

Recovering Indirect Costs Using the De Minimis Rate

Under OMB's *Uniform Guidance: Cost Principles, Audit and Administrative Awards Requirements for Federal Awards*, pass-through entities, such as LISC, are allowed to honor an approved indirect cost rates between the subgrantee and federal government, or to provide a **flat rate of 10% of modified total direct costs (MTDCⁱ)**. The *de minimis* rate is a great option for new or small organizations that have **never** received a negotiated indirect cost rate.

Once an entity accepts this flat rate, the *de minimis* cost rate must be used for all federal grants. Additionally, the organization may use it indefinitely or may choose to negotiate an indirect cost rate at any time. Organizations would not be required to submit an indirect cost rate certification; however, their [accounting system](#) must be able to identify direct costs through the [chart of accounts](#) and supporting documentation. All the direct costs of each grant must be identified separately and clearly in the organization's accounting records.

How to calculate

The *direct cost base*, to which the *de minimis* 10% rate is applied, is the total of certain selected costs incurred in the direct performance of the grant. The costs are calculated based on *the modified total direct costs (MTDC)*. This base includes expenditures such as salaries and fringe benefits, program materials and supplies, travel, etc., and **excludes "distorting items"ⁱⁱ such as equipment, rental costs, and participant support costs**. For a complete list of excluded types of costs see FAQ below or refer to 2 CFR 200.68.

Bear in mind that the federal government defines equipment as tangible property with a useful life of more than one year and a per-unit acquisition cost which equals or exceeds \$5,000 (2 CFR 200.33); participant support costs means direct costs for items such as stipends, travel allowances, and registration fees paid to or on behalf of participants or trainees (not employees) in connection with conferences, or training projects. (2 CFR 200.75)ⁱⁱⁱ.

See the following example:

Budget Line Item	Amount
Salaries and fringe Position 1 and Position 2	\$20,000
Participant stipends	\$5,000
Indirect costs (<i>de minimis</i> rate)*	\$2,000
Total budget	\$27,000
*The indirect costs above are calculated based on the MTDC of \$20,000 (salaries and fringe), which excludes the participant support costs (or stipends) of \$5,000.	

Financial Reports and Disbursements

When reviewing a subgrantee's financial report and recommending disbursements, program staff will not need supporting documentation for the indirect costs covered with the 10% *de minimis* rate. However, program staff must ensure that the indirect costs are calculated using the correct base –actual salary and fringe expenses on the example above.

Frequently Asked Questions

1. Where can I find more information on indirect cost rates?
For nonprofit organizations: [2 CFR Appendix IV to Part 200](#).

2. Which government contracts have the *de minimis* rate option?
In general contracts awarded to LISC after 12/26/14 and governed by 2CFR 200 permit us to offer the rate to eligible sub-recipients. For instance, organizations can only receive the *de minimis* rate of 10% of MTDC when their sub grant is funded out of HUD Section 4 FY2014, HUD Section FY2015 and onward. If you have questions on the applicability of the rate for a specific award, please contact GCM or the Program Director.

3. Do organizations have to use the full 10% indirect cost amount?
No, they can apply for less if they choose. This can be noted in the budget of the RPA. Please remember to indicate in the RPA if the indirect costs are based on the 10% *de minimis* rate or on a NICRA (negotiated indirect cost rate)
4. Who is NOT eligible to elect a 10% *de minimis* rate of MTDC?
Nonprofits that currently have, or have had in the past, a negotiated indirect cost rate; or organizations that are receiving grants funded under contracts that were awarded to LISC prior to December 26, 2014 and are not governed by 2CFR 200.
5. What is included in MTDC?
Salaries and wages, fringe benefits, materials and program supplies, consultant services and staff travel. (2 CFR 200.68).
6. What is excluded from MTDC?
Equipment, capital expenditures, charges for patient care, tuition remission, rental costs, scholarships and fellowships, participant support costs, and the portion of each sub award in excess of \$25,000. (2 CFR 200.68). LISC does not typically pay for most of these type of expenses. LISC occasionally pays for rental costs, equipment or participant support costs. If you have further questions please contact GCM for clarification.
7. Can organizations use the *de minimis* rate AND charge administrative expenses or supplies directly?
It depends on what the organization has classified as an indirect and a direct expense. Costs must be treated consistently across all grants and the supporting documentation must be in place to ensure the organization is not double charging an expenditure as both indirect and direct. The organization's accounting system and chart of accounts should reflect its methodology for making the distinction.
8. At disbursement, what do organizations need to submit with their financial report to support indirect expenses?
For disbursements, the normal procedures apply. The documentation for indirect expenses does not need to be submitted with the disbursement request. However, the organization should track and calculate the expenses correctly, as well as maintain proper back-up documentation.
9. Where can I find more information about indirect expenses?
GCM has a "[Paying for Indirect Costs](#)" one pager available on the library. For regulatory detail, you may refer to 2 CFR 200.56.
10. Where can I find the regulations pertaining to the *de minimis* rate?
2 CFR 200.68 and 2 CFR 200.414(f)

Key Federal Policies

The following federal policies related to Indirect: 2 CFR 200.

ⁱ The Uniform Guidance only applies to contracts awarded after December 26, 2014, such as HUD Section 4 FY2014 and subsequent. Check your contract for the applicable regulations.

ⁱⁱ These are transactions that involve "large" outlays for direct costs but that the administrative effort associated with these is disproportionately less than the effort associated with more routine transactions. An example is a major piece of equipment.

ⁱⁱⁱ Note that participant support costs does not include AmeriCorps member of volunteer support costs per CNCS guidelines available at http://www.nationalservice.gov/sites/default/files/resource/Indirect_CostFAQ_7_20_2015.pdf