

**Senate Select Committee on Financial Technology and Regulatory Technology**  
ANSWERS TO QUESTIONS ON NOTICE  
Department of Industry, Science, Energy and Resources  
**Inquiry into Financial Technology and Regulatory Technology**  
05 March 2021

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**AGENCY/DEPARTMENT:** DEPARTMENT OF INDUSTRY, SCIENCE, ENERGY AND RESOURCES

**TOPIC:** R&DTI

**REFERENCE:** Question on Notice (Written Question, 12 March 2021)

**QUESTION No.:** 3

1. At the 5 March hearing DISER spoke about being focused on providing guidance and assisting people to understand what is eligible and what is not in relation to software. When was the latest guidance issued?
2. At the 5 March hearing DISER mentioned being aware of the criticisms of the R&DTI provided to the committee in relation to software. Has any of that feedback prompted any update of the guidance provided?
3. At the 5 March hearing DISER stated ‘there is a large amount of software research and development that does fit the eligibility activities and is therefore covered by the RDTI’. Would you please provide examples or data to illustrate this point.
4. It has been suggested to the committee by WiseTech Global that allowing flexibility in relation to the methodology (ie. allowing more than the Frascati method, eg the action research methodology or others) would be helpful. Is there any scope for this?

**ANSWER**

1. The refreshed Guide to Interpretation was released on 4 November 2020 and is applicable across all program sectors in providing guidance on self-assessment and interpretation issues.
2. The department has been updating software guidance and administrative practices in response to issues raised by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) in the December 2019 Review of the R&D Tax Incentive. The issues raised in the ASBFEO have subsequently been raised by stakeholders in other forums, including the Senate Select Committee Inquiry on Financial Technology and Regulatory Technology.
3. Many software development activities can and do meet the requirements under the definition of research and development in the legislation. Since 2012-13, registrations in the Information and Communication Technology (ICT) field of research across all sectors have comprised more than 40 per cent of total program registrations and more than 30 per cent of total R&D registered expenditure.

The department is in the process of updating a redesigned and rebranded “*Software Activities and the RDTP*” guide. Once approved, this guide is expected to replace the existing *Software Activities and the RDTI* guide.

4. While the legislated definition of R&D activities under the R&D Tax Incentive has been found to be broadly consistent with the Frascati Manual (2016 Review of the R&D Tax Incentive), the Frascati Manual and other methods of defining research and development, such as ‘agile methodologies’, are not the basis for decisions on eligibility. In December 2020, to ensure clarity on this point, the department redacted references to the Frascati Manual from the Software Activities and the RDTI and Avoiding Commons Errors software guides.

The legislation requires, among other things, eligible activities to involve an outcome that cannot be known or determined in advance on the basis of current knowledge, but can be determined only by applying a systematic progression of work that is based on principles of established science; and proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions. Activities using agile methodologies that meet this requirement can and have been found to be eligible R&D activities.