

CREATIVE SECTOR TAX RELIEFS

VIDEO GAMES TAX RELIEF



Background

Video games tax relief (VGTR) is part of the UK government's strategy to promote the creative sector in the UK through generous tax reliefs.

A video game development company will be entitled to claim VGTR if:

- The video game passes the 'cultural test'
- The video game is intended for supply to the general public
- At least 25% of core expenditure is incurred on goods or services that are provided from within the European Economic Area (EEA).

Main features of VGTR:

- If the company qualifies to claim VGTR, it will be entitled to an additional deduction in calculating its taxable profits
- Where an additional deduction results in a loss, the company will be entitled to surrender losses for a payable tax credit
- Only one video game development company can claim for a particular game
- The relief will apply to companies registered in the UK – not LLPs or partnerships
- The game has to meet a cultural test.

Relief for video games

To qualify for relief, the video game must be intended for supply to the general public when the video game development activities begin.

The term 'video game' takes the ordinary meaning, without specific definition in the legislation. It does not include:

- Anything produced for advertising purposes
- Anything produced for the purposes of gambling.

Criteria for a video game development company to qualify

To be a video game development company, it must:

- Be responsible for designing, producing and testing the video game
- Directly negotiate, contract and pay for rights, goods and services in relation to the video game.

Types of qualifying expenditure

- Core expenditure is the total expenditure on designing, producing and testing the video game
- Qualifying expenditure is the expenditure on goods and services provided from within the EEA.

Expenditure on a video game trade includes that incurred from the start of development until final delivery of the completed game.

A limit of £1 million will apply to total subcontracting payments.

The cultural test

A video game will be awarded points against different criteria. A game that is awarded 16 or more points (out of a possible 31) will be certified as passing the cultural test.

The cultural test is not limited to British culture and can extend across the EEA. The assessment criteria are:

- Setting of the game – to what extent is the game set in the UK or another EEA country?
- Nationality of the characters in the game – how many of the game's characters are from the UK or the EEA?
- Whether the game tells a British or EEA story
- The amount of dialogue in English or a British regional minority language (e.g. Gaelic or Cornish)
- The location of the work done on conceptual development, design, programming, performing and recording music and vocals, and audio production
- The nationality and residence of key individuals and teams involved in the production of the game (e.g. project leader, programmer or development team).

A game cannot qualify for certification solely on the basis of the location of its development or the nationality of the individuals involved, if the game does not have sufficient qualifying content.

To apply for certification, the company must submit a statutory declaration together with a list of information specified in the Cultural Test Regulations.

This information includes reasons why points should be awarded against the criteria.

CREATIVE SECTOR TAX RELIEFS - VIDEO GAMES TAX RELIEF

Taxation of video game development companies

Games qualifying for video games tax relief are to be treated as separate trades.

The company is treated as beginning to carry on this trade when the design of the video game begins or, if earlier, when it receives any income from the video game.

In its first period of account, the company must record the proportion of the estimated total income from the video game treated as earned at the end of that period less the costs incurred to date.

In later periods of account, the company must record the new total income and costs incurred since the previous period.

Additional deduction

If relief is available to the video game company, it may make an additional deduction in calculating the profit or loss of the separate video game trade.

For the first period of account, the amount of additional deduction is equal to 100% of the lower of:

- Expenditure incurred in the EEA relating to that video game; and
- 80% of total expenditure incurred relating to that video game.

For subsequent periods of account, the additional deduction is the difference between the amount calculated by the formula above and the amount of additional deductions given for previous periods. When carrying out the calculations, costs are ignored for a period of account if they remain unpaid four months after the end of the period.

Tax relief through credit

If a company is eligible for relief, where it has a surrenderable loss, it may claim a credit for an accounting period.

- The surrenderable loss will be the lower of:
- The company's available loss for the period in the separate video game trade; and

The available qualifying expenditure for the period. A company may surrender all or part of its surrenderable loss in an accounting period in return for a credit of 25% of the loss surrendered.

If a company makes a claim, HMRC will pay the amount of the credit (payment of which is not taxable as income). Alternatively, the credit may be used to reduce the company's corporation tax liability.

Example – video games tax relief

Below is an example to illustrate how a tax credit could be calculated for a video games production company.

A company produces a video game which is commissioned. Income received from the commissioning publisher totals £400,000. The total core expenditure incurred is £500,000, of which £300,000 is expenditure incurred in the EEA.

Total income	£400,000
Total expenditure	£(500,000)
Pre-games tax relief profit/(loss)	£(100,000)
Additional relief - the lower of: 1) EEA spend £300,000; and 2) 80% of core spend £500,000 i.e. £400,000	£(300,000)
Post-tax relief profit/(loss)	£(400,000)

The surrenderable loss is the lower of:

- The post-tax relief trading loss of £400,000 and
- The available qualifying expenditure of £300,000.

The video games production company can surrender the whole qualifying expenditure of £300,000 for a payable tax credit of 25%, giving a payment of £75,000.

Limitations on relief

Relief is not available to the extent that the company has obtained research and development relief relating to that expenditure.

How can Moore Kingston Smith assist me?

This document, together with our publications on the other creative sector tax reliefs, provide only a brief summary of the issues surrounding them. We would be pleased to discuss your particular circumstances and provide advice in relation to your eligibility for tax reliefs.