

# Independent Research & Development And Bid & Proposal Costs

IR&D and B&P are shorthand expressions for "Independent Research & Development" and "Bid & Proposal" costs.

IR&D costs are incurred by the company on its own in conducting projects that fall within the areas of basic research, applied research, development, and systems and other concept formulation studies. See [What types of R&D qualify as IR&D?](#) for more details.

B&P costs are incurred in preparing, submitting, and supporting both solicited and unsolicited proposals to the U.S. Government and commercial customers.

IR&D and B&P are allowable costs under contracts and subcontracts involving business with the U.S. Government. These costs are treated as "overhead" and are recovered in the prices of goods and services. See [How do we recover our IR&D and B&P costs?](#)

Because IR&D and B&P are governed by complex rules unique to doing business with the U.S. Government, failure to follow these rules may result in serious consequences for the company and its employees, including monetary penalties and possible suspension or debarment from contracting with the U.S. Government.

To remain viable, a business must engage in research and development ("R&D") in order to develop products and technologies for the future. The costs of R&D are ordinary and necessary to the conduct of the business. R&D costs not incurred in performing a contract (or other obligation, such as a grant) are considered "independent" (IR&D). Because there is no contract and because success in development is uncertain, the costs are treated as "indirect" or "overhead" and are spread across the prices of products and services.

Government accounting rules recognize the need for R&D and allow many categories of IR&D costs to be charged as overhead in government contracts. See [What types of R&D qualify as IR&D?](#)

By definition, IR&D costs are "independent" and cannot be for efforts required in the performance of a contract or grant. A cost incurred to perform a contract is "direct" and must be charged to the contract.

In order to be charged to a government contract, IR&D must be of "potential interest" to the U.S. Government and must fall within one of the following areas defined by the Government:

- Basic research, directed towards increase in knowledge in science rather than any specific application;
- Applied research, which attempts to exploit the potential for scientific discoveries or improvements in technology, materials, processes, methods, devices, or techniques;
- Development, meaning the systematic use of scientific and technical knowledge in the design, development, test, or evaluation of a potential new or improved product or service; or
- Systems and other concept studies, consisting of analyses or studies to identify new or modified systems, equipment, or components.

See Federal Acquisition Regulation ("FAR") 31.205-18. The concept of "potential interest" is broad and is not restricted to Government business only. For example, IR&D projects to develop technologies employed in both commercial and government products can qualify.

The U.S. Government pays its share of the company's IR&D in the price it pays for products and services. This augments the company's expenditures for R&D and allows additional company spending to explore advanced concepts, create new products and processes, improve existing products, and pursue technology advancements in areas where our customers' needs are greatest and our capabilities are strongest.

IR&D benefits the Government by providing new products and technologies that contribute to industrial competitiveness and a stronger defense and industrial base.

## What are the benefits of B&P?

Like IR&D, the Government pays its share of the company's B&P costs in the price it pays for products and services. This allows additional company spending to prepare and submit proposals to customers. In return, our government and commercial customers obtain more complete and timely proposals.

## How do we recover our IR&D and B&P costs?

For business units that have U.S. Government contracts and subcontracts, IR&D and B&P costs are included in general & administrative ("G&A") rates that are used to calculate the prices of the company's goods and services.

IR&D and B&P are allowable costs, provided we meet the requirements of Federal Acquisition Regulation ("FAR") section 31.205-18 and Cost Accounting Standard ("CAS") 420. These requirements are described in more detail in section 29.29.5 of UTC's Financial Manual.

Costs do not qualify as IR&D or B&P if they are required to be performed by the company under a contract or grant with a government or commercial customer. Therefore, research and development performed under a contract does not qualify as IR&D. The same is true for B&P costs that are required by a contract. If the company is awarded a contract to perform the same research and development being performed in an IR&D project or the same proposal effort that is in a B&P project, the work no longer qualifies as IR&D or B&P.

It is critical that we properly account for IR&D and B&P costs, especially when complementary research, development, and new business programs are underway or are contemplated. Frequently, it is unclear whether a contract or IR&D/B&P should be charged. The best approach is routine disclosure to the government of IR&D, B&P, and contract projects. Such disclosures allow issues to surface and to be resolved early.

Anyone who manages a research or development program, participates in bid and proposal activity, or performs or charges work to an IR&D or B&P project is impacted by IR&D and B&P rules. It is your responsibility to:

- Address potential IR&D and B&P issues when authorizing work, determining how work will be charged, or proposing/negotiating work statements in customer contracts;
- Understand that proper accounting of IR&D and B&P costs is critical in ensuring that UTC properly recovers IR&D and B&P costs to which it is entitled; and
- Comply with applicable laws, regulations, and company policies regarding IR&D and B&P.

## Need More Information or Assistance?

Each UTC operating division that does business with the U.S. Government has designated an individual who serves as an IR&D/B&P Focal Point. If you have any questions, ask your unit's Focal Point. Questions or problems can be addressed to:

|                                  |   |
|----------------------------------|---|
| Hamilton Standard                | (860) 654-4813<br>(Technet 433)             |
| Pratt & Whitney<br>CT Operations | (860) 565-2599<br>(Technet 435)             |
| FL Operations                    | (561) 796-2352<br>(Technet 796)             |
| Research Center                  | (860) 610-7520<br>(Technet 446)             |
| Sikorsky Aircraft                | (203) 386-5272<br>or -3765<br>(Technet 536) |
| Chemical Systems                 | (408) 776-4292<br>(Technet 281)             |
| USBI Co.                         | (407) 867-7227<br>(No Technet)              |

Questions concerning how to properly account for IR&D and B&P and other cost allowability questions may be referred to your unit's Government Accounting Policy Committee member:

|                                   |                                 |
|-----------------------------------|---------------------------------|
| Hamilton Standard                 | (860) 654-2798<br>(Technet 433) |
| Pratt & Whitney:<br>CT Operations | (860) 565-1118<br>(Technet 435) |
| FL Operations                     | (561) 796-4090<br>(Technet 796) |
| Research Center                   | (860) 610-1667<br>(Technet 446) |
| Sikorsky Aircraft                 | (203) 386-7511<br>(Technet 536) |
| Chemical Systems                  | (408) 776-5350<br>(Technet 281) |
| USBI Co.                          | (407) 867-7913<br>(No Technet)  |



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