

MEMORANDUM

TO: Selected Deans, Directors and Departmental Executive Officers

FROM: Terry L. Johnson, Controller and Asst. Vice President for Finance

RE: Salary Cap Administration

DATE: June 28, 2004

Effective July 1, 2004 the University is requiring departments to track in accounting the salary amount that can not be direct charged to an NIH grant or contract due to the National Institutes of Health (NIH) salary cap. According to NIH an individual's salary in excess of the salary cap is considered an unallowable cost.

In effect, the NIH salary cap is a limitation on the rate of pay directly chargeable to grants and contracts issued by NIH. It is indexed to Executive Level 1 and is usually updated each January 1. Effective January 1, 2004 the salary cap increased to \$175,700. The salary cap summary with links to the full text of the NIH guidelines can be found at the following web site:

http://grants.nih.gov/grants/policy/salcap_summary.htm

When an individual's institutional base salary exceeds the salary cap, the difference between that individual's actual salary and the maximum amount allowed under the cap for that percent of effort is an **unallowable cost** on NIH awards and must be charged to a non-sponsored account.

Institutional base salary is the annual compensation an individual receives, whether that individual's time is spent on research, teaching, patient care, or other activities. The base salary excludes incidental pay and any income that an individual is permitted to earn outside of duties for the institution. In the case of a joint UI/VA appointment, VA salary is included in institutional base salary. However, in no event will the total salary charged to sponsored projects (which include grant accounts, cost sharing accounts and the salary cap accounts) exceed the individual's UI salary. VA salary cannot be used for cost sharing or for funding unallowable salary cap cost.

The salary cap applies to both grants and contracts received directly from NIH and indirectly from NIH through another institution. It also applies to salaries being charged to cost sharing accounts associated with NIH projects. The unallowable portion of salary over the cap may not be charged to a regular cost sharing account.

All unallowable costs attributable to salary cap must be charged to Grant# 3-111111 and function 21. All funding sources, except funds 500 and 510 may be used. Requests for establishing new WHO keys should be sent to Grant Accounting.

Any questions concerning salary cap can be directed to Kirby Tenhulzen at 5-0083 or Audra Haddy at 5-0827.

Salary Cap Examples

Calculating Salary Cap (applied to individual's salary over the salary cap):

Example 1

PI with 12 month appointment and an institutional base salary of \$200,000 devoting 25% effort to grant 1-1234500:

Charge to funded grant account 1-1234500 $\$175,700 \times 25\% \text{ effort} = \$43,925$

Charge to salary cap account 3-1111111 $(\$200,000 \times 25\% = \$50,000) - \$43,925 = \$6,075$

Example 2

PI with 12 month appointment and an institutional base salary of \$200,000 devoting 25% effort to grant 1-1234500 and cost sharing 5% effort:

Charge to funded grant account 1-1234500 $\$175,700 \times 25\% \text{ effort} = \$43,925$

Charge to cost sharing account 3-1234500 $\$175,700 \times 5\% \text{ effort} = \$8,785$

Charge to salary cap account 3-1111111 $(\$200,000 \times 30\% = \$60,000) - \$43,925 - \$8,785 = \$7,290$

Example 3

PI with 12 month appointment, an institutional base salary of \$250,000 with UI salary of \$200,000 and VA salary of \$50,000, devoting 75% effort to grant 1-1234500 and cost sharing 5% effort:

Charge to funded grant account 1-1234500 $\$175,700 \times 75\% \text{ effort} = \$131,775$

Charge to cost sharing account 3-1234500 $\$175,700 \times 5\% \text{ effort} = \$8,785$

Charge to salary cap account 3-1111111 $(\$250,000 \times 80\% = \$200,000) - \$131,775 - \$8,785 = \$59,440$

*The total salary charged (\$200,000 in this example) to the grant account, the cost sharing account and the salary cap account cannot exceed the UI salary (\$200,000 in this example).

Example 4

PI with 9 month appointment and an annualized institutional base salary of \$200,000 devoting 25% effort to grant 1-1234500 during the academic year and 100% effort for two summer months:

Charge to funded grant account 1-1234500 \$62,227

* $\$175,700/12 \text{ months} \times 9 \times 25\% \text{ effort} = \$32,944$

$\$175,700/12 \text{ months} \times 2 \times 100\% \text{ effort} = \$29,283$

Charge to salary cap account 3-1111111 \$8,606

$\$200,000/12 \text{ months} \times 9 \times 25\% \text{ effort} = \$37,500 - \$32,944 = \$4,556$

$\$200,000/12 \text{ months} \times 2 \times 100\% \text{ effort} = \$33,333 - \$29,283 = \$4,050$

*NIH Salary cap of \$175,700 is based on a 12 month appointment. If the actual appointment is for less than 12 months, the equivalent pro-rata salary cap must be used.