

Policy Manual

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II-27.7 Corporate- and Industry-Sponsored Projects

(10/99; 1/08; 1/09; 3/10; 10/10; 5/12; 3/13; 4/13; 11/16; 7/10/20; 1/4/22; 7/1/23)

Effective July 1, 2023, this policy has been revised. For the most current version without redlining, return to [II-27](#).

- a. Purpose. This statement establishes policies for the financial management of corporate- and industry-sponsored projects for which data or other outcome products are expected. Because the University is a non-profit, tax-exempt institution whose purposes include, but are not limited to, the advancement of education, the promotion of health, and the conduct of scientific research, the University must account for business income unrelated to its exempt purposes. A liability exists for federal and state income taxes on unrelated business income after the deduction of reasonable, allowable, and allocable expenses.

Corporate or industry contracts generally involve a quid pro quo, i.e., something is given and something is received. These agreements must be entered into in the name of The University of Iowa and not in the name of the department or principal investigator. Neither The University of Iowa Center for Advancement nor other external entity is permitted to accept payment for activities related to corporate- and industry-sponsored research projects conducted within the University.

- b. Is a corporate-sponsored project subject to unrelated business income tax (UBIT) or is it tax exempt? The conduct of scientific research is an exempt activity and should not generate UBIT. The Internal Revenue Service (IRS) has determined that some activities carried on incident to commercial or industrial operations are not research. The University, therefore, may be required to demonstrate that the project is substantially related to its mission by establishing that: In order to account for corporate- and industry-sponsored projects as an exempt activity, the University must document the relatedness of project activities to the tax-exempt purposes of the University in advance of the assignment of an account.

(1) The project is designed and supervised by professionals to solve a problem via the scientific method, i.e., hypothesis, design, test, data analysis; adds to knowledge within a scientific field; can only be performed with advanced scientific or technical expertise; involves the development of new ideas, skills, methods; or,

(2) The project is conducted in the public interest, e.g., seeks a cure or treatment for disease, provides treatment opportunity not otherwise available to patients, tests for public safety, etc. The results will be made available to the public; or,

(3) The project furthers an educational purpose. Students or trainees involved in the project will have specific tasks and duties. Investigators are free to publish findings in a timely manner.

- c. Establishing the account. The following documents are required for the assignment of a Master File Key (MFK) to establish an account:

(1) University of Iowa Proposal Routing Form;

(2) Detailed Project Budget and Payment Schedule (ex: standard federal grant and contract format);

(3) Fully executed contract or award accepted by the University; and

(4) ~~All~~ Applicable project **approvals** or certifications, **including those** for use of human subjects, vertebrate animals, **recombinant DNA and other biohazards; and** for managing conflicts of interest, and **any** other **sponsor or University** project-specific **concerns or** requirements **prior to MFK establishment**.

- d. Fees and other accounting issues.

(1) Corporate- and industry-sponsored clinical trials **meeting the University’s applicable definition** will be charged a minimum F&A rate of ~~26~~ **30** percent on total direct costs. Investigators are encouraged to charge up to the federally approved rate. Corporate- and industry-sponsored projects, excluding clinical trials, will be assessed facilities and administrative (F&A) costs based on the federally approved on-campus F&A rate **applicable to the type of work**, currently ~~54.5~~ **55.5** percent of modified total direct costs (MTDC) **for on-campus research**. ~~The MTDC rate~~ includes all **direct** salaries and wages, **applicable** fringe benefits, materials and supplies, services, **and** travel, **and up to the initial first** \$25,000 of each ~~subgrant or subcontract~~ subaward; (regardless of the period of performance of the subawards under the award). ~~but~~ MTDC excludes equipment, capital expenditures, charges for patient care, **rental costs**, tuition remission, rental costs of off-site facilities, scholarships; **and** fellowships, **and subgrant and subcontract amounts participant support costs, and the portion of each subaward** in excess of \$25,000.)

(2) Investigators must exercise diligence to only charge expenses against the project that are reasonable, allowable, and allocable. All revenues and expenses will be accounted for in the University accounting system.

- e. Project close-out. Investigators engaged in corporate- or industry-sponsored projects are responsible for notifying their departmental administrator upon the completion of the project. The administrator will then notify ~~DSP~~ **the Grant Accounting Office**. ~~Each investigator will provide a copy of the final report (that was given to the sponsor) to the Division of Sponsored Programs.~~ The Grant Accounting Office will initiate closure of the project account upon notification **of project completion and, if needed, confirmation** from the Division of Sponsored Programs, or according to the project end date. The principal investigator and their department will be allowed a 90-day period following the completion of the project to make appropriate adjustments and corrections and to determine if a residual balance exists. The Grant Accounting Office will review the account for appropriateness of costs prior to closing the account.

When applicable, UBIT will be assessed on the residual balance. The tax rate is based on the prevailing federal, state, and local corporate income tax rate for taxable income (currently 34 percent federal, 8 percent state, and 0 percent local). Grant Accounting will retain in a project account all federal and state income taxes assessed on the project's net balance.

After full F&A costs¹ and UBIT are assessed, the remaining balance will be transferred to an Organized Activity (fund 240) account. The account will be administered by the department with expenditures directed by the principal investigator who originally obtained the funds. The expenditure of funds will be to support research of the principal investigator who originally obtained the funds as long as the investigator is a regular faculty or staff member of the University. If the investigator leaves the University, the expenditure of the funds will be determined by the departmental executive officer to support departmental programs.

If, after audit, the project is not exempt from UBIT or it is determined that certain expenditures charged to the project were done so in error, the department will be responsible for any errors as well as additional tax, interest, and associated penalties due to the taxing authority (e.g., IRS, State Department of Revenue and Finance).

In cases where the principal investigator transfers to another institution or organization prior to completing the study, contract document permitting, The University of Iowa will appoint another investigator to fulfill the responsibilities of the project(s), or, if the University deems it appropriate, it may retain the former employee as principal investigator. When so directed by sponsor, or at the discretion of the University, the University may transfer the final account balance to the new institution or organization subject to the restrictions placed on the funds by the grantor. No money will be paid to an individual investigator.

In cases where the principal investigator leaves The University of Iowa after the project has been closed out, funds remaining will be transferred to the DEO of the investigator's department for discretionary use in research at The University of Iowa.

- f. This policy is effective on all projects with an effective or start date on or after July 1, 1999.

Footnote

1. If an award ends in a surplus and **a** reduced F&A rate was ~~negotiated with~~ **approved by** the University's Division of Sponsored Programs, then up to the full F&A rate will be assessed on incurred expenses. Full F&A rate is defined as 30 percent of total direct costs (TDC) on corporate-funded clinical trials (**no reduced rates are available for these studies**) or the negotiated federal F&A rate ~~charged on~~ **applicable to** all other **types of** awards.