

Video Games Tax Relief (VGTR) was introduced to encourage the development of video games in the UK, by enabling games companies to claim cash credits on qualifying development costs

VGTR can reduce the costs of developing video games through the provision of a cash credit of up to 20% of certain costs. In order to qualify, a game must meet a cultural test as managed by the British Film Institute (BFI), meaning that the game setting and characters, the development work, and the key development team must be mainly based in the UK or European Economic Area (EEA).

## Benefits

Relief is given as an enhanced corporation tax deduction equal to the lower of

- 80% of total core expenditure
- The actual UK or EEA core expenditure incurred

This additional deduction will reduce the taxable profits, or will create or increase a loss, of which all or part of can be surrendered for a tax credit equal to 25% (i.e. an effective 20% of the total costs) of the lower of:

- Total loss
- Enhanced deduction



## Example

A company spends £100,000 on developing a game, of which £60,000 is core expenditure. All the expenses are incurred in the UK or EEA and there is currently no income.

The additional relief is £48,000 (£60,000 x 80%), and so the total loss in that trade is £148,000. As such a cash credit is available of 25% of the lower of total loss (£148,000) and enhanced deduction (£48,000), i.e. £12,000.

## Core expenditure

Core expenditure is expenditure incurred directly in the development of the game, including designing, producing and testing.

At least 25% of the core expenditure must be incurred on goods or services from within the UK or EEA.

It does not include expenditure:

- Not directly related to the development of the game, such as financing, marketing, legal services or promotion.
- On development of the original concept.
- On debugging.
- On post release maintenance.

Where elements of a game have been subcontracted to a third party, the core expenditure on the subcontracted costs is limited to £1m per game.



## Who can claim?

VGTR is available to Video Games Development Companies (VGDCs), of which there can only be one per game.

The VGDC is the company that actually creates the video game, and it must:

- Be responsible for designing, producing and testing the game.
- Be actively involved in planning and decision making during this work.
- Directly negotiate, contract and pay for rights, goods and services relating to the game.



A VGDC does not need to have direct responsibility for every aspect of all of these activities, and elements or specific parts of a game can be subcontracted to third parties. However it must retain overall responsibility and have active involvement.

## Eligible games

In order for a game to be eligible for VGTR, it must meet the cultural test and obtained certification of this from the BFI. In broad terms, a game must obtain 16 points out of a possible 31 from the following categories:

- A: Game setting and characters must be UK, EEA or undetermined, the original concept must be UK or EEA related, and it must be in an official language of the UK (max 16 points).
- B: Game reflects or represents British culture (max 2 points).
- C: Over 50% of the costs for certain elements of the game must be incurred in the UK (max 5 points).
- D: Certain key members of the development team must be resident in, or nationals of, the UK or an EEA country (max 8 points).

## Why TMB Tax Consultancy?

The tax relief available is generous, but claims must be properly made to ensure they meet HMRC and BFI requirements. The BFI will review in detail all applications for certification, and HMRC will review all claims carefully - so it is important to work with experienced advisors to ensure any claim meets the necessary criteria.

TMB Tax Consultancy can assist by undertaking and managing the certificate application process, and by ensuring that all activities that could qualify for the relief are identified, assessed, documented and where appropriate, claimed. Tom Byng has considerable experience of claims for a variety of games development companies around the UK.



## Contact us

If you would like more details regarding the above, please contact Tom Byng at [tbyng@tmbtax.co.uk](mailto:tbyng@tmbtax.co.uk).