

# Video Games Expenditure Credits

The government announced in the Spring Budget 2023 that the existing Video Games Tax Relief would be replaced with a Video Games Expenditure Credit (VGEC). This flyer intends to give a brief introduction to the operation of the VGEC.

The VGEC operates in a similar way to the research and development expenditure credit (RDEC), providing a taxable expenditure credit calculated as 34% of qualifying expenditure.

Whilst the old tax relief regime will remain open until 31 March 2027, the VGEC is now available for qualifying expenditure incurred on or after 1 January 2024. It will become the only regime open to new developments from 1 April 2025.

Broadly, the VGEC will be available to eligible video game development companies that incur qualifying expenditure on the development of qualifying video games.

## Video game development company

For the purposes of VGEC, a video game development company (VGDC) is the company responsible for the design, production, and testing of the video game. To be eligible under the regime, the VGDC must have an active involvement in the planning and decision-making during the various stages listed above, and it must negotiate, contract, and pay for rights, goods and services in relation to the video game.

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 produced by a computer programme and played through a user interface or device.

In order for a VGDC to qualify for the VGEC, it must incur expenditure on the development of a video game in respect of which the following conditions are all met:

- It must not be a game produced for advertising, promotional, or gambling purposes.
- It must be intended for supply to the general public.
- It must be certified as “British” following an application for certification to the British Film Institute (BFI).
- It must meet the UK expenditure requirement (see below).

## The UK expenditure requirement

The UK expenditure requirement is met where at least 10% of the “core expenditure” on the video game development is “UK expenditure”. Core expenditure is expenditure on the designing, producing, and testing a video game, but does not include expenditure on developing the initial video game concept, debugging the game, or carrying out any post-completion maintenance work. Core expenditure is UK expenditure if it is incurred on goods or services “used or consumed” in the UK.

## Video games expenditure credits

### How does the expenditure credit work?

As a pre-requisite to claiming the VGEC, an election must be made for the video game development to be treated as a separate trade for tax purposes.

When an election is made, the separate trade is treated as commencing at the same time as the design stage or when income is first received if earlier. Specific rules then govern the debits and credits that are to be brought into account in determining trading profits, and the use of losses. Other than the calculation of the VGEC – which is brought in as a credit in determining trading profits – these detailed rules are outside the scope of this flyer.

#### Calculation of VGEC

In the legislation there is a five-step process that should be followed to calculate the amount of the VGEC available to the company.

In outline, these steps require a calculation of the lower of 80% of “relevant global expenditure” (being total “core expenditure” less excluded costs such as those relating to concept development, distribution, and other non-production activities) and the amount of this “relevant global expenditure” that is “UK expenditure”. The result of this calculation is “qualifying expenditure”. This calculation must be performed each year on a cumulative basis, with the amount of qualifying expenditure taken into account in a particular year being the amount which has not previously given rise to an expenditure credit.

The resulting amount of “qualifying expenditure” for a particular year is then multiplied by the “relevant percentage” to give rise to the expenditure credit for that year. The relevant percentage for a video game development is 34%.

#### Operation of VGEC

Once the amount of the VGEC has been calculated, it is treated as a taxable receipt in calculating the profits of the separate development trade.

There is then a six-stage process for redeeming the VGEC, which can broadly be summarised as follows:

- The amount of the VGEC can be used to discharge any corporation tax liabilities of the company for the accounting period.
- Any amount of the VGEC remaining after the above step is reduced by a notional tax charge at 25%. The amount of this notional tax charge can be either surrendered to a group company, or carried forward, for use against corporation tax liabilities only.
- The reduced amount of the VGEC remaining after the above step can be used to discharge certain other tax liabilities of the company or its group, or even paid out to the company by HMRC.

## Video games expenditure credits

### Administration

VGEC claims must be included in the company's tax return for the accounting period to which the claim relates. In order for claims made from 1 April 2024 to be valid, an additional information form will need to have been submitted to HMRC through the Government Gateway before the corporation tax return has been submitted.

Various information will need to be provided to HMRC as part of the claim process, including:

- The project name and the start date of active development;
- Detailed breakdowns of the expenditure incurred;
- Various details in respect of any connected party transactions; and
- A copy of the British Film Institute certificate.

### How can Moore Kingston Smith assist you?

This document provides only a brief summary of the rules relating to the Video Games Expenditure Credit. If you would like to discuss your particular circumstances or the legislation in more detail, please do not hesitate to contact us.

### Contact us

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