



Ukie response to the Treasury consultation on the scope of qualifying expenditures for R&D Tax Credits

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Ukie response to the Treasury consultation:

The scope of qualifying expenditures for R&D Tax Credits

1. Ukie is the trade body for the UK's games and interactive entertainment industry. A not-for-profit, it represents more than 480 games businesses of all sizes from start-ups to multinational developers, publishers and service companies, working across online, mobile, console, PC, esports, virtual reality and augmented reality. We welcome the opportunity to respond to this inquiry.

About the UK games industry

2. The UK video games industry is an economic powerhouse, supporting 47,620 FTEs and £2.87 billion in gross value add to the UK economy¹. The games industry is 35% more productive than the UK industrial average and is spread across all four nations from Dundee to Belfast and from Cardiff to Newcastle. Indeed, 55% of games development jobs are based outside of London and the South East – it is therefore ideally positioned to help progress the Government's levelling up ambitions². Games businesses are natural exporters, too: over 90% of the UK video games industry export products and services³.
3. Games businesses operate at the intersection of technology and creativity. Innovations in video games, such as artificial intelligence and graphics engines, have broad applications across both traditional and emerging industries. The research and development undertaken by games businesses supports the UK in remaining globally competitive and a significant force on the world stage. The UK particularly is home to mix of inward investor studios creating big budget games as well as large numbers of innovative SMEs, many with the potential to scale up and ambitions to become major players. The UK's leading role in interactive entertainment is recognised internationally with £1.75bn being attracted to the sector between in 2015-2017¹.
4. National economies operate in a competitive global tax system. The liabilities a business will face, as well as the reliefs it may receive, from any particular jurisdiction play a material part in the decision-making process for businesses relocating and expanding globally.
5. Further, as technological advances blur the lines between economic activity and place, there is a risk that tax bases are eroded in nations without thriving high productivity, high growth sectors such as video games.

¹ <https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/screen-business-summary-report-2018-10-08.pdf>

6. Consequently, the UK will need a post-pandemic tax system that is both effective and sensibly targeted. It will need to incentivise innovation and creativity to build on the UK's creative and technical knowledge base while attracting and capturing high growth, high productivity businesses and jobs. This will protect and grow the tax base, and that will be crucial to the UK's economic recovery by growing out of the post-pandemic recession. The consultation on R&D Tax Credits is therefore timely and a great opportunity to consolidate the UK's position as an innovation centre of excellence.
7. The UK video games industry benefits from several tax reliefs – most notably the Video Games Tax Relief, the Research and Development Tax Reliefs, and the Enterprise and Seed Enterprise Investment Schemes. These reliefs have all had significant and demonstrable positive impacts, building the UK's creative and technical skills base, creating high-paying and high-productivity jobs, and positioning the UK well to compete globally.

Research and Development Tax Reliefs

8. The games industry provides a powerful example of a sector where advancements in technology have continuously enabled and fueled the development of new forms of expressions and creativity. Since as early as 1949, when Claude Shannon published his thoughts on how a computer might be made to play Chess and 1951 when Alan Turing published his famous algorithm TurboChamp, computer scientists have been using games as an effective tool to measure how good a computer can become at performing specific tasks that challenge the human intellect.
9. The games industry has also been instrumental in the development of new technologies, for example facial recognition, voice recognition, VR, AR, gesture control, cloud computing, data analytics and other such emerging technologies all find immediate use cases in video games and innovated within games environments.
10. Support for R&D in the UK is a necessary and integral part of making the UK one of the best places in the world to innovate and create. By encouraging a vibrant R&D friendly environment in the UK the whole of the economy stands to benefit, including the games industry. In order to achieve the ambition set out by the government for R&D we welcome the current consultation on the R&D support package, in particular the desire for the support to remain relevant to the evolving economy and global challenges presented by it.

11. The data analytics that games companies undertake with gameplay data, particularly for live titles, are at the forefront of today's games innovation. We understand that a large part of this activity is currently carried out outside of the UK by large international businesses however, so incentivizing more activity to take place in the UK will not only benefit the domestic SMEs already operating in this space but also attract additional activity from the internal markets of international businesses. Data is essential to everything from art and animation through sound and design to interaction and safeguarding, any scope to broaden the inclusion of data, data sets in R&D is to be welcomed.
12. Foreign direct investment into the video games industry is often made outside of London and the South East. From Ubisoft's UK headquarters in the North East of England through to Tencent's investment in Liverpool based Milky Tea Studios. Any measure to encourage foreign direct investment into the UK games industry will benefit the levelling up of the whole of the UK.

Cloud computing

13. Cloud computing is similarly gaining huge significance in how the games industry works. 99.5% of UK games companies are officially SMEs, which collectively contribute £1.6bn in GVA. A further £339m in GVA is generated by micro-businesses of less than 10 employees, representing 13.7% of the industry total, and employing 3,664 FTEs. In order to remain at the forefront of technology developments the infrastructure requirements for these businesses necessarily relies on cloud computing. To include these costs within R&D expenditure will be of significant benefit to the competitiveness of those domestic businesses.

Case Study

" For me, the R&D is a good scheme that supports companies that work on innovative projects in science and technology. The process is pretty straightforward but quite lengthy. It is a technically specialised area. To make a successful and accurate claim, it required very detailed financial records and comprehensive insight knowledge about this scheme. The analytical work is quite complicated.

It is quite admin heavy for the dev team as they were involved in technical meetings to discuss the project being developed, wrote up technical documents for BDO to translate into R&D language, and answered all their technical questions. On the finance side, I managed the whole process, spent some time providing them all relevant financial data, explained how we calculate project costs, and answered all their financial questions.

If the whole process & the requirements for the claim can be simplified, it would really help us to make a fast and cost efficient claim. "