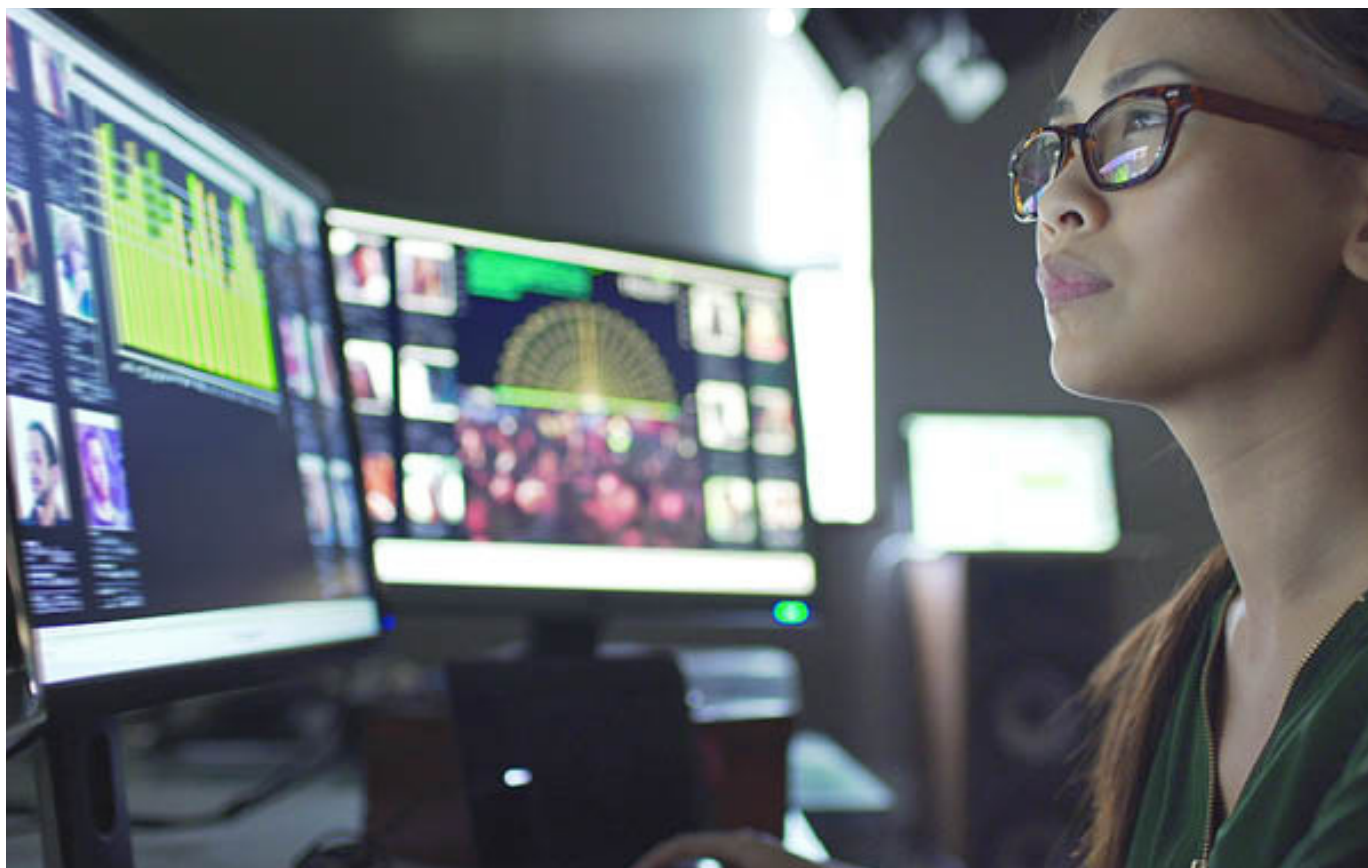


# DLK ADVISORY

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## CAN MY BUSINESS CLAIM THE R&D INCENTIVE FOR SOFTWARE PROJECTS?

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Is your company planning to develop software as part of an experimental R&D project? You may qualify for the R&D tax incentive, even if you're not a software developer but operate in a technology-focused industry such as manufacturing. However, the activities you claim for must genuinely meet the relevant tests – and the ATO says some companies are incorrectly assuming their project qualifies. Make sure you understand the criteria before making an R&D claim.

The incentive broadly offers:

- for companies with turnover below \$20 million: a refundable tax offset of 43.5% of eligible R&D expenditure; or
- for other companies: a non-refundable offset of 38.5%.

These offsets apply to expenditure between \$20,000 and \$100 million. Expenditure outside this range has different incentives.

The Department of Industry, Innovation and Science (DIIS) has recently released guidelines to help clarify the rules as they apply to software development. The DIIS and ATO both stress that the incentive applies to specific activities, not projects as a whole. It's therefore essential to identify particular activities.



To qualify, a company must have “core” R&D activities. It can then claim the offset for expenditure on those core activities. Core activities are essentially experimental activities conducted using scientific principles to generate new knowledge. Crucially:

- you cannot know the outcome of the experimental activities on the basis of current knowledge, information or experience;
- the new knowledge generated must result from a systematic progression of work that involves testing one or more hypotheses; and
- the knowledge generated must be “new” in the sense that it’s not already available and reasonably accessible in the public arena on a world-wide basis.

This is a high bar. According to the guidelines, examples of activities that may be eligible include developing new operating systems or languages, designing new search engines based on original technologies, and creating new and original encryption or security techniques. Those that generally will not be eligible include adding user functionality to existing programs, creating websites or software using existing tools, and routine debugging of existing systems and programs.

If your software development activities don’t qualify as “core” activities, you may still be able to claim these as “supporting” activities that directly relate to other core activities.

Talk to us about whether it may qualify for the R&D incentive. We can also help you register a claim and guide you through the necessary documentation requirements.

## CONTACT

If you have any queries, please feel free to contact us.

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