



DEFENSE CONTRACT MANAGEMENT AGENCY

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MEMORANDUM FOR COMPONENT HEADS
REGIONAL COMMANDERS/DIRECTORS
CMO COMMANDERS/DIRECTORS

SUBJECT: Guidance on Allowability of Independent Research and Development (IR&D)
under DFARS 231.205-18(c)(iii)(C)

On January 30, 2012, DoD issued a final rule that amended the IR&D/B&P cost principle at DFARS 281.205-18. Specifically, it added DFARS 231.205-18(c)(iii) that requires contractors to report unclassified IR&D projects to the Defense Technical Information Center (DTIC) in order to claim the costs as allowable.

Applicability as stated in DFARS 231.205-18(a) is for contractors "whose covered segments allocated a total of more than \$11,000,000 in IR&D/B&P costs to covered contracts during the preceding fiscal year. Covered segments are those that allocated more than \$1.1 million in IR&D/B&P to covered contracts during the preceding fiscal year. Covered contracts include both DoD prime and subcontracts exceeding the simplified acquisition threshold (FAR 2.101), except for fixed-price contracts and subcontracts without cost incentives. This requirement applies to unclassified IR&D project costs allocated to contracts awarded after the final rule's effective date of January 30, 2012.

For a contractor's annual IR&D costs to be allowable, the IR&D projects generating the costs must be reported by the contractor to the Defense Technical Information Center (DTIC) using the DTIC's on-line input form and instructions at <http://www.dtic.mil/ird/dticdb/index.html> prior to submission of their final overhead certified proposal. Costs for unreported projects or projects not reported timely are expressly unallowable.

ACOs should encourage contractors to provide evidence of DTIC posting when submitting forward pricing rate proposals and remind contractors to complete their annual reporting prior to submission of their final overhead proposal.

This information will be included in DCMA instructions Cost Monitoring and Forward Pricing Rates as appropriate.

My point of contact for any questions is Joseph Edwards at 804-734-0492 or Joseph.L.Edwards@dcma.mil.

A handwritten signature in black ink, appearing to read "Timothy P. Callahan".

Timothy P. Callahan
Executive Director
Contracts