



# **Ukie response to the Treasury Select Committee inquiry on tax after coronavirus**

**28th September 2020**

**ukie**

ukie.org.uk | hello@ukie.org.uk  
@ukie | +44207 5334 0680

**Treasury Select Committee's inquiry into Tax after Coronavirus**

**Response from Ukie, the Association for UK Interactive Entertainment**

**Contact: [Tim@ukie.org.uk](mailto:Tim@ukie.org.uk), head of Policy and Public Affairs**

## **Ukie response to the Treasury Select Committee's inquiry into Tax after Coronavirus**

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 the Committee's inquiry.

### **About the UK games industry**

2. The UK video games industry is an economic powerhouse and a key contributor to the growth of the creative industries, supporting 47,620 FTEs and £2.87 billion in gross value add to the UK economy<sup>1</sup>. The games industry is 35% more productive than the UK industrial average and is spread across all four nations from Dundee to Belfast, 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 ambitions<sup>2</sup>. Games businesses are natural exporters, too: over 90% of the UK video games industry export products and services<sup>3</sup>.
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 2015-2017<sup>1</sup>.

### **What the tax system needs to do after coronavirus**

4. As the Committee notes in its call for evidence, national economies operate in a competitive global tax system. The liabilities a business will face, as well as the reliefs it

---

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

may receive, from any particular jurisdiction play a material part in the decision-making process for businesses relocating or 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.
6. Consequently, the UK will need a post-pandemic tax system that is both effective and sensibly targeted. It will need to incentivize 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.
7. The Government must be mindful that many industries, including video games and interactive entertainment, operate in competitive global markets. Games can be made anywhere, and this sentiment has only been strengthened by lockdowns in countries around the world. Unilateral action on tax, particularly if it serves to make the UK a less attractive place to invest or locate, should be avoided. It will undoubtedly have a swift and negative impact on job creation and business investment. Instead, Government should aim to work closely with other nations both directly and through international bodies, such as the Organization for Economic Co-Operation and Development.
8. 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.
9. We set out the broad cases for these reliefs and schemes in the post-pandemic tax environment. We also include case studies of video games businesses that have benefitted from the reliefs, contributing to economic growth for UK PLC.

### **Video Games Tax Reliefs**

10. Introduced in April 2014, the Video Games Tax Relief has been a demonstrably successful addition to the suite of reliefs available to the creative industries, encouraging business creation and growth and strengthening the UK's creative skills base while also acting as a significant incentive for foreign direct investment into the UK. With additional support and improvements, it has real potential for even further economic growth, creating highly skilled and productive future-proof jobs, new IP, more export revenues whilst continuing to enhance the UK's global reputation as a leading location for tech investment.
11. The value of the Video Games Tax Relief is quantified by the British Film Institute's *Screen Business* study<sup>2</sup>. This applies HM Treasury Green Book 2018 principles and best practice economic modelling to estimate accurately the impact of the important and revenue generating screen sector tax reliefs to the economy, HM Government, investment in infrastructure and on employment.
12. *Screen Business* shows that, in 2016, every £1 of relief generates £4 of GVA for the economy. Developments that accessed the Video Games Tax Relief supported 9,240 FTEs and £156 million in tax revenues for the Exchequer. On a relief outlay of £78 million this represents excellent value both for the Exchequer and the taxpayer.
13. The Video Games Tax Relief also promotes the creation of distinctly British intellectual property. This is not only a significant economic contributor in and of itself, it also promotes British excellence and culture to a global audience boosting the UK's soft power. Creativity is the calling card of the UK, and the Video Games Tax Relief is a key enabler of this.
14. It is important to note that competition internationally is only increasing, especially in the wake of the COVID-19 pandemic. Other nations will equally be conducting post-pandemic reviews on how to best maximise growth and stimulate economic recovery, particularly in high productivity sectors such as the games industry - including by introducing similar tax reliefs. This, combined with the natural risks of Brexit, mean that maintaining an edge in our tax credit base is thus more critical than ever to retain and expand development.
15. With this in mind, we believe that there is a strong case for increasing the rate of payable tax credit. **We recommend that the rate is increased from 25% to 32% in line with other screen sector asks.** This would support scaling UK development studios, while also ensuring that the UK is more globally competitive and thus incentivising further development to take place within the UK. This would boost economic activity as

---

<sup>2</sup> <https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/screen-business-full-report-2018-10-08.pdf>

well as supporting the establishing and growth of high-tech, high-productivity export driven businesses that create high-paying and high-skilled jobs. This is crucial as the UK establishes its position outside of the European Union as the most attractive place to start, build and expand the businesses of the future.

### **Research and Development Tax Reliefs**

16. The games industry provides a powerful example of a sector where advancements in technology have continuously enabled and fuelled 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.
  
17. The games industry is also pioneering 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. Supporting the development of emerging technologies within the games industry results in wider application across the economy.
  
18. The Research and Development (“R&D”) tax relief aims to incentivise innovation and increase spending on R&D in industries such as the games industry through relief from corporation tax. It either allows qualifying expenditure to be deducted from taxable income or, in the case of loss-making companies, a cash rebate to be claimed from HMRC.
  
19. 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.

### **Seed Enterprise Investment Scheme / Enterprise Investment Scheme**

20. The Seed Enterprise Investment Scheme ('SEIS') and Enterprise Investment Scheme ('EIS') are important parts of the tax environment for early stage video games businesses.
21. The Schemes offer significant reliefs on initial investments, as well as attractive additional reliefs for both successful and unsuccessful investments. This offers investors a tax efficient route to fund the early stage, high potential businesses of the future. In the games industry this allows for the funding.
22. The Schemes have several benefits for the UK's video games industry:
- **The Schemes incentivise investments in early stage games businesses, allowing them to develop the original intellectual property** that makes the video games business an industry worth nearly £3 billion annually to the UK. Without these Schemes many games companies would struggle to reach sustainability.
  - **The Schemes attract and retain highly productive economic activity within the UK.** The video games industry is 35% more productive than the national industrial average. This is especially important to the UK post-pandemic: backing high productivity sectors will be a key factor to growing the economy out of a recession.
  - **The Schemes support the creation of high-skilled, high-paying jobs.** The video games industry currently supports 47,620 FTEs across the UK, with over 55% of game development jobs being based outside of London and the South East. By supporting the creation of more games businesses, the Government can support the creation of future proof jobs across the whole of the UK.
  - **The Schemes promote the UK as a capital of creativity and technology, boosting soft power.** Games made in the UK are played by millions of people across the globe. Creativity is the UK's calling card, and the SEIS and EIS schemes back the creation of original IP that will be loved around the world.
  - To secure these benefits into the future, **we recommend the Government commits to maintaining SEIS and EIS at current levels.**