

Impact of Indirect Cost Caps on Federally Funded Research

The unilateral decision by the Trump administration to suddenly and dramatically slash and cap the indirect cost rate for research funded by the National Institutes of Health (NIH) threatens the decades-long partnership that has ensured American global leadership in life-saving medical research.¹

Imposing an across-the-board 15 percent indirect cost cap will have real-world consequences for American jobs, global competitiveness, and the future of our skilled workforce. The Trump administration previously proposed an indirect cost cap in 2017, but Congress swiftly rejected it in a bipartisan manner due to its detrimental impact on the research enterprise.

ACE and others across the higher education community are calling on the administration to withdraw the Feb. 7, 2025, supplemental guidance for NIH grants.

Background

Since World War II, American institutions of higher education have partnered with the federal government to perform federally funded research that benefits the entire nation. This partnership has driven countless innovations, strengthened the American economy, created jobs, and educated generations of researchers and scientists.

Federal grants include direct and indirect funding. Indirect funding covers essential infrastructure and support, including shared research instruments, maintenance and security, utilities such as electricity, water, air conditioning, and heating for research spaces, as well as IT and cybersecurity support. This funding is essential to the successful academic-federal partnership.

Currently, institutions negotiate indirect cost rates with the federal government based on the cost of doing research at a specific institution, considering factors such as the facilities, location, and cost of performing that research. The negotiated rate is intended to accurately reflect the actual administrative and facilities costs that support sponsored projects.

- Indirect, or Facilities and Administration (F&A), rates are determined through complex negotiations with the federal government based on university analyses of space utilization, administrative costs, and other services. F&A represents real costs associated with performing research and cannot easily be allocated on a project-by-project basis.
- Most universities have actual F&A recovery rates some 20 percentage points below the approved rate, meaning universities spend approximately 20 cents more of their own money to get \$1 in research funding.
- There is a false comparison between the F&A rates at private foundations and the higher F&A rates at colleges and universities. The role of private foundations in the U.S. research enterprise is vastly different from that of the federal government. Private foundations tend to focus on specific, narrow areas of interest and represent only 6 percent of all university R&D funding. Because private foundations are not subject to federal cost accounting standards for research, they structure their budgets quite differently than universities.

¹ February 7, 2025 “Supplemental Guidance to the 2024 NIH Grants Policy Statement: Indirect Cost Rates”: <https://grants.nih.gov/grants/guide/notice-files/NOT-OD-25-068.html>

- Academic F&A rates are typically lower than those of research hospitals, nonprofit organizations, and for-profit private companies, which tend to have the highest rates and, unlike universities, are fully reimbursed for F&A charges.²

The Real Harm of Slashing the Indirect Cost Rate

By imposing a flat, extremely low rate that does not reflect the actual cost of doing research, the federal government risks causing significant economic harm to communities, states, and the nation as a whole.

- In Fiscal Year 2023, the National Institutes of Health (NIH) awarded \$37.18 billion in extramural research funding to researchers across all 50 states.
- According to an economic analysis, this funding directly and indirectly supported over 412,000 jobs and produced \$92.89 billion in new economic activity nationwide, or \$2.46 of economic activity for every \$1 of research funding.³

Indirect costs are real and necessary expenses required to conduct research. A sudden, arbitrary, and misguided policy that slashes NIH funding will lead to less research, fewer cures, and less development of medicines. It will cause irreparable harm to our nation's ability to respond to future health crises and to continue developing new treatments and cures for cancers and other diseases affecting millions of Americans.

² See October 2017 Written Testimony of Dr. Kelvin Droegemeier to House Appropriations Subcommittee on Labor, Health, Education and Related Agencies: <https://docs.house.gov/meetings/AP/AP07/20171024/106525/HHRG-115-AP07-Wstate-DroegemeierK-20171024.pdf>

³ United for Medical Research (UMR) 2024 Update "NIH's Role in Sustaining the U.S. Economy": <https://www.unitedformedicalresearch.org/annual-economic-report/>

ACE on the Hill 2025: Support for Access, Completion, and Success for All Students

Across the nation, public and private institutions of higher education are partnering with the federal government to ensure that millions of American students can access and complete a quality postsecondary education; that groundbreaking research will drive biomedical and technological innovation; and that we are building the workforce needed to grow our country's economy.

This will take a commitment on the part of every institution to be careful stewards of taxpayer money and to constantly look for innovative ways to advance student success and national priorities. It will also require new or increased support from the federal government. Below, we've identified key areas where congressional action can help colleges and universities achieve these shared goals.

Strengthen the Federal Pell Grant

We ask that Congress increase the maximum Pell Grant in the final FY 2025 funding bills, as well as in FY 2026, and prioritize investing in the remaining need-based aid programs.

Pell Grants are the largest student aid program, the foundation of federal student aid, and focused on students from low-income households who need financial support the most. Unlike student loans, they do not need to be repaid. Pell Grants are awarded from the federal government to low-income, qualifying students for undergraduate study at all colleges and universities.

We also ask that any legislation renewing the Higher Education Act protect and strengthen these programs, as well as expand access to postsecondary education for all students.

Support federal programs for student mental health and telehealth services

The COVID-19 pandemic worsened the already critical mental health crisis among college students, with 41 percent screening positive for symptoms of depression in 2022–23, a 20-point increase since 2014. Unlike K-12 students, college students have received limited federal support. We ask that Congress support the Garrett Lee Smith Campus Suicide Prevention Grant Program in FY 2025 and FY 2026.

Additionally, telehealth has proven essential for delivering mental health services to students. We urge Congress to prioritize expanding telehealth options, including authorizing interstate use of telehealth to deliver behavioral health services for students enrolled in institutions of higher education in any U.S. jurisdiction from health care providers who are licensed to practice or provide such care in any one state or territory or through an interstate licensure compact.

Funding for programs such as Title III, Title V, and student success grants

The Title III and V programs within the Higher Education Act provide critical support for institutions serving historically underserved populations (including Historically Black Colleges and Universities, Hispanic-Serving Institutions, Tribal Colleges and Universities, and other minority-serving institutions), career and workforce training programs, and specialized academic studies serving national interests as well as initiatives to improve completion and performance. For FY 2025 and FY 2026, we ask that Congress provide strong support for these programs.

ACE on the Hill 2025: Protecting and Strengthening Institutions

Over the past two decades, provisions in the tax code (including various higher education credits, the student loan interest deduction, and tuition waivers) have played an increasingly significant role in helping low- and middle-income students and families finance postsecondary education.

During the 119th Congress, we urge Congress to oppose any proposed provisions that would repeal or weaken these important tax benefits for students and families. In addition, tax-exempt and nonprofit status enables colleges and universities to focus on their research and education missions, and the current tax treatment of nonprofits is critical to meeting their missions.

In the 119th Congress, we ask that policymakers:

- **Repeal the taxability of the Pell Grant.** This would permit low- income students to retain more of this vital financial aid and ensure the aid goes where Congress intended – to directly help low-income students and their families;
- **Fix the American Opportunity Tax Credit (AOTC) interaction issue with the Pell Grant,** which harms thousands of the lowest-income students attending the lowest-cost schools;
- **Consolidate and simplify the AOTC and the Lifetime Learning Credit** into a single credit to maximize its impact in providing access to higher education for low- and middle-income students;
- **Modernize Sec. 127 employer provided education assistance,** which has not been updated since 1986, by significantly increasing the annual benefit and making the expansion to include student loan repayments permanent;
- **Reinstate and expand the universal charitable deduction,** which would enhance charitable giving to institutions in support of student financial aid, teaching, research, and their public service missions; and
- **Repeal or reform the Endowment Excise Tax.** Certain private nonprofit colleges and universities are subject to an unprecedented and damaging tax on their charitable resources, undermining the teaching and research mission of the affected institutions without doing anything to lower the cost of college, enhance access, or address student indebtedness. In fact, many of the institutions subject to the tax lead the nation in providing debt-free access to low- and middle-income students, relying heavily on institutional and endowment resources.

The tax should be repealed or reformed to mitigate its effect on covered institutions that devote more resources to student financial aid.

ACE on the Hill 2025: Fostering Innovation

Colleges and universities play a critical role in fostering innovation, driving the U.S. economy, carrying out research and development, and building the future workforce. One key way Congress can support innovation is by providing Pell Grant eligibility to short-term programs. This would allow more students to access short-term programs that lead to increased employment and higher earnings and meet workforce needs by addressing the skills gap.

In addition, our international students are incredibly important to supporting our educational and research missions. We must remain a welcoming country to international students, scholars, scientists, and researchers who enrich our campuses and play an important role in performing research that creates new knowledge, supports U.S. economic growth, and fuels American innovation.

Support for creation of a short-term Pell program

In order to ensure that all students can achieve their own American dream, it is vitally important that they have access to the postsecondary programs that are best for them. The labor force is increasingly looking for employees with specific skills that can be obtained with some postsecondary education short of a degree, and it is important to ensure that students have the opportunity to pursue their individual educational goals. Low-income students who desire to receive a credential or enter into a shorter-term program should have the same access to the Pell Grant as any student in a degree program, because their financial need does not change based on the program they pursue.

Expanding Pell eligibility to short-term programs has long been a priority for the higher education community, but we also ask that any legislation includes reasonable safeguards to protect students and taxpayers and would not negatively impact the stability of the existing Pell Grant program.

Welcoming international students

Protecting our national and economic security while ensuring that the United States remains the destination of choice for the world's best and brightest students, faculty, and scholars are not mutually exclusive goals. We must remain a welcoming country to international students, scholars, scientists, and researchers who enrich our campuses and play an important role in performing the research that creates knowledge, supports American economic growth, and fuels innovation.

Particularly in the fields of graduate education in science, technology, engineering, and mathematics, American education is the "gold standard," attracting brilliant and talented students and scholars from across the globe. Many of these scholars stay and work in the United States and make significant contributions to our economy and domestic job creation. Those that return home serve as ambassadors for American values, democracy, and the free market.

We urge that any immigration legislation considered by Congress in the 119th Congress improve the visa processes and pathways that attract global talent to the United States. All of American higher education stands ready to work with you in building a stronger and fairer America through our thousands of colleges and universities.