


PS LA 2008/14 - Software system documentation for record keeping purposes

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Practice Statement Law Administration

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This practice statement is issued under the authority of the Commissioner of Taxation and must be read in conjunction with Law Administration Practice Statement PS LA 1998/1. It must be followed by Tax Office staff unless doing so creates unintended consequences or where it is considered incorrect. Where this occurs Tax Office staff must follow their business line's escalation process.

Taxpayers can rely on this practice statement to provide them with protection from interest and penalties in the way explained below. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty. Nor will they have to pay interest on the underpayment provided they reasonably relied on this practice statement in good faith. However, even if they don't have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

SUBJECT: Software system documentation for record keeping purposes
PURPOSE: To provide guidance to tax officers on the computer system documentation to be maintained by taxpayers using commercial off the shelf software packages to meet their record keeping obligations under the *Income Tax Assessment Act 1936* and *Income Tax Assessment Act 1997*.

TABLE OF CONTENTS	Paragraph
BACKGROUND	1
STATEMENT	8
EXPLANATION	10

BACKGROUND

1. Section 262A of the *Income Tax Assessment Act 1936* (ITAA 1936) requires a person carrying on a business to keep records that record and explain all transactions and other acts engaged in by the person that are relevant for any purpose of this Act.¹ 'This Act' is defined to include the *Income Tax Assessment Act 1997* (ITAA 1997), Schedule 1 to the *Taxation Administration Act 1953* (TAA) and specified parts of Part IVC of the TAA.²

¹ Subsection 262A(1) of the ITAA 1936.

² Subsection 6(1) of the ITAA 1936

2. The records to be kept include any documents which are relevant for the purpose of ascertaining the person's income and expenditure and any documents that contain particulars of any elections, estimates, etc made by the person under this Act.³
3. A person must keep the records in such a manner as to enable the person's liability under this Act to be readily ascertained. Further the records must be kept in writing in the English language or so as to enable the records to be readily accessible and convertible into writing in the English language.⁴
4. Generally, the person must keep such records for 5 years after the person prepared or obtained them, or 5 years after the completion of the transaction or acts to which those records relate (whichever is the later).⁵
5. Taxation Ruling TR 2005/9 Income tax: record keeping – electronic records sets out the Tax Office view on what are sufficient electronic records to be retained. It includes those created by internet electronic commerce so as to record and explain all transactions and other acts engaged in by such persons for the purposes of the ITAA 1936 and the ITAA 1997.
6. Many taxpayers meet their record keeping needs by using commercial off the shelf accounting and other record keeping software packages. Taxpayers using these packages generally have no input into the development of the system and do not have access to detailed system documentation.
7. The purpose of this practice statement is to provide guidance to tax officers on what are sufficient electronic records to be retained for the purposes of the ITAA 1936 and the ITAA 1997 where taxpayers use commercial off the shelf software packages.

STATEMENT

8. For the purpose of this practice statement commercial off the shelf software packages are software packages which typically have at least three of the following attributes:
 - (a) They are designed to be able to be routinely operated by individuals with limited information technology training. In many cases maintenance is carried out by individuals with vendor based product training only.
 - (b) Cost less than \$2,000.
 - (c) They are software packages not designed for a specific business but rather are for general business use or use by particular industries or types of business.
 - (d) Typically the starting point for the contractual relationship is the first use of the software whereby the licensee agrees to specific conditions in relation to the use of the software.

³ Subsection 262A(2) of the ITAA 1936.

⁴ Subsection 262A(3) of the ITAA 1936.

⁵ Subsection 262A(4) of the ITAA 1936.

9. Taxpayers using these packages are generally not able to keep the computer system documentation as set out in paragraphs 8 and 9 of TR 2005/9. However, tax officers can accept that taxpayers using commercial off the shelf software packages are maintaining electronic records associated with the software in accordance with the requirements in subsections 262A(1), (3) and (4) of the ITAA 1936 where:
- (a) the software name and version is recorded,
 - (b) a record is made of the components of the software package that have been installed and the date of installation,
 - (c) a chronological record is kept of all system changes or upgrades,
 - (d) a record is made of the options that have been enabled or disabled, and
 - (e) any manuals or instructions provided with the software package are kept.

EXPLANATION

10. The Tax Office has provided advice to taxpayers on electronic record keeping in TR 2005/9. With regard to system documentation the Ruling states at paragraph 8:
- To ensure that the electronic records associated with a computer system are being maintained in accordance with the requirements in subsections 262A(1), (3) and (4) of the ITAA 1936, a person should have an understanding of their computer system. System documents should be retained to explain the basic aspects of the system so the Tax Office can ascertain that the system is doing what it is claimed to do.
11. By way of explanation, paragraph 43 of the Ruling states:
- The entire electronic records system should be documented, including physical and logical descriptions of the system's structure and programs, including all inputs and outputs.
12. Further at paragraph 44 the Ruling states:
- ... System documents should be retained to explain the basic aspects of that system so Tax Office officers can ascertain that the system is doing what it is claimed to do. This should also include the changes and upgrades that have occurred in software and hardware and so on.
13. Many taxpayers meet their electronic record keeping needs by using commercial off the shelf accounting and other record keeping software packages, such as inventory and payroll systems.
14. The software is not designed specifically for a particular business but is a package that can be used by a variety of businesses.
15. These packages give the end user (the taxpayer) a licence to use the software and to make a back up copy. The software remains the property of the software manufacturer or developer.
16. Taxpayers using these packages for record keeping will not have access to, nor have detailed knowledge of the computer program or system by way of a system manual or system documentation. Any manual provided to the taxpayer would be limited to instructions on how to load and use the software. It is expected that the software producer will maintain the detailed system documentation.

17. Therefore, where a taxpayer uses a commercial off the shelf software package it will be sufficient, for the purpose of meeting the requirement of maintaining documentation to explain the computer system, that the taxpayer keeps the following:
- (a) a record of the software name and version,
 - (b) a record of the components of the software package that have been installed and the date of installation,
 - (c) a chronological record of all system changes or upgrades,
 - (d) a record of the options that have been enabled or disabled, and
 - (e) any manuals or instructions provided with the software package.

Subject references	Accounting & record keeping Documentation & records Electronic records Record keeping audits
Legislative references	ITAA 1936 ITAA 1936 262A ITAA 1936 262A(1) ITAA 1936 262A(2) ITAA 1936 262A(3) ITAA 1936 262A(4) ITAA 1997 TAA 1953 Pt IVC TAA 1953 Sch 1
Related public rulings	TR 2005/9
Related practice statements	PS LA 1998/1
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Other Business Lines consulted	GST, LB&I, TPALS, ME&I, Superannuation, TCN Technet