

NIH Indirect Costs Policy for Research Grants: Recent Developments

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On February 7, 2025, the National Institutes of Health (NIH), an agency of the Department of Health and Human Services (HHS), published [supplemental policy guidance](#) that instituted a 15% indirect cost rate for NIH grants. The policy applies to any new grant awards. The policy applies, as well, to all existing grants to institutions of higher education (IHEs) for the reimbursement of expenses incurred from February 10, 2025, onward. [Indirect costs](#) represent expenses that are not specific to a research project and that maintain the infrastructure and administrative support for federally funded research.

On February 10, 2025, a U.S. District Court judge issued ex parte temporary restraining orders (TROs) enjoining the policy's implementation in two cases, one brought by [22 states](#) and [one brought by associations of research institutions](#). The latter TRO bars application of the policy change to "institutions nationwide." This TRO was extended on February 21, 2025. As those proceedings continue, Congress could consider whether and how to respond to this policy change through oversight or legislation.

NIH is the leading federal agency for biomedical and health research. Nearly 83% of NIH's [budget](#) (total budget was over \$47 billion in [FY2024](#)) supports extramural research and training programs performed by nonfederal research institutions such as universities and medical centers, mostly through grants. NIH [budget data](#) show that out of \$33.8 billion awarded in FY2023, 27.8%, or \$9.4 billion, went toward indirect costs. Capping the indirect cost rate to 15% would likely decrease the amount of indirect costs research institutions can recover from NIH. One often cited [NIH social media post](#) estimated that the policy change would save NIH "more than \$4 billion per year."

Understanding Indirect Costs for Research Grants

[Indirect costs](#), also called facilities and administrative costs (F&A), represent costs that cannot be easily attributed to an individual research project (e.g., costs associated with the operation and maintenance of research facilities, library expenses) and administrative services (e.g., accounting, payroll, and purchasing). In contrast, direct costs consist of researcher salaries, equipment, supplies, and other expenses that directly support or benefit an individual research project. Because indirect costs cannot be easily attributed to a specific research grant, they are charged using an indirect cost rate applied to a certain portion of the direct costs for each research grant awarded. A federal research award comprises funding for both direct and indirect costs.

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Indirect cost rates are usually prenegotiated and vary by institution. Each research institution negotiates an indirect cost rate with the federal agency that provides the majority of its federal research funding. Most IHEs negotiate their indirect cost rate with HHS's Program Support Center, Cost Allocation Services (not NIH). Generally, the rate stays in effect for two to four years before it is renegotiated. Once an indirect cost rate has been established, federal agencies generally apply that rate to all grants issued to the research institution. Some federal agencies (e.g., the U.S. Department of Agriculture) have a maximum indirect cost cap of 30% for their research and education programs specified in [statute](#).

There is no publicly available centralized database of indirect cost rates. Federally negotiated indirect cost rates have been [reported](#) to generally range from 30% to 70%. **Figure 1** shows how indirect costs for a research grant are calculated and how a change in the indirect cost rate would affect the total size of a grant award and the portion of indirect costs covered by the award.

Figure 1. Comparison of Indirect Cost Rate Policies

Example Grant under Previous Policy	Example Grant under New Policy
Indirect Cost Rate (IDR) = 50%	Indirect Cost Rate (IDR) = 15%
Total Direct Costs ➤ \$200,000	Total Direct Costs ➤ \$200,000
Modified Total Direct Costs (MTDC) ➤ \$180,000	Modified Total Direct Costs (MTDC) ➤ \$180,000
Indirect Costs = IDR x MTDC = 50% x \$180,000 = \$90,000	Indirect Costs = IDR x MTDC = 15% x \$180,000 = \$27,000
Total Grant = \$290,000	Total Grant = \$227,000
31% of the grant comprises indirect costs	12% of the grant comprises indirect costs
	\$63,000 total grant reduction
MTDC used for the purposes of indirect cost calculations. Excludes certain expenditures such as equipment and capital expenditures.	

Source: CRS, based on analysis of regulations and policy.

Note: Modified total direct costs (MTDC) are typically used by federal grantees and agencies when calculating the indirect costs for an award. Per [2 C.F.R. §200.1](#), 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.

Changing Indirect Cost Rates at NIH: Prior Efforts

Dating back decades, congressional [hearings](#), executive branch [proposals](#), and [oversight](#) have addressed indirect cost policies. In its FY2018 [budget request](#) for NIH, the Trump Administration proposed capping indirect costs for grants at 10%. In FY2018, the House and Senate Appropriations Committees did not adopt this proposal. The report accompanying the Senate bill (S.Rept. 115-150) stated,

The methodology for negotiating indirect costs has been in place since 1965, and rates have remained largely stable across NIH grantees for decades. The Administration's proposal would

radically change the nature of the Federal Government’s relationship with the research community, abandoning the Government’s long-established responsibility for underwriting much of the Nation’s research infrastructure, and jeopardizing biomedical research nationwide. The Committee has not seen any details of the proposal that might explain how it could be accomplished without throwing research programs across the country into disarray.

The FY2018 appropriations law included a newly added provision that prohibited changes to NIH indirect cost policies and rates from those in the third quarter of FY2017 (P.L. 115-141; Division H, Section 224). This limitation has been included in annual appropriations ever since, including for FY2024 (P.L. 118-47; Division D, Section 224, which applies currently via P.L. 118-158). One question [posed by the litigation](#) is whether the 15% limit on indirect costs contravenes this appropriations act provision.

Policy Discussion

The new NIH [policy](#) cites that many private foundations provide substantially lower indirect cost rates in their grants to universities (15% or less). The [Association of American Universities](#) (AAU) has stated that these rates are somewhat misleading as a comparison to federal indirect cost rates because foundations and federal agencies categorize direct and indirect costs differently. Also according to [AAU](#), foundation funding constitutes a small proportion of total academic R&D funding (9%) compared with federal funding (52%); foundations often view their grants as supplementing other research awards.

The current process for negotiating [indirect cost rates](#) focuses on identifying the specific facilities and administrative costs that support IHE research. The extent to which such costs should be covered by federal research grants is an open policy question. Research could not occur without certain indirect functions, such as laboratory buildings or financial support offices. At the same time, some ask how much is “enough”? Questions center on the ways in which indirect costs can be shared between the federal agency and the IHEs, and determination by policymakers if current policies contribute to excessive spending.

Many NIH research grantees and other stakeholders have [characterized](#) the policy change as abrupt and potentially disruptive to research. Given that the policy would apply to certain existing grants, if the courts allow it to be implemented, it could necessitate quick changes to universities’ already budgeted spending. [Some media analyses](#) have estimated that many research institutions would see budget decreases under the policy, ranging from less than \$1 million to over \$130 million per year. If Congress determines that indirect cost policies warrant changes, it may also consider any disruption that might result from such a change. Congress may also consider how any resulting funds should be repurposed.

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