42.707 Cost-sharing rates and limitations on indirect cost rates.

(a) Cost-sharing arrangements, when authorized, *may* call for the contractor to participate in the costs of the contract by accepting *indirect cost rates* lower than the anticipated actual rates. In such cases, a negotiated *indirect cost rate* ceiling *may* be incorporated into the contract for prospective application. For *cost sharing* under research and development contracts, see 35.003(b).

(b)

(1) Other situations *may* make it prudent to provide a *final indirect cost rate* ceiling in a contract. Examples of such circumstances are when the proposed contractor-

(i) Is a new or recently reorganized company, and there is no past or recent record of incurred *indirect costs*;

(ii) Has a recent record of a rapidly increasing *indirect cost rate* due to a declining volume of sales without a commensurate decline in indirect expenses; or

(iii) Seeks to enhance its competitive position in a particular circumstance by basing its proposal on *indirect cost rates* lower than those that *may* reasonably be expected to occur during contract performance, thereby causing a cost overrun.

(2) In such cases, an equitable ceiling covering the *final indirect cost rates may* be negotiated and specified in the contract.

(c) When ceiling provisions are utilized, the contract *shall* also provide that-

(1) The Government will not be obligated to pay any additional amount *should* the *final indirect cost rates* exceed the negotiated ceiling rates, and

(2) In the event the *final indirect cost rates* are less than the negotiated ceiling rates, the negotiated rates will be reduced to conform with the lower rates.

Parent topic: Subpart 42.7 - Indirect Cost Rates