UNDER SECRETARY OF DEFENSE
3030 DEFENSE PENTAGON
WASHINGTON, DC 20301-3030

RESEARCH
AND ENGINEERING

12 JUN 2025

MEMORANDUM FOR SENIOR PENTAGON LEADERSHIP
COMMANDERS OF THE COMBATANT COMMANDS
DEFENSE AGENCY AND FIELD ACTIVITY DIRECTORS

SUBJECT: Implementation of a 15% Indirect Cost Cap on Assistance Awards to Institutions of Higher Education

On May 14, 2025, the Secretary of Defense issued a memorandum requiring the Department of Defense (DoD) to pursue a cap on indirect cost rates for Federal financial assistance awards to institutions of higher education (IHEs) of 15% or lower (see attached memorandum). This decision, motivated by the potential cost savings highlighted in Secretary Hegseth's memorandum, is further detailed here to outline the Department's changes and provide clear guidance to DoD Components for implementation.

The Department provides financial assistance awards (primarily grants and cooperative agreements) to IHEs for the conduct of research and development and for other activities. As part of these awards, the Department provides funding for "indirect costs." Indirect costs are described in section 200.414 of Title 2, Code of Federal Regulations (CFR), as costs in two categories: "Facilities" and "Administration." "Facilities" is defined as depreciation on buildings, equipment, and capital improvements, interest on debt associated with certain buildings, equipment, and capital improvements, and operations and maintenance expenses. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of "Facilities."

The DoD Components typically use indirect cost rates that are negotiated between the cognizant Federal agency and the IHE (as described in Appendix III to 2 CFR Part 200) when issuing financial assistance awards to IHEs. However, as described in 2 CFR 200.414(c), an agency may use a rate different from the negotiated rate for either a class of Federal awards or a single Federal award when approved by the awarding Federal agency in accordance with paragraph (c)(3).

In accordance with 2 CFR 200.414(c), this memorandum implements the Department's policy deviating from the negotiated indirect cost rate for financial assistance awards to IHEs. The Department is deviating from the indirect cost rates negotiated between the cognizant Federal agencies and IHEs and will instead limit indirect cost rates to 15% for all Federal assistance awards to IHEs because the Secretary of Defense has determined that significant cost savings would result from such deviations. In making the decision to limit IHE indirect cost rates to 15%, the Department compared the indirect costs on existing financial assistance awards to IHEs to the indirect cost rates allowed by several non-profit foundations that provide financial assistance to IHEs and determined that such a move would lead to cost savings.

For all new assistance awards to IHEs, DoD Components that make financial assistance awards to IHEs are directed not to allow indirect cost rates above 15% in all new assistance awards to IHEs as of the date of publication of this memorandum. In negotiating indirect cost rates for financial assistance awards to IHEs, DoD Components should consider the criteria for identifying and computing indirect cost rates as described in Appendix III to 2 CFR Part 200. However, DoD Components must not exceed the 15% indirect cost rate cap on any award to IHEs. All notices of funding opportunity for DoD assistance awards must be updated to include information about the 15% indirect cost rate cap for IHEs. In addition, all DoD Components that make financial assistance awards to IHEs are reminded that they must ensure that all indirect costs on assistance awards are reported to the Financial Assistance Award Data Collection System, which is the Department's system of record for compliance with the Digital Accountability and Transparency Act of 2014.

For all existing assistance awards to IHEs, DoD Components must also apply the 15% cap on indirect cost rates. Where possible, DoD Components should renegotiate indirect cost rates on existing DoD assistance awards with IHEs to comply with the 15% indirect cost rate cap. The 15% indirect cost rate cap on existing assistance awards is not required to be retroactive to the beginning of an award but must have an effective date that is not later than November 10, 2025. DoD Components may allow existing awards to operate under their originally determined indirect cost rate until a renegotiation is completed. However, all renegotiations on indirect cost rates must be complete by no later than November 10, 2025. If a DoD Component is unable to reach an agreement with an IHE to limit the indirect cost rate under a DoD assistance award to 15%, the DoD Components shall terminate the assistance award, as allowed by statute, regulation, and the terms and conditions of the award, in accordance with 2 CFR 200.340(a).

For the purposes of this memorandum, terms such as Federal financial assistance, Federal award, indirect cost, IHE, and notice of funding opportunity have the meanings assigned to them in 2 CFR 200.1.

Thank you for your attention to this matter. The academic community's work with the Department remains essential for the development of transformative research concepts that drive our future capabilities. This memorandum will be made available to the public on defense.gov.

Emil Michael

Attachment:
As stated