

42.709-2 General.

(a) The following penalties apply to contracts covered by this section:

(1) If the *indirect cost* is expressly unallowable under a cost principle in the FAR, or an *executive agency* supplement to the FAR, that defines the allowability of specific selected costs, the penalty is equal to-

(i) The amount of the disallowed costs allocated to contracts that are subject to this section for which an *indirect cost* proposal has been submitted; plus

(ii) Interest on the paid portion, if any, of the disallowance.

(2) If the *indirect cost* was determined to be unallowable for that contractor before proposal submission, the penalty is two times the amount in paragraph (a)(1)(i) of this section.

(b) These penalties are in addition to other administrative, civil, and criminal penalties provided by law.

(c) It is not necessary for *unallowable costs* to have been paid to the contractor in order to assess a penalty.

Parent topic: [42.709 Penalties for Unallowable Costs.](#)