

VIDEO GAMES TAX RELIEF (VGTR)



Whitepaper

As part of a number of creative industry tax relief schemes implemented by the UK government, Video Games Tax Relief allows games developers to claim relief in respect of expenditure incurred in the development of British video games.

If your Video Games Development Company can meet the requirements set out by HMRC, you can claim significant additional deductions against your taxable profits or, under certain circumstances, claim a cash repayment from HMRC.



Relief is available for 'Core Expenditure' on the development of games which fully meet certain criteria, but ascertaining whether a project qualifies and which expenses are reclaimable can be a complex task.

DOES MY VIDEO GAMES DEVELOPMENT COMPANY (VGDC) QUALIFY FOR RELIEF?

Firstly, the game must be certified by the Secretary of State as '**British**'. For the purpose of this certification the VGDC must be:

- Incorporated as a limited liability company with Companies House and registered for Corporation tax
- The only development company working on a particular game
- Responsible for designing, producing and testing the video game
- Actively engaged in planning and decision-making during design, production and any testing of the video game
- Directly negotiate, contract and pay for rights, good and services relating to the video game (*Subcontractors may be used although there is a limit to the qualifying payments which can be made to them*)



The game itself must additionally pass the 'Cultural Test', which works on a points system. The assessment is made under 2 categories; 'Cultural Content' and 'Cultural Contribution'. Points are awarded when certain elements of the game, and its development team, are deemed to be 'British' and contribute towards cultural creativity, heritage and diversity.

Next, the game must be intended for supply to the general public.

Finally, to qualify for relief at least **25%** of the 'core expenditure' on the game must be incurred on goods and services provided from within the European Economic Area (EEA) up to March 2023. Changes to the rules on EEA expenditure may occur from April 2023.

WHAT CONSTITUTES 'CORE EXPENDITURE'?

Relief is only available on 'Core Expenditure', which relates specifically to the designing, producing and testing of the video game.

Costs incurred developing the initial concept of the game, or maintaining/debugging a completed game are excluded from relief, as are overheads such as:

- gaming hardware
- accounting fees
- insurance
- bank interest
- post-completion advertising and entertaining expenses.



Additionally, there is no relief for costs which have also qualified for research and development tax credits. See [here](#) for more information about R&D Tax Relief.

TAX RELIEF OR TAX CREDIT?

The relief is claimed through the VGDC's corporation tax return. The VGDC can choose to receive either tax relief on their allowable costs, or - where the VGDC is loss-making - a payable tax credit from HMRC.



TAX RELIEF

The amount of relief that a VGDC can claim in its first accounting period is the lower of **80%** of total core expenditure, or the actual EEA core expenditure incurred. This is deemed the 'Enhanceable Expenditure'



TAX CREDIT

Paid at a rate of **25%** of the 'surrenderable loss'. The company's 'surrenderable loss' in a period of account will be its actual loss or, if lower, the amount of the 'enhanceable expenditure' for that period

HOW CAN WE HELP?

Video Games Tax Relief offers a great opportunity to reduce your corporation tax bill or to get a tax rebate from HMRC - but many developers aren't doing so, either due to unawareness of the scheme, or not being able to understand the complexities of the qualification criteria.



Working out whether your video game meets the qualifying criteria, and what elements of your expenditure can be claimed against your company's profits, is complicated and time-consuming. Professional advice is essential if you want to make the most of a claim.

If your business is looking to claim through the Video Games Tax Relief scheme, we can tell you:



- Whether you meet the requirements for the scheme.
- What elements of your game development costs you could claim against.
- How to achieve 'British Video Game Certification' as well as the actual application for the credit.

Contact ChadSan to arrange a call with our Video Games tax specialist. You can call Sean Hookins on 01483 802 088 or email him at sean.hookins@chadsan.com.