

1816.402 Application of predetermined, formula-type incentives. (NASA paragraphs 1, 2 and 3).

When considering the use of a quality, performance, or schedule incentive, the following guidance applies:

- (1) A positive incentive is generally not appropriate unless—
 - (i) Performance above the target (or minimum, if there are no negative incentives) level is of significant value to the Government;
 - (ii) The value of the higher level of performance is worth the additional cost/fee;
 - (iii) The attainment of the higher level of performance is clearly within the control of the contractor; and
 - (iv) An upper limit is identified, beyond which no further incentive is earned.
- (2) A negative incentive is generally not appropriate unless—
 - (i) A target level of performance can be established, which the contractor can reasonably be expected to reach with a diligent effort, but a lower level of performance is also minimally acceptable;
 - (ii) The value of the negative incentive is commensurate with the lower level of performance and any additional administrative costs; and
 - (iii) Factors likely to prevent attainment of the target level of performance are clearly within the control of the contractor.
- (3) When a negative incentive is used, the contract must indicate a level below which performance is not acceptable.

Parent topic: [Subpart 1816.4—Incentive Contracts](#)