

New Internal-Use Software (IUS) Regulations for the R&D Tax Credit

A Big Win for Software Developers and Taxpayers at Large

In January 2015, the Department of Treasury and the IRS issued new regulations regarding internal-use software (IUS) and its eligibility for the Research and Development (R&D) Tax Credit. The new definition of IUS is being hailed as a major win for both software developers and taxpayers at large that have created custom software, providing companies from a variety of industries a substantial boost in their ability to claim R&D credits.

Historically, the most common barriers preventing companies from claiming the R&D Tax Credit have been Treasury and the IRS' broad definition of IUS, and that design and development activities of internal-use software must meet a higher standard to claim the credit. The new regulations, however, address this issue by greatly narrowing the definition of internal-use software, thus expanding the varieties of software that are not defined as IUS.

The New Regulations

Traditionally, any software not "sold, leased, licensed or otherwise marketed to third parties" was defined as IUS. This classification is now confined to software that is developed for general and administrative functions that facilitate or support a taxpayer's trade or business. These functions are limited to financial management, HR management and support services.

Benefitting Software Developers and Beyond

By narrowing the boundaries of IUS, Treasury and the IRS have done software developers and taxpayers a huge favor by making it easier to claim the R&D Tax Credit for **software they have developed that provides services to customers** (i.e., **third parties**). This simple change is already having a broad impact and has greatly expanded the number of companies that can claim the credit based on their software development activities. If you have clients that **develop software for companies in any of the following industries, or clients in these industries that design and develop their own client-facing software**, there is a very good chance that they qualify for R&D credits:

- Banks and financial institutions
- Travel agencies
- Insurance companies
- Shipping companies
- Internet retailers
- Online reservation businesses

For more information on the new IUS regulations, please contact alliantgroup at 713.877.9600 or www.alliantgroup.com.