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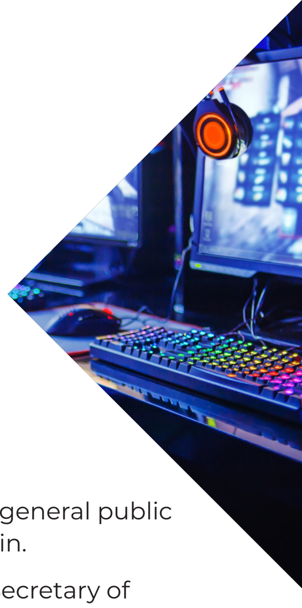

CREATIVE SECTOR TAX RELIEFS VIDEO GAMES TAX RELIEF

Video games tax relief (VGTR) forms part of the UK government's strategy to promote and support various creative sectors in the UK through generous tax reliefs.

VGTR may be available to a video game development company (VGDC) that develops a qualifying video game. Under the current regime, the relief can increase the amount of expenditure that is allowable as a deduction for tax purposes and, if the company makes a loss, allows some or all of that loss to be surrendered for a payable tax credit.

The government announced in the Spring Budget 2023 that the current VGTR regime will be replaced with a video games expenditure credit. This new scheme will operate in a similar way to the research and development expenditure credit, providing a taxable credit which is calculated with reference to qualifying expenditure. This new scheme is due to be available for accounting periods ending on or after 1 January 2024. The current regime will remain open for video game development activities starting before 1 April 2025, and will continue to be available until 31 March 2027.

Video game development company

For the purposes of VGTR, a VGDC is the company responsible for the design, production, and testing of the video game.

The VGDC must be actively involved in the decision-making processes relating to the development, and it must be required to negotiate and pay for rights, goods and services in relation to the video game. It can engage third parties to undertake some activities on its behalf but it cannot entirely relinquish its involvement in any of these activities.

There can only be one VGDC in relation to a particular video game.

Qualifying video games

The term "video game" takes its ordinary meaning of an electronic game played through a video device. For the purposes of VGTR, it cannot include anything produced for advertising or gambling purposes.

In order for a video game to qualify for VGTR it must meet the following conditions:

- It must be intended for supply to the general public when the development activities begin.
- It must be certified as British by the Secretary of State for Digital, Culture, Media and Sport, on the advice of the British Film Institute (BFI) Certification Unit.
- At least 25% of the "core expenditure" on the development of the video game must be "European expenditure". Core expenditure is the total expenditure incurred on designing, producing and testing the video game. It does not, therefore, include costs associated with the initial concept, de-bugging, on-going maintenance, marketing, or distribution expenditure. Core expenditure is European expenditure if it is incurred on goods and services that are provided from within the UK or EEA.

How is tax relief given?

A VGDC's activities in relation to a particular video game will be treated as a separate trade for tax purposes.

VGTR then provides two elements in respect of expenditure on qualifying video games:

- An additional allowable deduction in calculating trading profits; and
- A payable tax credit.

Additional tax deduction

The additional deduction is equal to the lower of:

- 80% of total core expenditure incurred in relation to that video game; and
- 100% of the core expenditure that is European expenditure.

Where the development activity spans a number of years, VGTR operates on a cumulative basis, meaning the level of the additional deduction is calculated by reference to the total expenditure incurred to date, less additional deductions given in earlier years.

Payable tax credit

After calculating the additional deduction, the VGDC should ascertain whether a loss arises which can potentially be surrendered for a payable tax credit.

£400,000. The total core expenditure incurred in the period is £500,000, of which £300,000 is European expenditure.

CREATIVE SECTOR TAX RELIEFS - VIDEO GAMES TAX RELIEF

The "surrenderable loss" for an accounting period will be the lower of:

- The trading loss for the period (taking account of the additional deduction); and
- The additional deduction 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.

Example

A company develops and produces a video game. Income received in an accounting period totals £400,000. The total core expenditure incurred in the period is £500,000, of which £300,000 is European expenditure.

Total income	£400,000	
Total expenditure	£(500,000)	
Pre-video games tax relief loss		£(100,000)
80% of core expenditure	£400,000	
European expenditure	£300,000	
Additional deduction		£(300,000)
Post-tax relief loss		£(400,000)

The VGDC can surrender any amount up to £300,000, being the lower of the trading loss of £400,000 and the additional deduction of £300,000. This loss can be surrendered for a payable tax credit at a rate of 25%, thereby creating a maximum payable credit of £75,000.

How can Moore Kingston Smith assist me?

This document provides only a brief summary of the issues relating to VGTR. We would be pleased to discuss your particular circumstances and provide advice in relation to your eligibility for the tax relief.

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