

Video Games Tax Relief (VGTR)

What is VGTR?

VGTR was introduced in April 2014 to encourage and support video games development companies which produce video games. It is processed through the Corporation Tax system and can be claimed by companies that produce qualifying video games. VGTR is based on the Film Tax Relief scheme introduced in 2007 and subsequently extended to other sectors including TV, Animation, Theatres, Orchestras, Museums and Galleries.

How does VGTR work?

VGTR works by enhancing expenditure incurred in the development process thereby creating an additional deduction. This additional deduction will either reduce profit, or, create or extend a loss. Where the additional deduction creates or extends a loss, HMRC allows this loss to be surrendered for a payable tax credit. Therefore, by claiming VGTR, a company will either reduce their Corporation Tax liability or receive a payable tax credit.

Who qualifies?

Video Games Development Companies (VGDCs) who produce qualifying video games will qualify. As this is a Corporation Tax relief, sole traders or partnerships which are taxed under Income Tax rules do not qualify.

To qualify as the VGDC it must:

- ✓ be incorporated in the UK or have a UK permanent establishment that falls within the charge to UK corporation tax
- ✓ be responsible for designing, producing and testing the video game
- ✓ be actively engaged in the production, planning and decision making throughout the process
- ✓ directly negotiate, contract and pay for rights, goods and services in relation to the video game.

How does a video game qualify?

A video game qualifies if:

- ✓ it is intended for supply to the public
- ✓ it has been certified as a British video game by the BFI
- ✓ 25% or more of total core expenditure must be European Economic Area (EEA) expenditure.

What is EEA expenditure?

EEA expenditure is expenditure incurred on goods or services from within any of the EU countries or Iceland, Liechtenstein or Norway.

What is the BFI Cultural Test?

For a video game to qualify for the tax relief, it must first be certified as culturally British. The video game achieves certification by achieving a minimum of 16 points from a possible 31 available covering the following sections:

- Cultural content (16 points available)
- Cultural contribution (4 points available)
- Cultural hubs (3 points available)
- Personnel (8 points available)

Applications for certification are made to the BFI Certification Unit (contact details at end of the factsheet). Ideally a game would achieve the 16 points needed in Sections A and B alone, which will save the time and cost of obtaining an accountant's report.

Which expenditure qualifies for enhancement?

VGTR is only available on core expenditure that is EEA expenditure.

Core expenditure is expenditure that is incurred on:

- ✓ designing
- ✓ producing and
- ✓ testing the game

Not all expenditure is core expenditure. Expenditure that is not core expenditure is referred to as non-core expenditure.

Non-core expenditure includes expenditure on:

- x original concept design
- x debugging
- x post release maintenance
- x financing and
- x marketing

NB: A limit of £1 million applies to payments to sub-contractors.

How is VGTR claimed?

VGTR is claimed through the Company Tax system which means that claims must be made in a Company Tax Return or an amendment to a Company Tax Return.

Claims must include computations in respect of all income received, as well as core and non-core expenditure.

Further guidance can be found at:

- Original legislation: <http://www.legislation.gov.uk/uksi/2018/28/contents/made>
<http://www.legislation.gov.uk/uksi/2014/1962/contents/made>
- HMRC manual: <https://www.gov.uk/hmrc-internal-manuals/video-games-development-company>
- BFI: <https://www.bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-video-games>

Useful contacts:

HMRC's Creative Industries Unit: creative.industries@hmrc.gsi.gov.uk

The BFI Certification Unit: certifications@bfi.org.uk

Creative Tax Reliefs: info@creativetaxreliefs.com

A simple example to demonstrate the benefit of claiming VGTR

	Without VGTR	With VGTR
Total Income from the game	£125,000	£125,000
Total Expenditure incurred on the game	£110,000	£110,000
Profit / (Loss)	<u>£15,000</u>	<u>£15,000</u>
Profits assessable for Corporation Tax	£15,000	
Corporation Tax due (@19%)	<u>£2,850</u>	
Additional Deduction (estimated)		£60,000
Deemed Loss for tax credit purposes		<u>£45,000</u>
Surrendered for payable tax credit		£45,000
Tax credit @ 25%		<u>£11,250</u>

In this example, the company has turned a profit of £15,000 to a 'loss' of £45,000 by claiming VGTR. The 'loss' is surrendered to HMRC for a payable tax credit of £11,250.

The author

Creative Tax Reliefs Limited was started by Graham Suggett, former Lead Tax Specialist with HMRC'S Creative Industries Unit and a specialist in Video Games Tax Relief. Since the company started in April 2017, it has claimed over £3 million in Creative Industry tax credits for qualifying companies.

If you would like specialist support with the process of claiming Video Games Tax Relief, have questions regarding the legislation or perhaps have encountered issues with your current claim then please do get in touch. Graham can be contacted via the following:

Email: graham.suggett@creativetaxreliefs.com
Telephone: 01204-528575 / 07900 028528
Company website: www.creativetaxreliefs.com

Testimonials

"Our accountant struggled with VGTR, so we engaged Graham and his company. Graham prepared all the necessary computations and submitted the claim on our behalf. This was paid by HMRC without question and in an amount in excess of what we had previously expected. We are delighted and cannot recommend Graham or his company highly enough". **Ashley Stancill, Director at HyperSloth Games**

"It was a pleasure working with Graham on our claim for Film Tax Credit for 'Stuffed'. For independent creators working in Film and TV, the Tax Credit is a vital part of making your film a reality. Graham is an assured and calm voice in the often-intimidating world of tax. I'd highly recommend Graham to my colleagues working in Film and TV". **Carys Lewis, writer and director of the 2019 BAFTA Cymru Nominee short film Stuffed**

"I found Graham and Creative Tax Reliefs through a Google search as we had a client that was eligible for Theatre Tax Relief (TTR). I and a colleague had read through HMRC's guidance a number of times and felt confident that we understood how it worked, however, we had no experience in claiming TTR. It seemed a no-brainer to work with Graham because Graham, as a former Creative Tax Reliefs specialist with HMRC, knew how to prepare and present claims to HMRC, would be certain of the calculations, knew where the boundaries were and would achieve maximum benefit for the client. We prepared the accounts and submitted the CT600 as per usual with input from Graham whilst he liaised directly with HMRC's Creative Industries Unit in respect of the client's TTR claim. The client received their tax credit without issue and in an amount greater than expected. Our client was delighted as were we and we look forward to working with Graham going forward". **Ian Bragger, Partner at Harris & Co**

"I am so pleased and relieved that Graham got in touch with me about Theatre Tax Relief. So far, Graham has claimed nearly £100,000 in tax credit for us. This is not only an enormous benefit and can be ploughed back into the work that we do but it would have been extremely short-sighted of us not to be claiming the money that is due to us. Graham has made the whole process so simple and easy. I cannot recommend him highly enough". **Sarah Gobran, Co-Founder & Producer of The Guildford Shakespeare Company**

"NCO engaged Graham at the start of 2019 and has developed a wholly positive and ongoing relationship ever since. Not only has Graham increased our understanding of OTR and how it applies to NCO, he has taken all the stress and strain away from the process. His previous experience as a tax specialist at HMRC has proved invaluable as has his ability to explain the complexities to us in a way we can understand! I cannot recommend Graham more highly". **Sophie Lewis, Managing Director of the National Children's Orchestras of Great Britain**

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