

# 31.205-18 Independent research and development and bid and proposal costs.

(a) *Definitions.* As used in this subsection-

*Applied research* means that effort which (1) normally follows *basic research*, but may not be severable from the related *basic research*, (2) attempts to determine and exploit the potential of scientific discoveries or improvements in technology, materials, processes, methods, devices, or techniques, and (3) attempts to advance the state of the art. *Applied research* does not include efforts whose principal aim is design, *development*, or test of specific items or services to be considered for sale; these efforts are within the definition of the term "*development*," defined in this subsection.

*Basic research* (see [2.101](#)).

*Bid and proposal (B&P) costs* means the *costs* incurred in preparing, submitting, and supporting bids and *proposals* (whether or not solicited) on potential Government or non-Government contracts. The term does not include the *costs* of effort sponsored by a grant or cooperative agreement, or required in the performance of a contract.

*Company* means all divisions, subsidiaries, and *affiliates* of the contractor under common control.

*Development* means the systematic use, under whatever name, of scientific and technical knowledge in the design, *development*, test, or evaluation of a potential new product or service (or of an improvement in an existing product or service) for the purpose of meeting specific performance requirements or objectives. *Development* includes the functions of design engineering, prototyping, and engineering testing. *Development* excludes-

(1) Subcontracted technical effort which is for the sole purpose of developing an additional source for an existing product, or

(2) *Development* effort for manufacturing or production materials, systems, processes, methods, equipment, tools, and techniques not intended for sale.

*Independent research and development (IR&D)* means a contractor's IR&D cost that consists of projects falling within the four following areas: (1) *basic research*, (2) *applied research*, (3) *development*, and (4) *systems and other concept formulation studies*. The term does not include the *costs* of effort sponsored by a grant or required in the performance of a contract. IR&D effort *shall* not include technical effort expended in developing and preparing *technical data* specifically to support submitting a bid or *proposal*.

*Systems and other concept formulation studies* means analyses and study efforts either related to specific IR&D efforts or directed toward identifying desirable new systems, equipment or *components*, or modifications and improvements to existing systems, equipment, or *components*.

(b) *Composition and allocation of costs.* The requirements of 48 CFR 9904.420, Accounting for *independent research and development costs* and *bid and proposal costs*, are incorporated in their entirety and *shall* apply as follows-

(1) *Fully-CAS-covered contracts.* Contracts that are fully-CAS-covered *shall* be subject to all

requirements of 48 CFR 9904.420.

(2) *Modified CAS-covered and non-CAS-covered contracts.* Contracts that are not CAS-covered or that contain terms or conditions requiring modified CAS coverage *shall* be subject to all requirements of 48 CFR 9904.420 except 48 CFR 9904.420-50(e)(2) and 48 CFR 9904.420-50(f)(2), which are not then applicable. However, non-CAS-covered or modified CAS-covered contracts awarded at a time the contractor has CAS-covered contracts requiring compliance with 48 CFR 9904.420, *shall* be subject to all the requirements of 48 CFR 9904.420. When the requirements of 48 CFR 9904.420-50(e)(2) and 48 CFR 9904.420-50(f)(2) are not applicable, the following apply:

(i) IR&D and *B&P costs shall* be allocated to *final cost objectives* on the same basis of allocation used for the G&A expense grouping of the *profit center* (see 31.001) in which the *costs* are incurred. However, when IR&D and *B&P costs* clearly benefit other *profit centers* or benefit the entire *company*, those *costs shall* be allocated through the G&A of the other *profit centers* or through the corporate G&A, as appropriate.

(ii) If allocations of IR&D or *B&P* through the G&A base do not provide equitable cost allocation, the *contracting officer may* approve use of a different base.

(c) *Allowability.* Except as provided in paragraphs (d) and (e) of this subsection, or as provided in agency regulations, *costs* for IR&D and *B&P* are allowable as indirect expenses on contracts to the extent that those *costs* are allocable and reasonable.

(d) *Deferred IR&D costs.*

(1) IR&D *costs* that were incurred in previous accounting periods are unallowable, except when a contractor has developed a specific product at its own risk in anticipation of recovering the *development costs* in the sale price of the product provided that-

(i) The total amount of IR&D *costs* applicable to the product can be identified;

(ii) The proration of such *costs* to sales of the product is reasonable;

(iii) The contractor had no Government business during the time that the *costs* were incurred or did not *allocate* IR&D *costs* to Government contracts except to prorate the cost of developing a specific product to the sales of that product; and

(iv) No *costs* of current IR&D programs are allocated to Government work except to prorate the *costs* of developing a specific product to the sales of that product.

(2) When deferred *costs* are recognized, the contract (except firm-fixed-price and fixed-price with economic price adjustment) will include a specific provision setting forth the amount of deferred IR&D *costs* that are allocable to the contract. The negotiation memorandum will state the circumstances pertaining to the case and the reason for accepting the deferred *costs*.

(e) *Cooperative arrangements.*

(1) IR&D *costs may* be incurred by contractors working jointly with one or more non-Federal entities pursuant to a cooperative arrangement (for example, joint ventures, limited partnerships, teaming arrangements, and collaboration and consortium arrangements). IR&D *costs* also *may* include *costs* contributed by contractors in performing cooperative *research and development* agreements, or

similar arrangements, entered into under-

(i) Section 12 of the Stevenson-Wydler Technology Transfer Act of 1980 ([15 U.S.C. 3710\(a\)](#));

(ii) Sections 203(c)(5) and (6) of the National Aeronautics and Space Act of 1958, as amended ([42 U.S.C. 2473\(c\)\(5\)](#) and (6));

(iii) [10 U.S.C. 4021](#) for the Defense Advanced Research Projects Agency; or

(iv) Other equivalent authority.

(2) IR&D *costs* incurred by a contractor pursuant to these types of cooperative arrangements *should* be considered as allowable IR&D *costs* if the work performed would have been allowed as contractor IR&D had there been no cooperative arrangement.

(3) *Costs* incurred in preparing, submitting, and supporting *offers* on potential cooperative arrangements are allowable to the extent they are allocable, reasonable, and not otherwise unallowable.

**Parent topic:** [31.205 Selected costs](#).