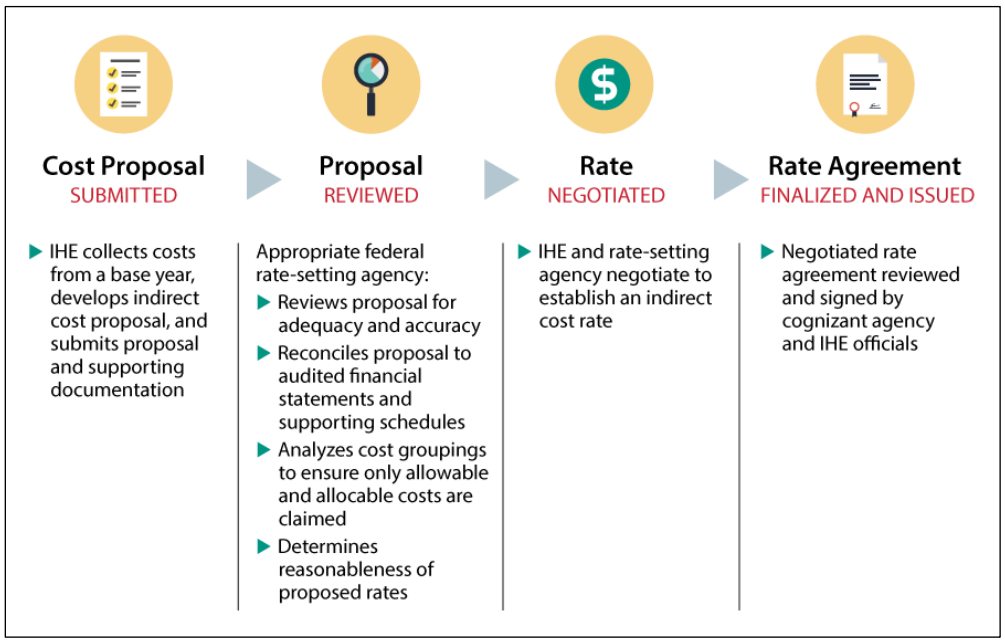
are claimed, and determines whether the proposed rates are reasonable.[15] After the federal rate-setting agency has reviewed the proposal, it negotiates with the IHE to establish, finalize, and issue an ICR agreement.

Federal ICR agreements generally stay in effect for two to four years before they are renegotiated.

All federal agencies must accept the negotiated rate.

Per 2 C.F.R. §200.414(c), federal agencies can use a rate different from the negotiated rate when required by federal statute or regulation, or when approved by the awarding federal agency under certain conditions. For example, Congress limited the indirect costs of agricultural research, education, and extension grants made by the U.S. Department of Agriculture to 30% of total federal funds provided under an award.[16]

Figure 2. Process for Negotiating an Indirect Cost Rate Agreement



Source: CRS, adapted from U.S. Government Accountability Office, "Figure 3: Indirect Cost Rate-Setting Process," in *NIH Biomedical Research: Agencies Involved in the Indirect Cost Rate-Setting Process Need to Improve Controls*, GAO-16-616, September 7, 2016, https://www.gao.gov/assets/gao-16-616.pdf.

Notes: IHE = institution of higher education. Per 2 C.F.R. §200.1, the rate-setting or cognizant agency is "the Federal agency responsible for reviewing, negotiating and approving cost allocation plans or indirect cost proposals on behalf of all Federal agencies." The federal rate-setting agency for IHEs, as assigned by 2 C.F.R. Appendix III to Part 200, is typically the Department of Health and Human Services or the Department of Defense's Office of Naval Research.

There is no publicly available centralized database of ICR agreements between IHEs and the federal government. According to media reports, IHEs' negotiated ICRs generally range from 30% to 70%.[17]

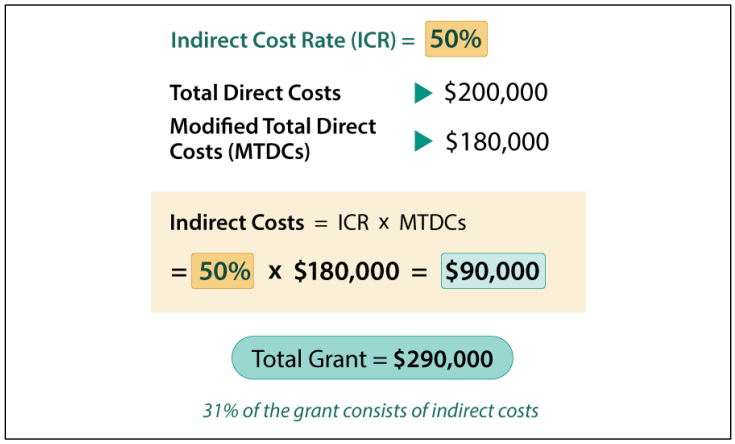
[15] An IHE's indirect cost rate (ICR) proposal consists of proposed rates for each of the major functions of an IHE. The major functions of an IHE, as detailed in 2 C.F.R. Appendix III to Part 200, include instruction, organized research, other sponsored activities, and other institutional activities.

[16] P.L. 115-334, §7125.

[17] Jonathan Wosen and Angus Chen, "What Are Indirect Research Costs? A Quick Explainer in Light of NIH's (continued...)

As indicated above, to calculate indirect costs that will be reimbursed for an individual research grant award, an IHE's ICR is applied to the MTDCs in the grant applicant's proposed budget. MTDCs include the salaries, wages, and fringe benefits of research project personnel, materials and supplies, travel, and the first $50,000 of any subawards. MTDCs exclude "equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs," and any subaward portions greater than $50,000.[18] For an IHE with a hypothetical ICR of 50%, for every federal dollar awarded for MTDC, 50 cents are added to the award to pay for indirect costs (**Figure 3**). A 50% ICR does not equate to 50% of the research grant supporting indirect costs. If an IHE does not have a negotiated ICR, it can charge a de minimis rate of up to 15% of MTDCs for the reimbursement of indirect costs.[19] As discussed in the next section, in 1991, OMB imposed a cap of 26% on the administrative portion of all IHEs' ICRs.

Figure 3. Example of Indirect Cost Calculation for Hypothetical Research Grant



Source: CRS.

Notes: Federal grantees and agencies typically use MTDCs when calculating the indirect costs for an award. Per 2 C.F.R. §200.1, MTDCs exclude "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."

Selected Major Federal Activities on Indirect Costs

Since the 1940s, the federal government has debated, implemented, removed, or revised a variety of proposals and actions regarding indirect costs. These have included fixing ICRs, capping ICRs broadly or for a subset of cost categories or institutions, prohibiting ICR caps, shifting funding from indirect costs to support more direct costs of research, pausing ICRs (e.g., prohibiting IHEs from negotiating new rates and requiring the use of a previously determined rate or a specified percentage of a previously determined rate), and redefining categories of indirect costs. This

Sweeping Policy Change," *STAT News*, February 8, 2025, https://www.statnews.com/2025/02/08/nih-indirect-costs-explainer-research-budget-cuts-different-accounting/; and McKenzie Prillaman and Alex Viveros, "NIH Research Grant Cuts Could Deal a Biting Blow to Crucial Support Staff," *ScienceNews*, February 14, 2025, https://www.sciencenews.org/article/indirect-costs-nih-biomedical-research.

[18] 2 C.F.R. §200.1.

[19] 2 C.F.R. §200.414(f).

section of the report summarizes some of the major federal policy activities on indirect costs over time.

Fixed Rates

The federal government first developed a fixed, uniform ICR for federal funding to IHEs of 50% of salaries and wages during the World War II era.[20] Starting in 1947, federal agencies began adopting their own individual policies for indirect cost reimbursements for federally funded research at IHEs. Subsequently, separate appropriations acts mandated fixed or capped ICRs. Fixed upper limits (i.e., cost ceilings) specified by agencies or in appropriations acts for indirect cost recovery for grants ranged between 8% and 25% through FY1965.[21] Congressional hearings held in 1962 resulted in a subcommittee report that recommended terminating the use of indirect cost limits.[22]

Negotiated Rates

Congressional Actions

In FY1966, Congress removed statutory indirect cost ceilings and instead required negotiations of rates based on actual costs and mandatory cost-sharing by academic institutions for federally funded research.[23] In doing so, the House Committee on Appropriations did not establish detailed guidelines for rates but recommended that they be determined on either a project-specific or an institutional basis.

OMB Guidance

Government-wide indirect cost principles to assist agencies in determining cost accounting standards were set in 1958 when the Bureau of the Budget (later OMB) first issued Circular A-21, *Cost Principles for Educational Institutions*.[24] Circular A-21 applied to R&D grants, contracts, and other funding agreements between the federal government and IHEs. The circular included definitions for direct costs and indirect costs; requirements for accountability, documentation, consistency, and use of accounting principles to develop ICRs; identification of unallowable

[20] Exceptions to the ICR of 50% were large university-administered laboratories where the primary purpose was government research, in which case, reimbursement of actual costs was used. Ad Hoc Committee on Government-University Relationships in Support of Science et al., *Strengthening the Government-University Partnership in Science*, (National Academies Press, 1983), p. 220, https://www.nap.edu/catalog/19442/strengthening-the-government-university-partnership-in-science.

[21] As an example of statutory language establishing a ceiling on indirect costs, Section 208 of P.L. 85-67, the Departments of Labor, and Health, Education, and Welfare Appropriation Act, 1958, stated, "None of the funds provided herein shall be used to pay any recipient of a grant for the conduct of a research project an amount for indirect expenses in connection with such project in excess of 15 per centum of the direct costs." Comparatively, indirect costs for NSF were capped at 25% pursuant to Section 304 of P.L. 87-741, the Independent Offices Appropriation Act, 1963.

[22] U.S. Congress, House Committee on Science and Astronautics, *Limitation on Indirect Costs in Research Grants*, hearings, 87th Cong., 2nd sess. (Government Publishing Office [GPO], 1962).

[23] Based on Section 203 of P.L. 89-156, the Departments of Labor, and Health, Education, and Welfare Appropriation Act, 1966, and on U.S. Congress, House Committee on Appropriations, report to accompany H.R. 7765, 89th Cong., 1st sess., H.Rept. 89-272, pp. 52-53. *Cost-sharing* is work performed directly on a research grant or contract that is not charged to the grant or contract, either as direct or indirect costs, for which the cost is absorbed by the institution.

[24] In 1947, the Office of Naval Research (ONR) negotiated the first set of principles to determine ICRs, entitled, "Explanation of Principles for Determination of Costs Under Government Research and Development Contracts with Educational Institutions," also known as "the blue book." However, this was primarily used by DOD offices and not government-wide. Circular A-21 revised ONR's blue book principles for government-wide use.

costs; and authorization for universities with small research awards to use a simplified approach to calculating overhead costs.

Between 1961 and 1976, Circular A-21 was revised six times, broadly making indirect cost requirements more precise (e.g., refining methods for identifying and distributing indirect costs, establishing more precise standards for allowable costs). After disagreements between IHEs and federal agencies about the kinds of costs that were appropriately considered indirect, revisions to the circular in 1979 included changes to reporting requirements and establishment of MTDCs as the basis for calculating the distribution of costs among projects.

Calls to Contain Indirect Costs

In the 1980s and early 1990s, Congress, OMB, and other federal agencies extensively discussed proposals to cap the administrative portions of indirect cost reimbursements for research at IHEs. In 1982, Circular A-21 was revised to ease reporting requirements for researchers and to allow the debt interest associated with buildings and equipment supporting research to be included as indirect costs. In the early 1980s, multiple congressional reports called for containing indirect costs or overhead, though they generally did not include specific recommendations.[25] During this period, Congress did not implement limits to ICRs as recommended by the General Accounting Office (GAO; later the Government Accountability Office) and agency proposals. In 1986, OMB capped faculty administrative efforts (for academic department heads, faculty, and other administrative staff) charged to research at a fixed allowance of 3.6% of MTDC.

Congressional Investigations and Caps to Administrative Costs

In early 1991, investigations by House congressional committees, GAO, and various federal Inspectors General (IGs) led to allegations of abuses and overcharges of indirect costs at multiple universities. Congressional committee hearings[26] including witnesses from federal agencies and universities were followed by House-passed versions of NSF and NIH authorizations bills that proposed 26% caps to administrative indirect costs, though neither bill was enacted.[27] Subsequently, in a 1991 revision to Circular A-21, OMB implemented a cap of 26% of MTDCs for the administrative cost portion (not just the faculty administrative efforts) of indirect costs, among other revisions.[28] (Some agencies later codified this. For example, at DOE, administrative indirect costs for some research projects were capped at 26% of MTDC per §2118 of the Energy Policy Act of 1992, P.L. 102-486.) OMB revised Circular A-21 again in 1993, aggregating the seven previous "pools," or cost groupings, of indirect costs used to determine ICRs into two

[25] Congressional reports included those accompanying appropriations bills for HHS: S.Rept. 97-268 (FY1982), pp. 48-49; H.Rept. 98-911 (FY1985), p. 31; and H.Rept. 99-402 (FY1986), p. 28.

[26] U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Financial Responsibility at Universities*, hearings, 102nd Cong., 1st sess., March 13, 1991 (GPO, 1991); U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Indirect Cost Recovery Practices at U.S. Universities for Federal Research Grants and Contracts*, hearings, 102nd Cong., 1st sess., May 9, 1991 (GPO, 1991); and U.S. Congress, House Committee on Science, Space, and Technology, Subcommittee on Science, *Indirect Cost of University Research*, hearings, 102nd Cong., 1st sess., April 23 and 25, 1991 (GPO, 1991).

[27] H.R. 2282, the National Science Foundation Authorization Act Amendments of 1991 (as passed by the House), and H.R. 1532, National Institutes of Health Revitalization Amendments of 1991 (as passed by the House).

[28] Other revisions included exclusions of certain items from ICR calculations, removal of ambiguities in the guidance to prevent shifting of capped indirect costs to uncapped costs, and requirements for universities to ensure that indirect cost reimbursements for buildings and equipment are actually used for replacing or upgrading buildings and equipment directly associated with federally funded research.

broad categories—facilities and administrative. Any costs not identified as facilities were shifted to the administrative category and thereby fell under the existing cap of 26% of MTDC.

Additional Policy Proposals

Return to Fixed ICRs

In addition to proposing caps on the administrative portion of indirect costs, some Members advocated for a return to non-negotiated, fixed ICRs, which were removed by Congress in 1966. For example, the House Appropriations Committee, in its report accompanying H.R. 2707, the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 1992 (H.Rept. 102-104), directed the HHS IG "to examine whether returning to the system that existed prior to 1966 would be more cost effective." The bill was passed by Congress in November 1991 but ultimately vetoed by then-President George H. W. Bush.

Capping or Limiting ICRs

In 1992, an additional House congressional committee hearing reviewed audits of university financial practices and indirect cost charges,[29] and GAO reporting assessed indirect cost mismanagement and improprieties. GAO identified (but did not recommend) alternative approaches to the reimbursement funding system, such as fixing ICRs at a flat rate and simplifying, streamlining, and improving the consistency of ICR negotiations.[30] A 1992 report by majority staff of the House Committee on Government Operations discussed potential savings from revising indirect costs levels for research institutions and concluded, for example, that "approximately $237 million per year could be saved by establishing a cap at the 50 percent rate on indirect cost reimbursements for the top 137 research institutions."[31]

Additional legislation was introduced in the 1990s that sought to restrict indirect costs, including establishing limits on indirect cost reimbursements of 50% of MTDCs for all federal agencies awarding grants or contracts to IHEs for R&D[32] and limits on administrative indirect cost reimbursements to 90% of prior year (FY1995) levels.[33] None of those bills were enacted.

President Clinton's FY1994 budget document proposed increasing federal funding for university R&D while placing an upper limit on indirect costs in a "concerted effort to shift national spending from overhead to funding research."[34] After opposition by universities, OMB removed

[29] U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Financial Responsibility at Universities (Part 2)*, hearings, 102nd Cong., 2nd sess., January 29, 1992 (GPO, 1992).

[30] Government Accountability Office (GAO), *Federal Research: System for Reimbursing Universities' Indirect Costs Should Be Reevaluated*, RCED-92-203, August 1992, https://www.gao.gov/assets/rced-92-203.pdf.

[31] U.S. Congress, Majority Staff Report to the House Committee on Government Operations, "Managing the Federal Government: A Decade of Decline," committee print, 102nd Cong., 2nd sess., December 1992 (GPO, 1993), p. 164. The report noted that estimates were based on GAO reports, as specified.

[32] For example, "A bill to limit the amount of indirect costs that may be incurred in conducting federally sponsored university research and development to 50 percent of the modified total direct costs related to such research and development" (S. 1184, 103rd Congress); the Fiscal Responsibility Act of 1994 (H.R. 3958, 103rd Congress); and the Illegal Immigration Control Act of 1995 (S. 999, §901, 104th Congress).

[33] Restructuring a Limited Government Act (H.R. 1923, §11101, 104th Congress).

[34] Executive Office of the President, *A Vision for Change for America*, February 17, 1993, p. 90.

the proposed plan to cap overhead rates, reporting that it had accounted for a targeted $1.2 billion in savings over four years in other ways.[35]

In its FY2018 budget request for NIH, the Trump Administration proposed capping indirect costs for research grants at 10%.[36] The House and Senate Appropriations Committees did not adopt this proposal and have included a provision in every annual appropriations act since FY2018 that prohibits changes to NIH indirect cost policies and rates from those in effect in the third quarter of FY2017.[37]

In recent years, some Members of Congress and the President have sought to impose limitations on indirect costs under federal research awards to IHEs. For example, on February 7, 2025, NIH published supplemental policy guidance that would institute a 15% ICR for NIH grants. The NIH policy applies to any new grants and retroactively to any existing grants to IHEs. Specifically, NIH stated,

> Most private foundations that fund research provide substantially lower indirect costs than the federal government, and universities readily accept grants from these foundations. … The United States should have the best medical research in the world. It is accordingly vital to ensure that as many funds as possible go towards direct scientific research costs rather than administrative overhead. NIH is accordingly imposing a standard indirect cost rate on all grants of 15% pursuant to its 45 C.F.R. 75.414(c) authority. We note in doing so that this rate is 50% higher than the 10% de minimis indirect cost rate provided in 45 C.F.R. 75.414(f) for NIH grants. We have elected to impose a higher standard indirect cost rate to reflect, among other things, both (1) the private sector indirect cost rates noted above, and (2) the de minimis cost rate of 15% in 2 C.F.R. 200.414(f) used for IHEs and nonprofits receiving grants from other agencies.[38]

Other federal agencies have also released policies that would limit indirect cost reimbursements to IHEs. On April 11, 2025, DOE announced that it would impose a 15% ICR on all future research awards to IHEs.[39] In addition, NSF announced that as of May 5, 2025, the agency "will apply a standard indirect cost rate not to exceed 15% to all grants and cooperative agreements awarded to IHEs."[40] Similar to DOE's policy, NSF's policy would not be retroactive and would apply only to future awards. On May 14, 2025, the Secretary of Defense issued a memorandum stating that DOD plans to cap the ICR for financial awards to IHEs at 15%. The policy change is directed to take effect on June 4, 2025, for all new awards and on June 13, 2025, for existing awards. As of the date of this report, there is pending litigation associated with implementation of the 15% ICR cap policies of NIH, DOE, and NSF.

The Federal Grant Accountability Act (H.R. 420, 119th Congress) would limit the total amount of indirect costs allowable for federal awards to IHEs to the amount allowable for private research awards (on average, as determined by OMB). The No Subsidies for Wealthy Universities Act

[35] Colleen Cordes, "Clinton Backs Away from Cut in Overhead Payment," *The Chronical of Higher Education*, March 24, 1993, p. A24.

[36] HHS, *Justification of Estimates for Appropriations Committees: Fiscal Year 2018. Vol. 1: Overview*, p. 3, https://officeofbudget.od.nih.gov/pdfs/FY18/Overview%20of%20FY%202018%20President's%20Budget.pdf#page=7.

[37] P.L. 115-141, Division H, §226.

[38] NIH, *Supplemental Guidance to the 2024 NIH Grants Policy Statement: Indirect Cost Rates*.

[39] DOE, "Department of Energy Overhauls Policy for College and University Research, Saving $405 Million Annually for American Taxpayers," press release, April 11, 2025, https://www.energy.gov/articles/department-energy-overhauls-policy-college-and-university-research-saving-405-million.

[40] NSF, *Policy Notice: Implementation of Standard 15% Indirect Cost Rate*, NSF 25-034, May 2, 2025, https://www.nsf.gov/policies/document/indirect-cost-rate.

(H.R. 422, 119th Congress) would prohibit or limit indirect costs for federal research awards to IHEs on the basis of the value of the institution's endowment funds, if any.

Pausing ICRs

President Clinton's FY1995 budget proposed a one-year *pause* on indirect costs (i.e., it proposed limiting IHEs receiving over $10 million in federal research funding to the indirect cost amounts they received in FY1994).[41] While an NSF authorization bill would have instituted a pause in indirect cost reimbursements, the Clinton Administration opposed the provision, believing that the pause should be government-wide. The National Science Board—NSF's governing body—also opposed the pause; the bill passed the House, but no further action was taken.[42]

Ultimately, the pause was not included in the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriation Act, 1995 (P.L. 103-333). In the accompanying report, H.Rept. 103-553, the House Committee on Appropriations stated that the pause did not address major issues that the Clinton Administration needed to address, such as disparities in ICRs among institutions and allocation processes to reduce indirect costs. Similarly, the committee did not include the pause in the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1995 (P.L. 103-327), pending the outcome of the Administration's review of indirect costs to "better understand the incentives that govern overhead payments," according to the accompanying report (H.Rept. 103-555).

Prohibiting Indirect Cost Caps

In 1996, Congress prohibited the use of appropriated funds for FY1996 to implement any cap on reimbursements to grantees for indirect costs, except as published in OMB Circular A-21.[43] Such legislative prohibitions on indirect cost reimbursement caps have been included in numerous subsequent appropriations acts.[44]

Policy Options and Considerations

In 2017 testimony before the House Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, a witness characterized the recurring questions for Congress related to indirect costs as boiling down to "are the costs reasonable and accountable, who should pay [for them], why, and in what proportion?"[45]

[41] The FY1995 budget proposal stated, "Instead of a permanent cut or cap on overhead payments, the 1995 budget proposes a one year pause that instructs grantee institutions not to seek additional payments for overhead above the amounts claimed in 1994." See OMB, *The Budget of the United States Government, Fiscal Year 1995*, February 1994, p. 117.

[42] The National Science Foundation Authorization Act of 1994 (H.R. 3254, 103rd Congress).

[43] Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P.L. 104-134, §517) and the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1997 (P.L. 104-204, §416).

[44] For example, the Consolidated Appropriations Acts for 2004 (P.L. 108-199) and 2005 (P.L. 108-447).

[45] Testimony of Dr. Kelvin Droegemeier in U.S. Congress, House Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, *The Role of Facilities and Administrative Costs in Supporting NIH-Funded Research*, 115th Cong., 1st sess., October 24, 2017, https://www.congress.gov/115/meeting/house/106525/witnesses/HHRG-115-AP07-Wstate-DroegemeierK-20171024.pdf.

This section of the report provides selected policy options and considerations as Congress determines what, if any, action to take on indirect costs associated with federally funded R&D at IHEs.

Maintain FY2024 Indirect Cost Policies

Congress might choose to maintain the indirect cost policies that various federal agencies used prior to the Trump Administration's 2025 changes; the policies that were in use had resulted from a multi-decade evolution. These policies are referred to herein as "current policies" given that 2025 changes are not known to have been implemented at the time of this report. Maintaining these policies would continue to allow negotiated ICRs to fluctuate in response to cost differences due to geography, IHE organizational structure, and the types of research conducted. This approach might provide some certainty in grant administration at a time when the size of the federal research budget, organization of federal science agencies, and scope of available federal research programs may be changing.[46]

Maintaining current policies could limit the ability of the federal government and IHEs to address long-standing critiques. Concerns about challenges related to indirect costs have been raised by IHEs at congressional hearings over the years, with IHEs advocating for increases to indirect cost reimbursements. For example, in 2012, the House Committee on Science, Space, and Technology's Subcommittee on Research and Science Education held a hearing entitled, "The Role of Research Universities in Securing America's Future Prosperity."[47] Witnesses from universities asserted that challenges related to university indirect costs included reimbursements for less than the full amount of indirect costs and faster growth in costs to comply with research-related federal regulations than any growth in indirect cost reimbursement rates. Data from NCSES's HERD Survey show that universities, on average, recovered approximately 70% of their indirect costs associated with R&D between 2010 and 2023. In addition, according to the Council on Governmental Relations (COGR), "the extensive growth in federal regulations is driving the increase in administrative costs that cannot be recovered due to the 26% cap."[48] COGR indicates that there have been 270 new and significantly changed federal regulations instituted since the administrative cap was imposed in 1991 (as of December 2024).[49]

Presidential administrations and some Members of Congress have historically expressed concern about the amount of funding provided for indirect costs. According to one recent study, the current system lacks transparency and may make universities cost-insensitive, which "could lead to infrastructure or faculty investments beyond what is socially useful, favoring expensive over

[46] For example, in the "skinny budget" provided to Congress on May 2, 2025, the President proposes to cut NSF's funding by $4.6 billion in FY2026 compared to FY2025; he also proposes to cut NIH's FY2026 funding by $18 billion compared to FY2025, among other proposed cuts to federal research agencies and programs. See letter from Russell T. Vought, Director of OMB, to Sen. Susan Collins, May 2, 2025, https://www.whitehouse.gov/wp-content/uploads/2025/05/Fiscal-Year-2026-Discretionary-Budget-Request.pdf.

[47] U.S. Congress, House Committee on Science, Space, and Technology, Subcommittee on Research and Science Education, *The Role of Research Universities in Securing America's Future Prosperity: Challenges and Expectations*, hearings, 112th Cong., 2nd sess., June 27, 2012 (GPO, 2012).

[48] Council on Governmental Relations (COGR), "F&A Survey Capstone: Cost Reimbursement Rates, Actual Reimbursement, and Growing Regulatory Cost Burden," December 2024, p. 11, https://www.cogr.edu/sites/default/files/FA_Cap_2023_Updated_HERD_121224.pdf.

[49] COGR, "F&A Survey Capstone," p. 12.

inexpensive research."[50] Maintaining current policies could limit efforts to address those concerns.

Reduce or Limit Federal Reimbursements for Indirect Costs

Congress might choose to reduce or limit federal funding for indirect costs at IHEs. A 2025 study shows that negotiated ICRs have increased over the last 40 years, with the median negotiated ICR rising from 43% in the 1980s to approximately 56% in 2024. The ICR, however, does not equate to the percentage of a federal award that supports indirect costs, but rather is used to determine how much additional funding will be added to an award to cover indirect costs (e.g., for an IHE with a hypothetical ICR of 50%, for every federal dollar awarded for MTDC, 50 cents are added to the award to pay for indirect costs). The same study indicates that the indirect costs reimbursed by NIH as a proportion of the total direct costs of an IHE (i.e., the effective rates) have remained constant over the same period, between 38% and 40%.[51] The study authors state that "the evidence that effective rates are mostly unchanged over the past 40 years suggests against substantial indirect cost growth—or at least indicates institutions' indirect cost funding has scaled proportionally with total direct costs."[52]

Congress has previously considered a variety of policies to reduce federal funding for indirect costs, including an overall cap on ICRs, freezing ICRs at their current levels, reducing ICRs by a fixed percentage over a period of time (e.g., by 10% over five years), and allowing IHEs to receive 90% of their current negotiated ICR without submission of an ICR proposal. The primary benefit of such policies is the potential savings to the federal government. Supporters indicate that such savings could be used to increase the number of research projects funded by the federal government.[53] For IHEs with long research planning horizons, delaying implementation of ICR reductions, or implementing ICR reductions slowly over a period of years, may help to lessen the impacts on IHE research, personnel, and students. A fixed rate or cap on indirect costs might also incentivize operational efficiency at IHEs and reduce the administrative burden and expenses associated with the development of an ICR agreement for both the federal government and IHEs. An alternative assessment is included in a 2000 report from the Office of Science and Technology Policy,

> While some of these options would reduce federal payments for indirect costs, in many cases, these costs would simply be shifted to universities. The consequences of such shifting are likely to be reductions in total support for research, reductions in total funds spent by universities on other aspects of education, or tuition increases.[54]

An underlying concern for substantial changes to indirect cost policies, particularly decreasing ICRs, is how to implement them in an equitable manner. For example, imposing a strict cap on ICRs for all IHEs no matter their size could disproportionately impact larger institutions, which have structured their research and operations around their negotiated rates. While smaller institutions may not see as dramatic of a cut if they already have lower negotiated rates, they

[50] Pierre Azoulay et al., "Indirect Cost Recovery in U.S. Innovation Policy: History, Evidence, and Avenues for Reform," National Bureau of Economic Research, Working Paper 33627, March 2025, p. 21, https://www.nber.org/papers/w33627.

[51] Azoulay et al., "Indirect Cost Recovery in U.S. Innovation Policy," p. 17.

[52] Azoulay et al., "Indirect Cost Recovery in U.S. Innovation Policy," p. 18.

[53] Testimony of Dr. Richard Vedder in U.S. Congress, House Science, Space, and Technology Committee, Research and Technology Subcommittee, *Examining the Overhead Cost of Research*, 115th Cong., 1st sess., Serial No. 115-15, May 24, 2017, https://www.congress.gov/event/115th-congress/house-event/106030/text.

[54] White House, Office of Science and Technology Policy, *Analysis of Facilities and Administrative Costs at Universities*, July 21, 2000, https://clintonwhitehouse4.archives.gov/WH/EOP/OSTP/html/analysis_univ.html.

often lack the level of private support or endowments to buttress their overall funding and may be more reliant on federal funding for research infrastructure needs.[55] In addition, one study examining the potential impacts of NIH's 15% cap on ICRs states,

> Public universities, which rely heavily on state appropriations and tuition revenue, might face significant financial pressures from these reductions, particularly in states where legislative budgets are already strained … the potential funding reductions might necessitate legislative intervention to preserve essential research and educational functions.[56]

Some stakeholders have argued that limiting indirect costs may be an important part of increasing the efficiency of government funding for research.[57] Other stakeholders have suggested that lower federal reimbursements for indirect costs may lead researchers to seek alternative, potentially less transparent sources of research funding, which could result in more biased research.[58] Given the widely held view by economists that the societal benefits associated with basic research exceed private returns (i.e., benefits accruing to the private investor, such as increased revenues or higher stock value), a shift to private-sector funding could also shift the type of R&D conducted at IHEs away from basic research toward more applied research. Stakeholders have also expressed concern regarding the potential impact to U.S. competitiveness—suggesting that less federal support for indirect costs may lead to an erosion of the nation's research infrastructure, reduce opportunities for early career scientists, and contribute to the movement of U.S. scientists to other countries (i.e., "brain drain").[59]

Additional and Alternative Approaches

Subsequent to any changes in federal indirect cost policies, Congress might choose to mandate a comprehensive study of the impacts of such reforms. For example, Congress has previously directed GAO and other agencies to assess the effect of past policy changes (e.g., revisions to Circular A-21) on indirect costs, in addition to seeking recommendations on how to reduce the growth of indirect costs, streamline cost accounting processes, and ensure consistent and equitable treatment of indirect costs across IHEs.[60] Such an approach could enable IHEs to participate in any potential reforms. On April 8, 2025, national organizations representing many of America's academic, medical, and independent research institutions announced a joint effort to develop a new indirect cost funding model for submission to the federal government.[61] Additionally, in April 2025, COGR released a document that "outlines concrete actions the

[55] Brian Walsh et al., "Update: Federal Judge Blocks NIH Cap on Indirect Rates for Grants," *Wiley Law*, March 6, 2025, https://perma.cc/V2XR-GBMT.

[56] Eric W. Ford and Timothy R. Huerta, "The Financial Impact of NIH's Indirect Cost Cap on Higher Education Research," *Health Affairs Scholar*, accepted April 29, 2025, p. 10, https://doi.org/10.1093/haschl/qxaf094.

[57] See, for example, Gabrielle Kalisz and Ryan Long, "Taking a Whack at Indirect Costs," *Paragon Health Institute*, February 11, 2025, https://paragoninstitute.org/paragon-prognosis/taking-a-whack-at-indirect-costs/.

[58] Bruce Y. Lee, "New NIH 'Indirect Costs' Funding Cuts Threaten Universities, Science," *Forbes*, February 8, 2025, https://www.forbes.com/sites/brucelee/2025/02/08/new-massive-nih-indirect-funding-cuts-threaten-universities-science/.

[59] Bruce Y. Lee, "New NIH 'Indirect Costs' Funding Cuts Threaten Universities, Science," and Harlan M. Krumholz, "The NIH's Drastic Cut to Indirect Cost Rates Is a Critical Threat to U.S. Research Infrastructure," *STAT News*, February 8, 2025, https://www.statnews.com/2025/02/08/nih-indirect-research-cost-rate-cuts-universities-threat/.

[60] For example, see P.L. 105-207, §203(b), and H.Rept. 103-273, conference report to the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1994.

[61] Association of Public and Land-Grant Universities, "National Organizations Announce Joint Effort to Develop a New Indirect Costs Funding Model," press release, April 8, 2025, https://www.aplu.org/news-and-media/news/national-organizations-announce-joint-effort-to-develop-a-new-indirect-costs-funding-model/.

federal government can take to improve government efficiency and the regulations affecting the performance of federally supported fundamental research."[62] For example, COGR suggests the use of a single grant-submission portal for all federal R&D applications.

Congress might consider alternative approaches to supporting indirect costs. For example, it could remove indirect cost reimbursements as a category within a grant award and instead award a separate grant solely for indirect costs incurred by IHEs within a specified period of time. For example, an IHE might apply for a continuing grant to support F&A costs for IHE research projects writ large. Continuing grants generally provide a certain level of support within a particular time frame with intent to provide additional support for further periods, contingent on submission of periodic progress reports.[63] Adapting such a funding framework for broader indirect cost categories of support could provide federal agencies with increased insight into, and oversight of, ongoing uses of federal funds. Infrastructure or core institutional funding is common in some other countries. On the other hand, in a limited or reduced funding environment, such a shift might result in decreased funding for individual research projects or a shift in support for indirect costs to a smaller number of IHEs. Further, additional accounting and reporting activities from such a change may increase administrative burdens and costs for both federal agencies and IHEs.

[62] COGR, "Actionable Ideas to Improve Government Efficiency Affecting the Performance of Research," April 2025, https://www.cogr.edu/sites/default/files/Actionable%20Ideas%20to%20Improve%20Gov%20Efficiency%20COGR_0.pdf.

[63] See for example, NSF, "Definitions & NSF-Recipient Relationships," in *Proposal and Award Policies and Procedures Guide*, NSF 24-1, May 20, 2024, p. xiv, https://nsf-gov-resources.nsf.gov/files/nsf24_1.pdf.

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