



KBKG Tax Insights: R&D Tax Credit – Qualified Research Expenses for Software Development Activities

What software development activities and expenditures can be included in an R&D Tax Credit claim for software projects?

Companies performing qualified research in creating or improving their software may qualify for federal and state R&D tax credits for the software development activities they are already conducting. These credits are a dollar-for-dollar reduction in federal and state tax liability and could range from 6.5 percent to 15 percent of total research expenses. For example, a company employing 10 software engineers with qualified wages of \$1 million could see federal and state R&D credits exceeding \$100,000 for a single tax year. Below is a short list of qualified activities and the expenses eligible for the credits.

In terms of qualifying tasks, the following activities would be considered eligible for the R&D tax credit:

- Develop new, improved or specialized technologies
- Software developed as part of a hardware product
- Design and develop software architecture
- Develop new algorithms
- Design new database management techniques
- Develop system software, operating systems and compilers
- Establish functional relationships between software modules
- Program and test software source code
- Conduct unit, integration, functional, performance, and regression testing
- Develop feature enhancements
- Conduct analysis for new functional software end requirements, domain, software elements, or scope analysis for a new functional software enhancement
- Evaluate and establish functional specifications
- Improving Internal Processes
- Attending Technical Meetings

What R&D expenditures can be claimed for software projects?

For qualified research conducted in the United States, the main costs that can be claimed towards the R&D credit¹ are:

- Wages paid to software engineers, programmers, developers as well as those supporting or supervising the development
- Agency workers
- Subcontractors/freelancers
- Cloud license for use in developing software and conducting experiments to validate its design
- Right to use (time-sharing) computers

Interested in learning more? Our technical experts cover this information and more during our R&D Tax Credits for the Software Development Industry webinar. » [View our course calendar and register for free](#)

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¹ Treas. Reg. § 1.41-2 Qualified Research Expenses.