**Indirect Rate FAQs**

1. **What is the difference between direct costs and indirect costs?** In general, direct costs are costs directly related to the performance of the grant or contract. Indirect costs are not a result of a specific grant or contract, but rather in support of overall company operations.
2. **What is the difference in a pool and a base?** A pool is a collection of costs. In this context, an indirect pool is a collection of all indirect costs. The base is another collection of costs, in this case project costs, that have some causal relationship to the pool. In a single indirect rate system, the pool is the numerator and the base is the denominator. This ratio yields the indirect rate.
3. **Can fringe costs be considered project costs**? Yes, if you chose an indirect rate structure where fringe can be included as a project cost.
4. **When calculating a fringe rate, what is the pool and what is the base**? The pool consists of allowable fringe benefits, such as employer-paid payroll taxes, paid time-off, insurance premium subsidies, retirement fund contributions, and the like. The base is all productive, “at-work” labor.
5. **What’s the typical indirect rate structure for a small firm just starting out?** Typically, a single G&A rate system is suitable, where indirect costs are applied to all project costs. You may wish to also consider a modified G&A base, and a separate fringe rate.
6. **What do you mean by a modified G&A base?** The typical G&A base, or denominator, includes all direct or project costs. This is called the Total Cost Input, or TCI base. The G&A can also be calculated using a Modified Base, where costs such as subawards are excluded from the G&A base. Another example of a modified base is where G&A is only applied to project labor.
7. **What are the typical or appropriate indirect rate amounts for small firms?** Indirect rate development is a process unique to each small business. The overall goal is to provide an indirect rate that provides for common and allowable business costs over the life of your productive grants and contracts. Other factors to consider are agency limitations, your competitive environment, and the extent to which you outsource project costs to others.
8. **Can I switch indirect rate structures?** Unless you have legitimate reasons to do so, it’s not advised to change to a different indirect rate structure. Legitimate reasons would include company growth and financial competitiveness. In any case, you should always alert your government grant or contract manager to a change, assuring them that final projected grant or contract costs will not be affected.
9. **Does DOE have a “safe rate”?** Unlike some grant agencies, the DOE does not have a “safe rate” whereby an arbitrary indirect rate percentage limit is expressed. Indirect rates above the limit require agency review, whereas indirect rates falling below the limit do not get scrutinized. In the DOE case, all applicants are required to state a unique indirect rate. Documentation justifying the rate is only required if the budgeted fringe costs plus indirect costs are higher than 50% of the budgeted labor. (See Question 14)
10. **Do I have to use the DOE rate models?** No, but if you do, see the tutorial at <https://youtu.be/OuDTgRL-xiE>. You can also use any rate model as long as you can verify the model is calculating correctly and it makes sense to a reviewer. ReliAscent, LLC can provide you with theirs upon request.
11. **Which DOE Indirect Rate Model should I choose**? The DOE rate model you choose depends on the indirect rate structure you’d like for your business. In general, unless you have multiple projects and over 10 or so employees, you can probably use either the “One-Pool” or “Two Pool” model. The “Three-Pool” model should only be used by those who have practical experience calculating and justifying indirect rates.
12. **Where in the grant application can I find indirect rate submittal instructions?** In the budget justification form, Section H.
13. **What if I already have indirect rates established with other agencies**? The budget justification form addresses this. The DOE will generally accept these indirect rate calculations, but they may still be reviewed for accuracy.
14. **Do I have to submit an indirect rate proposal with an SBIR/STTR Phase I application**? The FOA allows indirect rate proposals to be submitted upon notification of grant award. In addition, DOE guidance suggests that if indirect costs plus fringe benefits do not exceed 50% of direct salaries and wages, no documentation is required. If documentation is required, delivery may be deferred until notice of award.
15. **If I only have one grant and no other revenue, why do I have to jump through these hoops**? **Aren’t all costs considered “direct”?** A single grant source of income is the exception, not the rule. Government cost principles assume you are or will soon be a successful partner in bringing forth technological solutions resulting in many such contracts or grants. When you have multiple projects, indirect costs are “allocated” to each project by applying the indirect rates to the project costs.
16. **Can I have no indirect rate(s) or propose a deminimus 10% G&A?** You can, but that won’t make your budget coach very happy. Remember, the government will reimburse you for broadly allowable fringe and administrative costs through your indirect rate(s). For example, for c-corporations and some LLCs, employers must pay roughly 7.65% of employee gross wages in payroll taxes. A deminimus rate or no indirect rate puts the small business at a cashflow disadvantage. We believe a rate of 25% is the absolute minimum for a small business just starting out.
17. **What, then, would be the maximum indirect rate the government can tolerate?** Again, that depends on many factors related to the small business. Mature businesses may have a large lab with associated indirect costs that places a high burden on project budgets. Pre-revenue, equity-funded firms may have astronomical indirect rates, so they may have to offer the government a discounted rate. One benchmark where the government might apply some scrutiny to indirect rates is if budgeted indirect costs exceed project costs. They may ask what value the government derives when one dollar of project cost is burdened with one dollar or more of indirect costs.
18. **What data is required to complete an indirect rate model?** That depends. If you have reliable accounting data from a prior year, this can be used to justify indirect rates. You may also develop a budget for the coming year using projections for your project and indirect expenses.