

## 32.407 Interest.

(a) Except as provided in paragraph (d) of this section, the *contracting officer shall* charge interest on the daily unliquidated balance of all advance payments at the higher of-

(1) The published prime rate of the financial institution (depository) in which the special account (see [32.409-3](#)) is established; or

(2) The rate established by the Secretary of the Treasury under [50 U.S.C. App.1215\(b\)\(2\)](#).

(b) The interest rate for advance payments *shall* be adjusted for changes in the prime rate of the depository and the semiannual determination by the Secretary of the Treasury under [50 U.S.C. App.1215\(b\)\(2\)](#). The *contracting officer shall* obtain data from the depository on changes in the interest rate during the month. Interest *shall* be computed at the end of each month on the daily unliquidated balance of advance payments at the applicable daily interest rate.

(c) Interest *shall* be required on contracts that are for *acquisition*, at cost, of property for Government ownership, if the contracts are awarded in combination with, or in contemplation of, supply contracts or subcontracts.

(d) The *agency head* or designee *may* authorize advance payments without interest under the following types of contracts, if in the Government's interest:

(1) Contracts for experimental, research, or development work (including studies, surveys, and demonstrations in socio-economic areas) with nonprofit education or research institutions.

(2) Contracts solely for the management and operation of Government-owned plants.

(3) Cost-reimbursement contracts with governments, including State or local governments, or their instrumentalities.

(4) Other classes of contracts, or unusual cases, for which the exclusion of interest on advances is specifically authorized by agency procedures.

(e) If a contract provides for interest-free advance payments, the *contracting officer may* require the contractor to charge interest on advances or downpayments to subcontractors and credit the Government for the proceeds from the interest charges. Interest rates *shall* be determined as described in paragraphs (a) and (b) of this section. The *contracting officer* need not require the contractor to charge interest on an advance to a subcontractor that is an institution of the kind described in paragraph (d)(1) of this section.

(f) The *contracting officer shall* not allow interest charges, required by this [32.407](#), as reimbursable costs under cost-reimbursement contracts, whether the interest charge was incurred by the prime contractor or a subcontractor.

**Parent topic:** [Subpart 32.4 - Advance Payments for Other Than Commercial Acquisitions](#)