***PI Article – Revisiting Indirect Cost Rates***

Indirect (overhead, or F&A) costs are essential costs incurred for conducting research activity. They represent costs related to vital research infrastructure (labs, utilities, IT, equipment depreciation, safety) and administrative support (central and departmental grant administration, compliance, legal services). These are costs that Georgia Tech incurs to support research, and our application of the F&A rate to eligible direct costs on an award is our mechanism for receiving reimbursement for these costs.

Key points:

- Direct costs are easily assignable to individual research awards, while indirect costs cannot be allocated directly to benefiting research awards. Both types of costs are very necessary and have already been incurred to support research activity.
- Research is a partnership between the sponsor and Georgia Tech. Sponsors cover most direct costs and a significant portion of the indirect costs; Georgia Tech covers some direct costs and a material portion of the indirect costs.
- The application of the F&A rate and subsequent collections from sponsors represents cost recovery….not profit. In fact, we do not fully recover these costs and must subsidize the difference internally.
- The biggest driver of the Georgia Tech subsidy comes from the administrative cap (26%), which has been in place for over 30 years and limits the amount that higher education institutions can recover for administrative costs supporting research.

One of the initiatives being discussed by the Federal Government (and its agencies) is the imposition of a 15% cap on the overall indirect cost rate. This represents a significant difference relative to our current, on-campus, organized research rate of 57.4%. For example, on a federal grant with modified total direct costs of $100,000, Georgia Tech will currently recover $57,400 in indirect costs. Under a 15% cap, we would only recover $15,000, resulting in a substantial $42,400 gap which would have to be funded internally by the institution.

The financial impact of such a cap can be modeled, but that is only one element. Qualitative impacts include compromising our ability to maintain state-of-the-art labs and equipment, ensure essential IT and safety services, and comply with increasing federal regulations. It could also result in job losses among critical administrative and support staff, making it harder to attract and retain top scientific talent and burdening researchers with more administrative tasks.

These caps have faced immediate legal challenges, resulting in temporary restraining orders and injunctions. Arguments include inconsistencies with the federal Uniform Guidance and violations of appropriations acts. Higher education associations are actively advocating against the imposition of indirect cost caps and have proposed alternative models like the FAIR (Financial Accountability in Research) model, which aims for greater transparency and more accurate cost allocations.

If you have any questions, please contact Josh Rosenberg at josh.rosenberg@business.gatech.edu. Many thanks to Andrew Chung for his contributions to this article!