



**Software Accounting Policy Change Summary**

Policy Effective Date: 1/1/2019

Notes: Updates and name change to the "Accounting for Internally Developed Software Policy. New policy titled "Software Accounting Policy" and includes definitions of Software as a Service, Cloud-Based Software, datasets, etc. and when they may be capitalized.

Category	Current Policy (dated 7/1/2014)	Revised Policy effective 1/1/19 onward	Effect	Dollar Impact
Scope of the Policy	Policy focused on internally developed software only	Policy now covers all software, including internally developed and SaaS solutions, and cloud computing	Clarification around what costs are capitalized and what are expensed within the full realm of software	n/a
Capitalization requirements	Internally-Developed Software \$ threshold - Must be capitalized if >\$1M in costs, but schools may choose to capitalize if it falls in the range of \$250,000-\$999,999	Internally-developed software must be capitalized if $\geq$ \$500,000 in costs. Anything under this threshold must be expensed.	All internally-developed software $\geq$ \$500k will be capitalized, as opposed to option from \$500K - \$1M.	Software over \$500K must be capitalized, may have previously been expensed (had been a Tub option). No retroactive impact.
	Useful life - Capitalized only if the software has an estimated useful life of 3 years or more	Software must be capitalized if it has a useful life of 1 year or more and a per license or user/unit cost of $\geq$ \$5,000, which follows the Financial Management of Property, Plant and Equipment Policy.	All software with a useful life of 1 year or more that meets the capitalization threshold will be capitalized.	Software will qualify for capitalization that previously would have been expensed. No retroactive impact.
	Was not clear regarding salary and wages and if and when they could be charged to sponsored funds.	Clarified that salary and wages on internally-developed software <u>cannot</u> be charged to sponsored funds unless they are part of the costs of a Harvard service center/unit or outside vendor.	Clarification on when salaries and wages may be capitalized.	May result in increased expensed salary & wages on internally-developed software projects charged to sponsored funds if the salary & wages are not part of the costs of a Harvard service center/unit or outside vendor.
Software as a Service (SaaS) & Cloud Computing Arrangements (CCA) capitalization	Silent, not addressed in current policy	All SaaS and CCA in order to be capitalized must pass 2 tests: 1. Harvard has the contractual right to take possession of the software at any time during the hosting period without significant penalty (25% or more of the original cost) or having a substantial reduction in program functionality, AND 2. It is feasible for Harvard to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. Currently only the software license portion of the expenses may be capitalized and must have a threshold $\geq$ \$500,000.	New guidance	Expect that generally SaaS and CCA solutions will not meet license capitalization requirements and will be expensed.
Subscriptions and Datasets	Did not address when to capitalize subscriptions or purchases of data sets.	Subscriptions to on-line services and systems which offer the use of information and data collected must be expensed.	Increased clarity	New subscriptions and datasets may need to be expensed.



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Deposits or prepayments for capitalized software	Not addressed	Capitalized software that has upfront fees (deposits or prepayments) must be recorded using a WIP object code in order to feed into Oracle Assets. Once the software is ready for use, it needs to be placed in service.	Capitalized software will be tracked at time of purchase.	This has been the guidance from FAR since the implementation of the Oracle Assets System.
Useful life	Software was assigned a 4-year useful life	Option is available to enter the appropriate useful life. Generally depreciated over 4-years, but Cloud Computing or Software as a Solution should be assigned a useful life based on the underlying hosting agreement. The policy addresses other situations regarding different useful life to be assigned.	More flexibility in choosing an appropriate useful life for software to better meet underlying agreements.	Potential to accelerate or decelerate depreciation expense on the assets currently being depreciated.
Purchased software	Silent on purchased software	References the capitalization requirements in the Financial Management of Property, Plant and Equipment Policy. Details out specifics on what software/license costs should be capitalized vs expensed.	Increased clarity	Limited impact - most tubs were following the existing capitalization requirements for equipment already
Provided Guidance on coding for SaaS solutions that need to be expensed, which did not pass the test for capitalization or monthly usage fee	Silent, not addressed in current policy	Provided definition, and use cases for object codes 8071, 8074, 8075, 8076	Increased clarity	n/a