



Taxpayer Alert

TA 2017/5A - Addendum

Claiming the Research and Development Tax Incentive for software development activities



This Alert has been jointly developed by the Australian Taxation Office (ATO) and Department of Industry, Innovation and Science.

The [Research and Development \(R&D\) Tax Incentive](#) is jointly administered by Innovation and Science Australia (supported by AusIndustry within the Department of Industry, Innovation and Science) and the ATO.

View the [updated version](#) of TA 2017/5.

Addendum

This Addendum amends Taxpayer Alert TA 2017/5 to further clarify when routine testing steps in software development projects should not be claimed and when they may be eligible R&D activities.

TA 2017/5 is amended as follows:

1. Under the heading "Background"

Omit the following paragraph:

A test or trial that does not set out to test causal relationships between technical variables to experimentally resolve an outcome that cannot be determined with existing knowledge or expertise, will not be an eligible core R&D activity under the R&D Tax Incentive. Examples of these types of activities include, but are not limited to:

- Bug testing
- Beta testing
- System testing
- Requirements testing
- User Acceptance Testing
- Data mapping and data migration testing
- Testing the efficiency of different algorithms that are already known to work, and
- Testing websites in operation by measuring the number of hits.

And substitute with the following:

There are routine testing steps in software development projects that are frequently incorrectly claimed as core R&D activities. Activities such as bug, beta and user acceptance testing are often claimed as core R&D regardless of the stage of development of a software project. Activities such as these can only be claimed as core R&D activities when they are being done as experiments that are resolving hypotheses about specific technical issues. Examples of activities that are not eligible unless there is evidence they are being done as experiments to test a hypothesis are:

- Bug testing
- Beta testing
- System testing
- Requirements testing
- User Acceptance Testing
- Data mapping and data migration testing
- Testing the efficiency of different algorithms that are already known to work, and
- Testing websites in operation by measuring the number of hits.

The activities listed above, however, may be eligible as supporting R&D activities if they are directly related to core R&D activities.

This Addendum applies on and from 20 February 2017.

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Related Taxpayer Alerts:

TA 2017/5 **Authorised by:**

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