



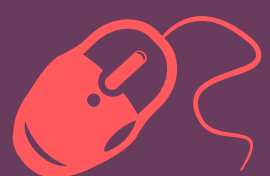
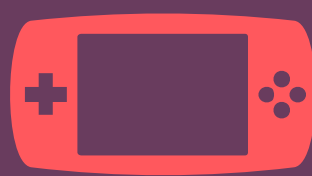
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Video Games Tax Relief Evaluation

Research report for HM Revenue and Customs

Nick Pettigrew, Graham Keilloh, Kelly Maguire,
Paul Sheriffs and Jayesh Navin Shah



The views expressed in this report are those of the authors and do not necessarily represent those of HM Revenue and Customs.

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Glossary

| | |
|--|---|
| British Film Institute (BFI) | The BFI is a charity governed by a Royal Charter. In addition to the BFI's primary focus on the UK film industry, the organisation's certification unit administers cultural tests for various UK creative industries looking to claim tax reliefs. This includes the film, animation, children's television, high-end television, and video games industries. |
| Computer Generated Imagery (CGI) | The 3D or 2D computer graphics used for creating a scene or a special effects feature in films, television programmes, or video games. |
| Intellectual property | This is intangible property that is the result of creative work. It can include trademarks, copyrights, patents and trade secrets. |
| Nesta | Nesta is an independent charity that funds innovative projects in the UK. In partnership with Ukie, Nesta created Gamesmap, an interactive map of the UK video games industry. ¹ |
| Research and Development (R&D) tax relief | A company can claim R&D tax relief if an R&D project seeks to achieve an advance in overall knowledge or capability in a field of science or technology, through the resolution of scientific or technological uncertainty. The R&D Expenditure Credit (RDEC) scheme for large businesses allows them to claim a taxable cash credit on their qualifying expenditure. The R&D tax relief scheme for small or medium enterprise's (SME) reduces their tax bill where they are liable for Corporation Tax (CT). SMEs claiming R&D tax relief cannot also claim Video Games Tax Relief. ² |
| Special-purpose vehicle | This is an entity or vehicle formed to develop, own and operate a special project (e.g. a single video game) or own a specific asset or pool of assets while isolating financial risk. |
| TIGA | TIGA is a trade association representing the video games industry (games developers and digital publishers) in the UK and Europe. |
| Ukie | Ukie is the trade body for the UK's games and interactive entertainment industry. They created Gamesmap in partnership with Nesta. |
| Work-for-hire | This is a contractual relationship between a developer and a publisher, where the developer is hired by the publisher to create assets and game content, and the intellectual property rights for these assets and game content belong to the publisher. |
| Video Games Tax Relief (VGTR) | VGTR is one of seven creative industry tax reliefs ³ in the UK tax system, offering UK developers tax relief on a proportion of the development costs of qualifying video games. |

¹ Gamesmap is available online, at: <https://gamesmap.uk/>.

² See the GOV.UK website for more details on R&D tax relief: <https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>.

³ See the GOV.UK website for more details on the UK creative industry tax reliefs: <https://www.gov.uk/guidance/corporation-tax-creative-industry-tax-reliefs>.

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Summary

This summary covers the findings from qualitative in-depth interviews with 51 UK video games developers taking place in autumn 2016, exploring the impact of Video Games Tax Relief (VGTR) on the production of culturally British and European video games. VGTR is one of seven creative industry tax reliefs in the UK tax system, offering UK developers tax relief on a proportion of the development costs of qualifying video games. To qualify, developers must pass a cultural test administered by the British Film Institute (BFI) to show that their game is culturally British or European.

The research was undertaken by Ipsos MORI on behalf of HM Revenue and Customs (HMRC).

Awareness

There was a general sense that VGTR had been well and widely promoted through avenues such as local talks, industry press and websites, accountants and agents. Developers felt it would be hard not to have heard of VGTR if you worked in the industry, which was characterised by strong local networking among developers. At the same time, there were suggestions that VGTR might reach a larger group of developers via a dedicated website, promotion at university departments, through initiatives such as the UK Games Fund, or other bodies like Creative England and Creative Scotland.

Among those who had not applied, particularly solo and micro developers⁴, a lack of time and resources was a common reason given for not finding out more. This was further exacerbated when there was no one in the business with a dedicated finance role, or an established company accountant. Added to this was a broader feeling that the accountancy profession largely still lacked knowledge of VGTR, which had left developers frustrated in some cases.

The barriers to applying for VGTR fell into three broad areas. Firstly, there was a perceived lack of return in some instances, either because the accountancy fees were deemed to be too high, or because developers had set their own threshold for a game they considered big enough to justify VGTR, and judged some of their projects to simply be too small to make the paperwork worthwhile. Secondly, there were developers who assumed the application would be complicated, sometimes in line with their experience or pre-existing perceptions of Research and Development (R&D) tax relief, or because they thought it would be a hassle to find an accountant with suitable knowledge and experience. Finally, there were developers with specific misperceptions around eligibility or the cultural test. Some thought the relief was on profits rather than costs, while others assumed their games would not be eligible if not explicitly set in the UK. Countering these misconceptions, roadshows led by the BFI, Ukie or TIGA, as well as the BFI case studies describing how different genres of game were eligible, were particularly praised as providing clarity around the claims process.

The application process

Reflecting the relative infancy of VGTR, developers had often made their first VGTR applications mid-development on a game rather than at the outset of development. At this point in development the game concept, broad story and development team were often already in place, and there was less scope for developers to make changes to these aspects in response to the cultural test. Nonetheless, developers did note that game content was still very open to change mid-development because a typical development process was very iterative, involving a first, second and third pass. Some also noted that they would apply at the outset for their next game.

⁴ Solo developers were self-employed but in some cases still making use of freelancers to support game development. Micro developers were defined as those with 2 to 9 employees.

There was evidence that games likely to fail the cultural test were not being put forward for VGTR in the first place. Before applying, developers typically wanted reassurance that their game was eligible and would pass. In various cases, they had spoken to the BFI to make this initial assessment, and had only then submitted an application. Others had refrained from submitting applications when they believed a game would not pass. So, while there were no instances of failed applications in this research, this did not necessarily reflect that non-culturally British or European games were passing.

Beyond this initial assessment around eligibility and likelihood of passing, the decision to apply was often a snap decision based on the strength of the financial incentive. Typically, the wider creative development teams were not involved in the decision, and those with a finance role or company accountants tended to be more involved, either to work out how much the application would cost, or to weigh it up against R&D tax relief, both in terms of the likely relief amount and the administrative burden.

Among those who had experience of both reliefs, the VGTR process compared favourably with R&D tax relief. Developers saw the cultural test as straightforward and not the administrative burden several had initially expected, often because they had the content for the test drafted elsewhere in design documents or pitch documents. Typically, the test form was completed in-house by developers, whereas the HMRC claim was handed over to company accountants. In line with this, developers tended not to have as much direct contact with HMRC as part of the claims process as they did with other bodies, such as the BFI. It also meant that the HMRC claim, generally handled by accountants, sometimes felt like the more stressful part of the process, as it was out of developers' hands, and some were frustrated at their accountant's lack of knowledge of VGTR.

There were divergent approaches to completing the cultural test. Where developers were making an application for the first time and were inclined to be particularly risk averse, they would complete all sections of the form. By contrast, where developers were more aware of the 16-point pass threshold, they often took a more calculated approach to score only the points needed to pass. This typically meant focusing either on the cultural content section or on the personnel sections of the form. In this way, developers felt the test was appropriately flexible and not restricting their creative freedom.

Impact of VGTR

Creating British and European cultural content

Developers had broad personal views of what made a game culturally British or European (although they focused mainly on the British element, as might be expected). They felt that the games they made were inherently British, because their experiences would shape the content, character, and tone of the game, beyond surface elements such as the setting. They highlighted what they saw as particularly British attributes in their games, including a dry sense of humour, irony, and British values such as tolerance and a sense of fair play. As such, several developers applying for VGTR felt they were already making culturally British or European games, and that the relief helped them get these games off the ground, to get them finished and to make them more likely to succeed in the marketplace.

Overall, these findings suggest that developers did not see the cultural test as the driving force behind their creative decisions – they did not set out to make games specifically with content to pass the test. Instead, several developers saw it more as a final sense-check when clarifying story and characters for the final game. These developers had made changes to the settings and character backstories of their games in response to the test, but felt these were minor tweaks and were incidental to the gameplay. Going beyond this, there were also examples of developers who felt empowered by the test to add in more elements of British culture to their games than they previously would have done, to counter what they saw as the global dominance of American culture within games.

Enabling new games and completing existing ones

There were various ways in which developers felt that VGTR helped them to get started on the new culturally British or European games that they already aspired to make. It enabled certain developers to transition away from work-for-hire and into developing their own original games, either by simply de-risking the game for investors, or by giving the developer the financial breathing space they needed to stop relying on work-for-hire. It helped other developers overcome specific barriers to entry that would otherwise have stopped them from starting new projects, such as the cost of building prototypes and licensing costs.

VGTR was also felt to improve the likelihood of a culturally British or European game reaching and succeeding in the marketplace. In some cases, this was because, with VGTR supporting cash flow, they no longer had to put development on hold indefinitely, return to work-for-hire, or seek out new investors when they ran out of money. In other instances, VGTR helped developers expand the scope and quality of the product they were working on by enabling longer development schedules, the hiring of new and specialist staff to work on quality assurance and bug fixes, or the addition of new features not originally envisaged – and this in turn helped British games to stand out in a crowded marketplace and to get the attention of publishers. Others still had used VGTR money specifically to reach out to new consumers and publishers, either through marketing or by building demos, videos or pitch documents, which in some cases had led to more favourable publishing deals.

Wider impacts on businesses and the industry

Finally, this research found several ways in which VGTR had affected developers beyond individual games. There was evidence of developers transitioning away from their previous work-for-hire business models, becoming more sustainable or simply surviving beyond their first game, professionalising their financial monitoring and record-keeping, and using VGTR to help seek out new investors.

In terms of inwards investment and hiring within the UK, the picture was more mixed. Developers felt that VGTR had set the UK industry on a path to becoming globally competitive again, but that it was too soon at this point for the full effect of the relief to be felt. There were concrete examples of inward investment and avoidance of outsourcing away from a newly competitive UK market. However, relatively few developers had so far been through the whole process from certification through to seeing the impact of the investment. There was also not yet a sense of permanence with VGTR, so some multinational developers were not yet factoring it into future years' budgets. While there was a general sense that VGTR had stemmed the brain drain of UK talent to countries such as France and Canada, it was again noted that the UK would need a number of years under the VGTR regime to be able to catch up with these countries, and that the balance of power would continue to shift incrementally over time.

An overall consensus from interviewees was that VGTR was a welcome vote of confidence in British developers, but that the relief had not yet reached its full potential. Not all developers were applying as a matter of course for all their potentially eligible games. For others still, there was an intention to claim but they had not done so yet, so hadn't experienced the full benefits. Again, developers thought it would take more time and a greater churn of new games, including repeat use of VGTR, for the relief to become fully embedded in the industry.

1 Introduction

This report covers the findings from qualitative research with UK video games developers taking place in autumn 2016, exploring the impact of Video Games Tax Relief (VGTR) on the production of culturally British and European video games. The research was undertaken by Ipsos MORI on behalf of HM Revenue and Customs (HMRC).

1.1 Background and objectives

VGTR is one of seven creative industry tax reliefs in the UK tax system, offering UK developers tax relief on a proportion of the development costs of qualifying video games.⁵ It was introduced in 2014 specifically to incentivise the production of culturally British and European video games – games which may not have been made in the absence of the relief. To qualify for VGTR, a video game must meet three broad conditions (though there are also more specific exemptions or conditions that apply in certain cases⁶):

- The video game must be intended for supply.
- At least 25% of core expenditure must be incurred within the European Economic Area (EEA).
- The developer must pass a cultural test administered by the British Film Institute (BFI) on behalf of the Department for Culture, Media and Sport (DCMS) to show that their game is culturally British or European.⁷

The overall aim of this research was to inform HMRC on how VGTR had affected the production of culturally British or European video games. This included covering:

- awareness and perceptions (including misperceptions) of VGTR and the cultural test
- approaches to the application process, including both the cultural test application and the tax relief claim
- impact on games produced in terms of content, creative decision-making, and starting and finishing projects
- impact on individual developers in terms of recruitment and skills, business models, access to finance and sustainability, financial processes
- impact on the industry in terms of recruitment and retention, inward investment and other soft impacts.

1.2 Summary of methodology

The research was required to explore in depth the approaches that developers had taken towards VGTR, and *how* it had affected the British or European cultural content of video games, beyond just the economic impact on developers. As such, a qualitative methodology was deemed most appropriate.

An initial scoping phase was undertaken in August to understand the range of developers within the industry and how they might be sampled. This involved eight stakeholder interviews with a mix of industry bodies, agents who worked with developers, the BFI and the HMRC Creative Industry Unit, with contacts provided by HMRC and DCMS.

⁵ Developers can claim a tax credit equal to 25% of the core expenditure used or consumed in the European Economic Area (EEA), up to a cap of 80% of total core expenditure for the entire game. This means that for a video game where 80% or more of the total core expenditure is incurred in the EEA, the payable tax credit will be capped at 20% (25% of 80%) of the total core expenditure.

⁶ Full guidance on the qualifying conditions for VGTR can be found on the GOV.UK website at: <https://www.gov.uk/hmrc-internal-manuals/video-games-development-company-manual>.

⁷ Documentation about the cultural test for video games can be found on the BFI website at: <http://www.bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-video-games>.

For the main fieldwork, a total of 51 in-depth interviews were carried out with UK developers, including face-to-face, telephone and Skype interviews, between September and November 2016. This included:

- 34 developers with full or interim certification⁸ from the BFI or who had already claimed VGTR
- 17 developers who had not used VGTR or applied for certification, specifically exploring wider awareness of VGTR within the industry and reasons for why developers might not apply or barriers to applying
- within these groups, a wide spread of developers by region, number of staff (including solo developers), business models, company ages, use of tax agents, and use of Research and Development (R&D) tax relief.

The developer sample sources included a mix of HMRC-supplied sample, an online database developed by Ukie and Nesta⁹, online developer lists and developers' own networks. Comprehensive technical details of the methodology, including a list of sample sources, achieved interview quotas and the approach to recruitment and fieldwork, are included in Appendix A. The topic guide for interviews is included in Appendix B.

1.3 Interpretation and representation of qualitative data

This research, like all qualitative research, is intended to provide detailed insights into the range of opinions and approaches, motivations and barriers among developers, their reasoning for taking certain approaches, and the mechanisms through which VGTR has affected the production of culturally British or European games. Reflecting the purposive sampling approach, it is not intended to be statistically representative of UK video games developers or to measure the number or value of games produced as a result of VGTR.

Differences by size

The report covers several differences that emerged between developers of different sizes. In the UK video games industry, the overwhelming majority of developers were small businesses, and even within these there were recurring different approaches to VGTR. Therefore, findings have been broken down by the following subgroups where appropriate:

- solo developers – self-employed but still making use of freelancers to support game development
- micro developers – with 2 to 9 employees
- small developers – with 10 to 49 employees
- mid-sized developers – with 50 to 249 employees
- large/multinational developers – either with 250+ employees or with additional premises outside the UK.

Use of developer quotes

Throughout the report, anonymised verbatim quotes are used to illustrate common themes. Quotes are attributed by the size of the developer and their use of VGTR, or future intentions to use it – these were the most important subgroups in terms of differences in the findings. Some quotes have been edited to maintain anonymity, but the language used by participants has been maintained.

⁸ Developers can apply for interim certification before or during development, in order to claim any relief before the game is complete. Once the game is complete, i.e. in a form ready to be made available to the general public, the developer must apply for final certification.

⁹ The UK Games Map by Ukie and Nesta is available online at <https://gamesmap.uk>.

2 The video games industry in context

This brief chapter sets out some of the recurring characteristics and archetypes of video game developers that came across in the interviews. These help to explain or provide context for certain findings in later chapters.

2.1 Characteristics of the video games industry

A volatile industry

Relative to other SME businesses, small and micro developers viewed their industry as particularly volatile. Some developers noted how income could come in short bursts after a game is released, so maintaining cash flow during development or securing enough cash to start a new project was a persistent problem. There was also a sense in which the success or failure of a released game was out of the hands of the developer – while higher quality games were more likely to succeed in the marketplace, quality was not seen as a guarantee of success given the number of games competing against each other, especially in mobile app stores. This was reflected in later discussions about VGTR helping to steady the business and potentially making businesses more sustainable beyond their first projects (see Chapter 5).

Stakeholder interviews also highlighted that the industry had grown and also fragmented rapidly in recent years, with a high turnover of companies and start-ups. They noted that the average firm size had decreased dramatically before the introduction of VGTR because of increasing competition from developers in countries like Canada and France.

This volatility affected the typical staffing approach seen among micro developers. To lower their risk and because they could not sustain higher staffing levels in periods of low income, there were common mentions of developers letting staff go once a particular project had come to an end, or their expertise was no longer required for the next phase of the project – in other words not keeping them on as long-term staff. There was also common use of freelancers as opposed to staff on the payroll in a range of roles, including in core development teams (e.g. as coders) or to create the artwork or music to support a game. Again, this was reflected in later discussions around how VGTR affected staff recruitment or retention (see Chapter 5).

Developer ambitions

There was a common aspiration among developers to create their own ideas for games and new intellectual property rather than undertaking work-for-hire (developing games for a client developer). Later discussions reflected on how VGTR had helped them realise this ambition (see Chapter 5). This was even the case among developers currently carrying out work-for-hire but who wanted to make it a smaller part of their business in the long run. There was both a commercial and creative sensibility to this. Developers were keen to create original games that were fun to play, and some noted that this was their original motivation for getting involved in the industry. They also knew that creating their own intellectual property would earn them more revenue in the long run if the game was successful, and help to grow the business.

It is worth noting however that, unlike other digital tech businesses, micro video games developers often did not see growing their company as their primary aim – the primary aim was instead to develop new and original games. The rationale among these developers was that there were strong diminishing returns to taking on new staff, as it could mean more duplication or mistakes being made in core development. This finding highlights the high bar that these micro developers set for taking on new staff.

Networking and local hubs

As noted in the Ukie/Nesta 2014 report, the video games industry is highly clustered, with a large number of developers based in specific cities across the UK, such as London, Brighton, Manchester, Cardiff, Edinburgh and Dundee.¹⁰ This research has highlighted the strong network across developers in these local hubs. Developers noted that they did discuss industry developments with others in social environments like lunches or evenings out, and this had included VGTR as well as the other business support available for developers. There were those who also shared workspaces with other developers. Some developers had specifically been responsible for setting up local industry conferences or talks, often through trade association membership.

There was also a broader sense of camaraderie across these local networks. Developers spoke of wanting to build up the local industry and had, for example, supported other local developers by offering them good staff that they were not able to keep on their own payroll (due to coming to the end of a project, or more general cash flow issues).

On the other hand, it is important to note what this meant for the developers who were not based in these clusters in the UK, so did not have access to these information and support networks. Some of the solo developers as well as other developers who were not members of a trade body and on the fringes of the video games industry, developing other apps and software alongside games, tended not to have these local networks. In these cases, they were typically more reliant on keeping up to date with industry developments through websites such as gamesindustry.biz, gamasutra.com and Twitter (where they followed large developers and publishers).

2.2 Developer archetypes

There was a general sense that being adept at form-filling and accounting was unusual within the industry. This reflected that developers tended not to have to do this in their everyday work and had typically come from a technical or artistic background, neither of which gave developers much experience of paperwork.

However, it is worth noting that the interviews also found examples of financial discipline, particularly among more experienced developers who were used to pitching to publishers or had to acquire licences to produce licensed games as part of their business model. These developers tended to have more substantive business plans and targets in place, and in later discussions they were evidently more aware of the support available such as VGTR.

Developers also stressed that they were particularly time-poor in their work and that most developers were typically very hard-working. This was exacerbated among micro developers where one individual carried out multiple roles around directing the company, seeking investment and working directly on projects. These issues emerged later as broad barriers to engaging with support like VGTR (see Chapter 3).

¹⁰ Ukie/Nesta (2014) *A map of the UK games industry*, available online at: http://www.nesta.org.uk/sites/default/files/map_uk_games_industry_wv.pdf.

Beyond these common traits that went across all small and micro developers (lack of time and a lack of experience with paperwork), the research also uncovered recurring developer archetypes. The following archetypes, referred to across this report, are not intended to be a comprehensive segmentation of video games developers. Instead, they are all subgroups of developers emerging from the interviews who tended to have similar experiences and networks, and therefore a common approach to VGTR:



Old hands – these were developers who had several years of experience in the video games industry, often having worked for larger multinational developers before leaving to form their own businesses. With their experience, they tended to be more financially savvy and aware of the support available such as VGTR.



Workers for hire – these were a set of developers that worked exclusively on a work-for-hire business model and, unlike others who had aspirations to move away from work-for-hire, they intended to maintain this in the long run. They considered this work-for-hire model to be low-risk and low-reward. While it was risky in the sense that their income depended on winning client work, it was perceived to be low risk as it guaranteed income in an industry where cash flow was problematic.



Bedroom developers – these tended to be solo or micro developers who were not based in local video games industry clusters. They therefore tended to be more reliant on industry websites or Twitter for information. Given their size, they were focused on developing a single project at any one time and needed a strong justification to spend any time away from this project (as it was their only work).



Freshers – this grouping encompassed both new start-ups, often people who had started as a developer fresh from university, and more established developers who had previously carried out only work-for-hire and were now attempting to move away from this and develop their first original game. With this lack of experience, they tended to be less aware of the support available for developers and found it harder to envisage the impact that support like VGTR might have on the business.



Edge of the industry – these developers did not necessarily see themselves solely as video games developers. They also worked in other sectors, such as animation, R&D, and app or software development and some were making their first foray into video games development. As a result, they tended to have wider support networks overall, but weaker links specifically to other video games developers – so, for example, not being part of a local developer network and getting invited to local conferences and talks.

3 Awareness

The chapter explores the range of awareness of VGTR, developers' sources of information on the topic and potential motivators and barriers to finding out more.

3.1 Levels of awareness

There was a general sense that VGTR had been well and widely promoted, so that it would be hard not to have heard of it if you worked in the industry, even if just on the grapevine. Developers also noted that VGTR had been conceived and suggested long before it eventually came into being – some said they first became aware of it prior to 2014 after hearing about the industry lobbying for it.

"I've heard about it all over the place. It's difficult to escape knowledge of it in the UK industry."

2 to 9 employees, likely to apply

"I follow the industry news, so the industry trade bodies like TIGA and Ukie, I knew that they had been lobbying for this for a while."

Solo, unlikely to apply

However, beyond having heard of it, there was a clear distinction in terms of level of knowledge between those who had applied or intended to apply and those who were unsure. However, even the unsure developers had not ruled out applying – rather, they felt they did not yet know enough about it to apply.

The former group had a very strong sense that the level of tax relief would make a substantive impact on their business. In many cases, developers in this group had typically built up a more in-depth understanding by attending industry talks or presentations on VGTR or doing their own research. This high-level awareness and understanding was more typical among the **old hand** developers who had more industry experience, those who had used R&D tax relief before, and the **edge of the industry** developers who had experience of other creative industry reliefs such as Animation Tax Relief, who all found it easier to conceptualise how substantive the relief was financially. This kind of high-level awareness was also more common among developers who had someone with a specific finance role (for example a Chief Finance Officer) or an established company accountant, as these individuals had more time and a specific remit to do the research around support like VGTR.

By contrast, there were developers who exhibited a low-level awareness, particularly the **bedroom developer** and **fresher** archetypes – solo or micro developers who tended not to have strong links with local developer networks and generally had less experience of using any forms of government support. Whereas these developers had heard about VGTR through industry press or websites, they had typically not researched it further. They did not know how much the relief amounted to, and therefore how much they stood to gain – some developers felt this was a key question that they needed to have answered before they could invest further time in researching VGTR.

"It's understanding ... if you're successful with this, how could it change your business? And I think that's the most important thing, because I think a lot of companies don't really realise how profound the impact can be."

10 to 49 staff, used VGTR

These developers with lower awareness also wanted to know more about the application process. While there was a broad awareness of the existence of the cultural test, these developers exhibited a lack of knowledge about what was included in the test, sometimes assuming that it was exclusively about the content of the game (when in fact cultural content is one of four elements of the cultural test).

3.2 Barriers to learning more

Among the developers with relatively low-level awareness, the barriers to finding out more typically revolved around developers not having the time or resources to research VGTR. This was particularly the case at the smaller end of the industry, among solo and micro developers who were already working long hours on their single game. Within this, developers were even less likely to have looked into VGTR in cases where:

- there was no individual in the business with a dedicated finance role
- they perceived that looking into it would be a significant time commitment, assuming that there might be a lot to read and understand – particularly the **bedroom developers** who had a general lack of experience with paperwork and financial planning
- they had upcoming project deadlines, so chose to focus all time and energy on the game over anything else.

“It’s just been at the back of my mind.”

2 to 9 staff, likely to apply

3.3 Existing and potential sources of information

Developers had found out about VGTR through a wide variety of sources, including:

- industry press and websites, including mentions of Game Republic, gamesindustry.biz and gamasutra.com
- local talks and roadshows
- information sent via industry body mailing lists
- informally via their local developer networks
- accountants and agents.

Local talks and roadshows led by the BFI or the industry bodies, TIGA and Ukie, were especially well received. Attending one of these talks was often the catalyst for developers wanting to find out more for themselves about the process and whether they qualified. The talks were particularly felt to address misperceptions around the administrative burden and eligibility criteria and were an important forum for allowing developers to ask questions. At the same time, this also helped to explain the general lower awareness and engagement with VGTR among developers who fell outside the local developer networks where these talks tended to be organised.

“I attended a presentation given by some people from the BFI, and they made it clear what was eligible and how. It’s quite easy, to be honest. And that meant that I was able to apply.”

2 to 9 staff, used VGTR

Some developers also specifically mentioned case studies they had seen from the BFI. They described these as outlining how certain genres of games, such as fantasy games, could be eligible to pass the cultural test. Interviewees praised the case studies as being clear and easy to understand, and said they helped clarify the kinds of games would qualify as

culturally British or European. In some cases, they helped to convince developers that the kinds of games they made could be eligible, and so to go ahead with their application.

Accountants and agents included both established company accountants and agents that had purposely approached developers, sometimes through cold-calling or at trade shows, to suggest that they apply for VGTR. These individuals were considered especially powerful advocates for VGTR. There were cases where the company accountant had been the one that started discussions about VGTR and led to the developer applying.

“It was my fabulous accountant who heard about it, looked into it more and said you should be doing this.”

2 to 9 staff, used VGTR

At the same time, developers of all sizes also raised cases where they felt their accountant lacked knowledge about VGTR, highlighting that there may be a need for further information and education for accountants around the VGTR process.

HMRC tended not to be a strong source of *direct* information for the developers interviewed. For example, the HMRC Creative Industry Unit was not mentioned in interviews, and one developer noted that while representatives from the Department had been present at one of the local roadshows they attended, it was a TIGA-led event. It is worth noting that developers did not consider the lack of direct engagement with HMRC as a problem. Some felt it might have been a conscious choice to let organisations with which developers were more familiar, such as Ukie and TIGA, take the lead. This is also reflective of the findings detailed in Chapter 4, which suggest that developers tended not to engage with the claim itself, so therefore felt they had less need to deal directly with HMRC and more need to deal with the BFI.

“I don’t think there was a huge amount of promotion or advertisement from the government side ... I don’t know if that was the government’s intentions.”

50 to 249 staff, used VGTR

Potential advocacy methods

While developers broadly considered the VGTR promotion to date to have been very effective, they did point out various ways in which the Government might better engage a wider range of developers in the future:

- Some developers themselves had been involved in setting up VGTR presentations for their local networks, and these developers might be willing to take on a role as local advocates for VGTR.
- Some also suggested that university departments could be effective advocates, to help spread awareness of VGTR to new start-ups – the **fresher** archetype – who would not have strong local networks.
- The idea of a dedicated VGTR website was raised, which might bring together the existing BFI case studies, the information on the HMRC website pages and answers to developers’ frequently asked questions into one place. One developer noted that they felt the existing pages lacked clarity.
- Finally, initiatives such as the UK Games Fund, as well as bodies like Creative England and Creative Scotland, were also mentioned as potential sources of information on VGTR, since developers already had a lot of interaction with these bodies.

4 The application process

This chapter looks at developers' decisions around applying and the barriers to applying. It also explores approaches to the cultural test and the HMRC claim process.

4.1 Deciding to apply

Conscious filtering of applications

The decision to apply for VGTR was typically incumbent on whether developers felt their game was eligible and would pass the cultural test. Small and micro developers in particular wanted a reassurance that they would pass *before* applying, because they had a strong fear of wasting time on something that risked being unfruitful – time that would otherwise be spent on their game. To this end, there were various examples of developers who had spoken to the BFI by telephone or email to make an initial assessment on whether their game was likely to pass the test or not, and had only then submitted an application.

Others had refrained from submitting applications when they believed a game would not pass. For example, one developer had made various VGTR applications, but had not applied in certain instances where they were co-producing games with storyboarding or music teams based abroad. In these cases, they had made a calculated decision that they would not score enough on the cultural hubs section of the cultural test.¹¹ This suggests that games that were likely to fail the test, were not being put forward for VGTR in the first place. So, while there were no instances of failed applications in this research, this did not necessarily reflect that non-culturally British or European games were passing.

Strength of the financial incentive

Beyond this initial assessment around eligibility and likelihood of passing, there was often not much further discussion within the business around whether to apply. Typically, the decision was taken by the business owner or founder and did not involve a discussion with the rest of the development team. Ultimately, the financial incentive often resulted in a snap decision, as the following quotes illustrate (with developers answering what made them decide to apply):

"It's a decent chunk of money."

10 to 49 staff, used VGTR

"It's a no-brainer."

2 to 9 staff, likely to apply

Cost versus reward considerations

With the **old hand** developers who had considerable previous industry experience, there was already a strong sense that the reward of VGTR far outweighed any potential administrative costs from the process. However, in cases where there was not someone with this previous experience at the helm, developers did sometimes have further questions around the expected cost of the process, and wanted to discuss these with accountants and agents.

For developers who had previously used R&D tax relief or were currently considering it alongside VGTR, there were also further questions around which relief might have a better return. They also wanted to weigh up whether applying for

¹¹ This section of the cultural test covers developer use of UK-based talent (e.g. artists or musicians) in game development.

VGTR would be a lesser administrative burden than R&D tax relief. The significance of the relative administrative burden was such that, in one case, a developer who had previously used R&D tax relief decided to follow the VGTR route, even though they thought they would possibly be granted greater tax relief from using R&D tax relief. They felt the administrative process for VGTR was much more straightforward in terms of understanding what it applied to (compared to the more broadly defined notion of R&D) and providing the necessary evidence.

“We thought maybe we could see more money back through R&D tax relief but decided, on balance, VGTR was going to be more straightforward, predictable and easier.”

10 to 49 staff, used VGTR

4.2 When to apply during development

It should be noted that the developers interviewed in this research had often made their VGTR cultural test applications mid-development on a game rather than at the outset of development. This often simply reflected that these were their first applications and it was generally early days for VGTR as a whole. By implication, at this point in development the game concept, broad story and development team were often already in place, and there was less scope for developers to make changes to these aspects in response to the test.

At the same time, developers did note that game content was still very open to change mid-development because a typical development process was very iterative, involving a first, second and third pass. Over this period, there could be various changes to the game content. Indeed, as discussed in more detail in Chapter 5, there were various concrete examples of where developers had made changes to content mid-development in response to the test.

Future applications

Several of these same developers also noted that they would take a different approach for their next applications, making them much earlier on in the development process. There was various reasoning behind applying earlier for BFI certification. Some were simply getting it out of the way so it was not an outstanding task during core development. Some noted that by applying just after the prototyping stage (effectively when the game concept had been tested), the developer would have a sense of how big the budget for core development might be, and able to ballpark how much they would get back from VGTR. Developers also highlighted that for future applications, they intended to take on board the cultural test requirements at these early stages, highlighting that the scope for the test to have an impact might be greater in subsequent applications.

However, it is important to note that this was not the case for all developers. Some developers, who tended to fit into the more financially-savvy **old hand** archetype, specifically said that they would continue to make the BFI application in the way they had done to date – as close as possible to when they ran out of money mid-development. Their rationale in this case was that there was no benefit from getting the BFI certification earlier and claiming VGTR later.¹²

“The ideal time to make the claim is when you’re running out of money. Once you put in the claim, it takes about six weeks for the cheque to come through. So you want to get the claim in about eight weeks before you run out of money.”

2 to 9 staff, used VGTR

¹² N.B. developers must wait for the end of an accounting period before they can make a claim for VGTR.

4.3 Barriers to applying

Among the developers who had not applied for VGTR, there were broadly three sets of barriers stopping them – the perceived lack of return, assumed burden or difficulty of applying, and a sense of not being eligible or being unlikely to pass the cultural test – explained further in this section.

Uncertainty or perceived lack of return

General issues for solo and micro **bedroom developers** were the often haphazard nature of paperwork on their relatively small projects, the precariousness of their finances, and the perceived opportunity cost of making an application, especially coupled with uncertainty around whether they would pass.

“There might be benefits, but the benefits are so far away and the process is a little bit obtuse. You don’t have a cash flow, don’t have a work flow, don’t know if you’re going to be in business in twelve months or not. It can often seem irrelevant.”

2 to 9 staff, unlikely to apply

In addition, some developers had not applied at all, or had applied for certain games and not others, because they felt these games were too small for it to be worth their while to make a claim. Within this, some developers had set themselves specific thresholds below which they would not apply. Examples included projects that lasted less than six months or where the total development cost was less than £20,000. This particularly seemed to apply for further development work done on games already in the market, so updates or additional content.

The reasons given included accountancy fees being too high in these cases, since accountants charged on a per-claim basis, and it not being worth the effort to sort the paperwork needed for a relatively small sum. On one hand, the paperwork reasoning was more significant for the **bedroom developer** archetype – solo and micro developers who had less formalised financial monitoring and records – but, on the other hand, some of the **old hand** developers also raised this, who wanted to focus their efforts on claiming for their bigger games.

Assumed burden or difficulty

Across developers, the benchmark for how they thought VGTR might work was the R&D tax relief scheme. This scheme, even among those who had not used it themselves, had a reputation for being complex, arduous and not necessarily reliable. It was assumed to require a lot of supporting documentation and that developers who applied (for R&D tax relief) were often not successful in their applications. Before seeing the process for themselves, those who used VGTR assumed it might be like R&D tax relief, and there was a sense of surprise at how straightforward the actual process was as a result. It also helps explain why some developers were hesitant to apply in the first place and suggests they needed to be reassured about VGTR being different from R&D tax relief – which, as explored later in this chapter, was the sense among those who had applied for VGTR.

Especially among the archetypal solo and micro **bedroom developers**, there was also a general lack of a strong business culture of seeking investment, and a hesitancy around form-filling and finances. This attitude naturally made any tax process such as VGTR seem burdensome. Having not found out more about the process, these kinds of developers assumed that it might take their time away from working on their current game, which was their primary task, to pull together the necessary financial information. From their viewpoint, any time spent away from game development was time where they were potentially losing money.

“Actual game development is my priority ... There’s a box full of receipts and it’s like, ‘I think I’ll get to it next week,’ but I’m kind of bad with that stuff because I want to focus on making games.”

Solo, unlikely to apply

The role of accountants and agents in the process also sometimes made VGTR seem more burdensome than the reality. Developers commonly assumed that they would need an accountant to apply for VGTR, heightening the anxieties of the solo and micro developers who felt they lacked confidence with forms and finances, and adding to the perceived cost of the process. In some of the cases where developers did have accountants already, they felt that accountants lacked knowledge of the VGTR process. Some had also received cold calls from agents suggesting they needed to pay a tax agent to guide them through the VGTR application. These issues around the fledgling accountants and agents market surrounding VGTR often bolstered the sense of difficulty of the process for those who had not done it before.

Misperceptions about eligibility or passing the cultural test

In the cases where developers assumed they would not qualify for VGTR or pass the cultural test, they often did not take it any further, and these assumptions were left unchallenged. Within this, there was a considerable emphasis placed on the views and advice of accountants and agents, particularly among the **fresher** and **bedroom developer** archetypes who tended to have less awareness of the process overall and were more willing to rely on accountants and agents. In one example, a developer had been cold-called by agents who suggested looking into VGTR. The developer had started getting ready to make the application when the agent advised them that they would not be eligible. Since this point, several months before this research, they had not looked into VGTR again because of this initial experience.

There were broad misperceptions about the nature of the cultural test, which meant that some developers assumed their games would not pass, even though they felt they had a culturally British or European sensibility to them. These developers assumed that the test would lead to them inserting stereotyped British elements into their games, and they were unwilling to make the changes they supposed would be required. This issue also came up as an initial apprehension among those who eventually applied, but had been reassured at talks and presentations, or in conversations with the BFI.

“There is a perception that it has to be Union Jack y-fronts to get the funds.”

2 to 9 staff, likely to apply

“I was worried that perhaps I had to make my game more ‘English’. Sounds silly now, but that was the chatter.”

10 to 49 staff, made a claim

There were also more specific misperceptions about eligibility criteria among small and micro developers in particular. One developer had a significant misperception that VGTR was calculated based on profits rather than on development costs. Others thought that it only applied to costs above a certain threshold. For those holding these misperceptions, this led to a frame of mind that VGTR was not for them, but instead was aimed at larger developers.

4.4 The cultural test

For the developers who had done it, the cultural test felt like a straightforward process, often contrary to initial expectations. In various cases, developers noted that they often already had the content required for the test drafted elsewhere, for example in design documents or pitch documents, so it was not typically a burden to collate this

information. Developers also felt the test criteria were flexible, in that the focus was not solely on game content¹³, and that if developers did not have points in one area, they could still demonstrate that their game was culturally British or European in another area.

In this way, VGTR also compared favourably with R&D tax relief, which was considered to be more subjective and to have less clear criteria. In order to claim R&D tax relief, developers felt they had to build an argument as to why their work should be considered new and innovative. For VGTR, they felt the criteria for qualifying were more explicitly laid out in BFI guidance documents. Developers could easily see, for example, that they needed 16 points to qualify and that they could gain four points by setting their game in the UK, and one point for the lead artist being an EEA resident.

“The process is non-subjective ... It’s pretty painless compared with R&D tax relief.”

10 to 49 staff, used VGTR

Approaches to completing the test

Typically, this part of the VGTR process was done in-house by the company Chief Executive or Chief Finance Officer (i.e. generally not needing external agents or accountants). These individuals felt they had enough knowledge about their games to complete the forms and did not want to pay for external assistance with this aspect.

There were exceptions where developers felt they had more complex claims and wanted an agent to administer the entire process – this included cases more often among mid-sized developers who were applying for multiple games at the same time, or applying for VGTR alongside R&D tax relief and wanted a single administrative process to deal with all these claims. There were also some instances where, for their first application, developers had looked at the test form with their company accountant, but these developers said that in future cases they would be confident in handling this part of the process themselves.

As part of their need for reassurance, there were various cases where developers of all sizes had sought advice from the BFI, having discussions with them over the phone or by email. Developers wanted to know whether their game would pass on certain criteria and particularly had questions around how the test applied to different genres of game. The BFI was praised in this sense as a neutral source of support when completing the form and the example case studies on the BFI website were cited as being especially useful for explaining how the test applied to different types of games.

“There was a lot of conversation with the BFI ... It wasn’t a relationship where it felt like, ‘don’t tell them this, don’t tell them that’. I think all the emails were really open.”

Large/multinational, used VGTR

“The support team at the BFI I have found to be incredible. Available, and good with advice and assistance in the early days.”

2 to 9 staff, made a claim

There were divergent approaches to completing the cultural test. Where developers were making an application for the first time and were inclined to be particularly risk averse; they would complete all sections of the form and aim to score as many of the 31 available points as they could. By contrast, where developers were more aware of the 16-point pass threshold, they often took a more calculated approach to score the points needed to pass – and this was more often the

¹³ There are four sections to the cultural test: cultural content, cultural contribution (whether the game reflects British creativity, British heritage or diversity), cultural hubs (the use of UK-based talent in the game) and personnel (the team working on the game).

case for the more experienced **old hand** developers, those doing the test for their second game and those who had specifically sought advice from the BFI. In some instances, this meant that developers left certain sections of the form blank, either feeling or being advised that they would have enough points to pass with the other sections.

In the latter cases, where developers took a more calculated approach, there were two broad routes to passing: either based on cultural content, or on the people working on the game. The route taken depended on what developers felt made the best case on any particular project. Some micro developers also placed a particularly high value on their creative freedom – they were less keen to make content changes and more willing to engage with the other sections of the test emphasising their British or European team.

“I tend to see myself as a creative first, so if anybody is making a game and making decisions based off of scoring more points in a cultural test, I look on that quite cynically.”

2 to 9 staff, likely to apply

“Our ideal of making what we want to make is stronger than our desire to get some money back from the government ... Let’s say we were going to get back £50,000 but to do that we’d have to change our audio guy, if he wasn’t really, really good at his job, we’d probably consider that.”

2 to 9 staff, likely to apply

With this in mind, some developers therefore did not feel it was necessary to make any changes to their envisaged game content, now or in future games, as they would be able to shift the emphasis of the test form towards the UK team and collaborators working on the game, and still be recognised as a culturally British or European game. However, as explored further in Chapter 5, this was not the response of all developers – there were clear examples of changes to content as a response to the test. Moreover, the developers who did not change content still felt they were making culturally British or European games and also saw the emphasis on teams and personnel as creating a cultural impact via promoting British industry (also explained further in Chapter 5).

“It would be foolish not to make a few subtle [content] changes to squeeze into the acceptance criteria.”

2 to 9 staff, unlikely to apply

Suggestions for clarifying aspects of the test

While the cultural test was generally positively received, developers who had taken the test did have the following suggestions for clarifications and changes:

- Some suggested that the test was not sufficiently adapted for modern video games, and reflected business models from the film industry where there was typically a single finished product. This was not the case for games that used a subscription model or other games that were constantly updated. Some developers were unclear on when they had to apply for final certification for these constantly updated games.
- Another related question was whether it was possible to reapply if a game had failed to pass on the first attempt.
- Points scored for English dialogue were not necessarily relevant as not all video games had dialogue at all. Some were also unclear whether this applied to games with written dialogue rather than spoken dialogue.

- Developers who had put in their applications at the end of the development process sometimes faced administrative hurdles, such as seeking proof of citizenship from freelancers or information from collaborators several months after their work was complete. Some found this awkward to ask for, and suggested it would be good for other developers to be aware of these requirements at the outset.

Developers suggested that additional BFI case studies (giving examples for games without dialogue or subscription-based games) or a flow chart (to explain the types of documentation developers will need to collect, the difference between interim and final certification, and rules around reapplying) might be useful to clarify these elements.

4.5 The HM Revenue and Customs claim

For this element, developers typically engaged accountants and agents to make the claim on their behalf, reflecting both the perceived complexity of the claim process and the fact that they did not want to fall foul of tax rules, so preferred to delegate managing the claim to professionals.

“I’m a computer programmer. I can do adding up. But there are some hoops that accountants jump through that I just don’t understand.”

2 to 9 staff, used VGTR

As aforementioned, throughout the VGTR process developers tended to have more direct contact with the BFI than they did with HMRC, although HMRC attendance at roadshows organised by other bodies was mentioned. The use of agents and accountants for the claim element can explain why developers often chose not to directly deal with HMRC – whereas they were dealing with the cultural test themselves, and therefore it made sense for them to deal directly with the BFI, they had less need to talk to HMRC about the actual claim.

By way of contrast with the cultural test, developers typically felt the HMRC claim was the more complex part of the VGTR process. The sense that it was a relatively complex process came from having to provide financial information to accountants and not necessarily having the financial monitoring or records set up to do this easily for their first claim. One developer also explained how they had to change their financial year end and submit a tax return earlier than usual to get the VGTR money in time to continue to fund development. This was a challenge for the business, as they had previously only had to submit abbreviated accounts to HMRC, which had not required an accountant.

“In order to claim you have to submit a tax return, and because I needed the money, I had to change my year end date for my taxes, so I could claim most of my initial development costs ... So I had to do all my books, and I couldn’t submit an ordinary abbreviated small company tax return if I was going to claim VGTR. So I had to submit a full online tax return.”

2 to 9 staff, used VGTR

Where developers did not have an established accountant – more typically the solo, micro and small developers – some found it difficult to seek out an accountant with knowledge of VGTR. In addition, for those who did have an accountant, some felt their accountant lacked knowledge of VGTR and that this had made the claims process stressful. Again, both these types of cases highlight that the market for accountants and agents is relatively undeveloped with regards to VGTR.

“I had a lot of accountants say, ‘you can’t apply, we can’t help you apply, we couldn’t possibly look at this for another six months.’ That was the hardest thing – finding an accountant that could do it for me quickly, chasing them up all the time to make sure they didn’t forget about me.”

2 to 9 staff, used VGTR

5 Impact of VGTR

This chapter covers the ways in which VGTR was able to affect the games being developed, the impact on developers' businesses, and changes across the video games industry as a whole.

5.1 What makes a game culturally British or European?

Developers had broad personal views of what made a game culturally British or European (although they focused mainly on the British element, as might be expected), and felt that the games they made were inherently British. Common themes were that a British game was one made by British development teams, and that their experiences as British people would shape the content, character, and tone of the game, beyond surface elements such as the setting.

A recurring argument was that the same brief would be interpreted differently by a British team compared to a foreign one, and that the end result would be very different. Developers highlighted what they saw as particularly British attributes in their games, including a dry sense of humour, irony, and British values such as tolerance and a sense of fair play. These concepts would often inform the commentary on society or the personality traits of characters in narrative-driven games.

"A lot of our ideas come from the personal experiences of our CEO ... not traditionally British experiences, but they are extremely heavily influenced by the surroundings in which we live."

10 to 49 staff, used VGTR

"The Grand Theft Auto games ... even though those games are set in America ... the humour's British, the writing's very British, the way in which they see the world is very British."

10 to 49 staff, used VGTR

Based on these attributes, several developers felt they were already making culturally British or European games – and that VGTR helped them to get these games off the ground, into the marketplace and into a position in which they stood out more in markets traditionally dominated by Japanese and American games. All these impacts are explored further in the next sections of this chapter.

"Our game ... it's got a Britishness to it. Pythonesque maybe. I couldn't see a game coming out of America like that."

2 to 9 staff, used VGTR

5.2 How developers had used VGTR money

The research found that VGTR facilitated the production of culturally British or European games in several ways, enabling new games to start in development, changing games already in development and supporting development to be completed on certain games. Across these, the impact of VGTR varied depending on how developers perceived VGTR and ultimately used the money from relief. The four following interpretations of VGTR emerged among developers.

Avoiding game over

Some developers saw VGTR as essential for the completion of an individual game or, in extreme circumstances, for the survival of their business. These developers explained how producing a game required a significant amount of funding upfront, which may not be recouped for several years, and then only if the game was a commercial success. In one

example, a particular stage of development took longer than expected for a micro developer, and VGTR was able to stabilise cash flow for this period. This enabled the game to be completed and the company, which was committed to this single game, to stay afloat.

“It enabled us to stay in business. Things were looking quite grim at the start of this year ... It has been vital in keeping us afloat. I’m not sure what we would have done without it.”

2 to 9 staff, used VGTR

This interpretation of VGTR was particularly common among the **fresher** and **bedroom developer** archetypes as well as those on the **edge of the industry**. These developers were typically working on their first game or were less well-established companies – VGTR helped to plug funding gaps, enabling them to continue working towards completion.

Steadying the ship

For developers in a more stable financial position, VGTR was seen more as a safety net rather than a lifeline. This encompassed developers ranging in size, but they were typically more established firms who had been operating for longer. They included the **bedroom developer** and **edge of the industry** archetypes who were not working on their first title and also those with significant industry experience – the **old hand** developers and **workers for hire**.

These developers saw VGTR as generally lowering their level of risk and helping them to manage cash flow. They specifically used it to pay salaries and ensure they could retain staff between projects when they might otherwise have let them go. In an industry where subcontracting, freelance work and quiet periods in-between projects were prevalent, VGTR was seen as making a particularly significant impact to these kinds of developers, even if they felt they would continue making games without it.

“The industry is typically feast and famine. You have these projects that fly in, you make a healthy profit, and then you’re sat there twiddling thumbs for a bit.”

10 to 49 staff, used VGTR

An enabler

Other more established **fresher** and **old hand** developers felt that VGTR did more than stabilise cash flow. It enabled them to think beyond immediate financial concerns and focus on how to expand their business or improve their offer. These developers had used VGTR in various ways including to negotiate better deals with publishers, to move away from work-for-hire to focus on their own games – the ambition of the **fresher** archetype micro and small developers – or to increase the scope of their games.

“VGTR makes us able to think forwards, rather than working for the budget each month.”

2 to 9 staff, used VGTR

“VGTR is enabling us to take that project forward and self-publish our first title, which is very exciting.”

Large/multinational, used VGTR

For our *next* game

There were developers who had claimed, but felt that VGTR came too late to help with their current project, because it did not provide funding upfront. These developers were typically just starting out in the video games industry and working on

the first game – more commonly the **fresher** and **bedroom developer** archetypes. Whilst these developers did not see the immediate benefit of VGTR, they did appreciate how it might help them get their next project off the ground.

“VGTR doesn’t provide any funding up front. That’s the big weakness with it, for a small company. It doesn’t actually enable the game to happen.”

2 to 9 staff, used VGTR

5.3 Impact on new games developed

There were various ways in which developers felt that VGTR helped them to get new culturally British or European games off the ground. For the **fresher** developers who had intended to transition away from work-for-hire and into developing their own intellectual property, VGTR was seen as **an enabler** for this. In some cases, this was simply because it de-risked the game and made it more attractive to investors. In other cases, it gave the developer the financial breathing space they needed to stop relying on work-for-hire – they could afford to move more staff off client work and onto the development team for their own game.

“Even if we were otherwise able to get the money, VGTR then shifts the balance towards going ahead with the project.”

2 to 9 staff, likely to apply

Developers also highlighted how VGTR money had helped to overcome barriers to entry that would otherwise have stopped them from starting new projects. Some had invested VGTR money into prototypes or proofs-of-concept for their next project, and explained how outside investors would not come on board until the prototype was in place, and they could see what they were investing in – so this was effectively a sunk cost the developer needed to pay for.

Even where developers saw VGTR as simply **steadying the ship** and improving their cash flow, or **avoiding game over** and helping them to survive, there was still a sense that this would see more British companies, particularly micro companies, continuing to make games in the long run by helping start-up developers to sustain themselves beyond their first game.

“You make one good game, it doesn’t do well enough, you make a second good game, doesn’t do well enough, you make a third good game and suddenly it works. A lot of the time these companies wouldn’t have got to the third game if they didn’t have Video Games Tax Relief ... in order to convince investors that it’s a commercially safer investment.”

2 to 9 staff, likely to apply

Case study: using VGTR to overcome barriers to entry

One small developer had an ambition to become the top developer worldwide for a type of digital board game. Their business model was to acquire licences for the physical versions of these board games then develop them into video games.

They claimed VGTR for their first self-published title, then reinvested the VGTR money into the business to acquire two new board game licences and employ new staff to work on the new games. Without VGTR, they said they would not have been able to afford both the new licences, as there were sunk legal costs involved in drawing up licensing contracts. Without these licences, they felt they would not have been able to launch their latest game.

“There are legal costs involved because you have to work through the contracts. You also have to sometimes ... pay a non-recoupable fee to the licensor. And they do that because they want to make sure you’re not messing around with the licence, and you’re not going to sit on it.”

10 to 49 staff, used VGTR

At the same time, it should be noted that some micro developers starting out on their first game felt that VGTR would not be able to impact on this game getting off the ground, but might instead be helpful **for their next game**. This was because VGTR was claimed retrospectively, after development had been undertaken. The lack of upfront funding meant these developers still faced hurdles getting together funding and VGTR could not help with this. These developers were consequently more likely not to have applied for VGTR, and wanted to focus their time and resources on seeking upfront funding, for example through finding a publisher, or applying to schemes such as the UK Games Fund.

5.4 Impact on games in development

Changes in response to the cultural test

Overall, there was mixed evidence on whether the cultural test had directly encouraged developers to change game content. On one hand, some developers noted that they had not completed the cultural content section of the form and had instead demonstrated their game to be culturally British or European through the team working on it. Based on this, there was speculation among some developers that others might be taking a risk-averse approach in their initial VGTR applications, but in their next applications would approach the cultural test more flexibly, and perhaps focus less on the cultural content section. In addition, the **worker for hire** developers who only undertook work for clients noted that they had no say in changing these aspects of the game – these creative decisions rested with clients so were out of their hands.

On the other hand, there were examples of developers who changed game content specifically to score points on the cultural test, or said that they would be willing to do so at the outset for their next games. This included aspects such as the game setting or characters. The common reasoning behind this decision was that developers considered these kinds of changes to be minor and generally incidental to the gameplay or the overall theme of the game, so there was no harm in making the changes. The decision to make these kinds of minor changes in order to secure the relief had often been suggested by individuals in a finance role, including company accountants or staff responsible for sourcing investment.

“When it came to deciding the backstory of the characters, we had in mind that we really needed ... to get the points in A2 [cultural content section].”

10 to 49 staff, used VGTR

“Originally the game was based in the Indian Ocean and we moved it to off the Scottish shore ... It was swapping round a culturally rich element for another culturally rich element.”

2 to 9 staff, used VGTR

Using the cultural test as a sense-check rather than a driving force

Overall, these findings suggest that developers did not see the cultural test as the driving force behind their creative decisions – they did not set out to make games specifically with content to pass the test. However, some developers did

see it as a final sense-check when clarifying story and characters for the final game, and in this sense it had led to tweaks in terms of cultural content.

“I don’t know anyone who sits down and says ‘I want to make a British game’. People normally sit down and say, ‘I played this game and it was really fun’ or ‘I had this experience in my life and I really want to make a game about it, to explore it’. I don’t know anyone who thinks that Britishness is a good starting point for that.”

10 to 49 staff, used VGTR

There were, nonetheless, concerns about the test becoming any stricter in terms of content restrictions. Developers raised that this might curtail creative freedom and result in a need for “contrived Britishness” in order to pass.

“I don’t think it all needs to be English people drinking cups of tea, dancing round the maypole.”

Large/multinational, used VGTR

5.5 Impact on games reaching the market

Finishing games

Some developers who had not used VGTR were in a position where they had been forced to indefinitely pause development on their own original games in order to seek further funding, either through investors or publishers, or by undertaking more work-for-hire. In cases where VGTR money had been received, this had helped some developers in **avoiding game over** and having to return to fundraising or work-for-hire. One developer explained how fundraising involved pulling key staff, such as the Chief Technology Officer, off game development in order to meet investors. In this sense, VGTR was felt to help original culturally British or European games in development get completed.

“The game wouldn’t have been released had we not had the staff to work on it ... The company may not have even been able to continue had VGTR not come in.”

50 to 249 staff, used VGTR

“It’s a long drawn out process doing the fundraising and it’s like a distraction ... It probably took about nine months from our first talk with our current investor until they invested.”

10 to 49 staff, used VGTR

Another impact in terms of **steadying the ship** and improving cash flow meant that some developers were able to complete their games more quickly, by hiring extra staff to work on the game. The implication of this was that VGTR would lead to a greater turnover of games in the long term, with developers moving onto new projects more quickly. This was suggested as a mechanism by which VGTR would increase the number of culturally British or European games being produced over time.

Raising quality and expanding the scope of games

A common theme was that VGTR particularly helped developers expand the scope and quality of the product they were working on. Knowing that they would be able to claim back 20 per cent of development costs, some developers budgeted for a longer development schedule, hired more people to work on them, or added new features not previously envisaged. One developer explained how they had used VGTR money partly to add an analytic system to their mobile game, to gather data on what worked well in terms of the features that players liked best and at which point they stopped playing.

The importance of having one or two more staff members to meet deadlines and raise quality was particularly important for micro developers, including those who had not applied for VGTR. Some explained how production value could dramatically increase as a result of gaining an extra staff member in a team of three or four people. An extra person could bring new skills or specialisms to the project, help to develop new features, iron out bugs or work specifically on reworking the game to run on new platforms (game “ports”), opening up new revenue streams.

“If you want to get features in for a particular window of time, then having an extra person can make all the difference.”

2 to 9 staff, unlikely to apply

Developers saw more time being spent on development as leading to an improvement in the game’s quality. Furthermore, they emphasised that this was not simply about making a better game for its own sake, but a game that was more likely to succeed in the marketplace. This view was particularly strong among developers who worked on mobile games, who felt that a higher quality product was essential for competing in the crowded Android or iOS marketplace against big-budget multinational developers.

“The more money we get, the better the game is. The more testing it gets, the higher the quality.”

10 to 49 staff, used VGTR

“That’s very often the difference between a success and failure ... Quality doesn’t guarantee success but games are unlikely to be a success if they are poor quality.”

10 to 49 staff, used VGTR

Reaching consumers

Developers gave examples of investing their VGTR money to market their games to consumers, on social media sites such as Facebook and also in gaming magazines, in order to reach new fan bases. Developers also felt that VGTR helped them to get publishers on board, and in this way helped games get completed and reach consumers. Some chose to use VGTR money as an **enabler** to polish their offer for publishers, for example by building demos, videos or pitch documents.

“Publishers, they can look at your game, and just by the quality of your pitch, they can tell whether it’s going to be any good or not.”

10 to 49 staff, used VGTR

Moreover, some developers suggested that VGTR had helped them secure more favourable publishing deals, as it meant they could fund more of the development costs themselves and reduce the funding required from the publisher. For example, one developer negotiated a publisher deal which involved doing the work at cost, in return for the developer getting a higher share of the eventual revenue from the game.

Case study: using VGTR to expand scope and finish development

One developer had been undertaking work-for-hire for 16 years, but was now aiming to launch their own original game. They received VGTR during the first half of their development phase. They used this money to employ two new staff who helped with quality assurance, and also to commission a UK company to make a CGI demo video for a full-length game. This company originally only had budget for an episodic game, but used VGTR money to expand the scope to a full-length game.

“Originally it was an episodic game – four small ones. But ... we didn’t get much traction with that. Publishers said, ‘no we want a big 10 to 12-hour game and we want to publish it around the world.’ So we had to go back and redesign a lot of it. We couldn’t have done that if we hadn’t had VGTR.”

10 to 49 staff, used VGTR

As a result, they found a publisher to fund the game, and also negotiated a better deal to retain the intellectual property rights, which they noted was not the norm within the industry.

Improving UK developers’ presence in the marketplace

Developers of all sizes acknowledged the need to appeal to the American market. For smaller UK developers looking to move away from work-for-hire (among the **fresher** and **bedroom developer** archetypes), reaching the American market was historically an easier path to success than developing a culturally British or European game.

“Usually I’m better off creating something that fits culturally with the market that I’m selling it in. And in my case that’s predominantly America ... If I don’t think that it’s commercially a good idea to make the game feel British, then I won’t do it.”

10 to 49 staff, used VGTR

Several independent small developers saw VGTR as a means of countering the dominance of Americanised games in this content, as it empowered many developers to make the kinds of culturally British or European games they had always aspired to make. However, developers were cautious about how much of a difference VGTR alone could realistically make in taking on Americanised games. As well as there being consumer demand for such games, some developers felt that it was still easier at present to get venture capital funding for video games from US investors than from UK ones. The **workers for hire** developers also drew attention to the continuing power of large American and Japanese developers, who had far larger budgets than British developers, regardless of the money claimed back under VGTR.

Case study: VGTR as a means of strengthening the UK presence in the market

One developer felt that VGTR could support British developers of mobile video games to fight back against the disadvantages they believed UK developers faced in the UK app marketplace. They noted that the German App Store seemed to promote German content, whereas British content did not have the same visibility in the British App Store compared to American games.

“What I get very frustrated by as a British developer is when you look at the selections [of games getting promoted] in the British App Store, and they are mainly American.”

2 to 9 staff, used VGTR

The developer felt that VGTR empowered them to make games with more British content. They felt supported by the cultural test, which meant that featuring characters with British accents became a cultural decision, rather than a financial one. This developer had produced a game featuring a yellow American school bus and had also produced a British version with a red double-decker bus. The developer wanted to see the version with the British red bus promoted in the British App Store.

5.6 Wider impact on developers' businesses

Transitioning away from work-for-hire

Beyond individual games, developers felt that VGTR had made a positive impact on their business. As aforementioned, some developers had used or were planning to use the relief to move away from work-for-hire and towards developing their own original games, where they more typically owned the intellectual property. The impact of this, structurally, was significant. Developers trying to balance work-for-hire against developing their own games explained how client work always took priority. The result of this was that at pinch points during production, team members would be pulled off working on their own project in order to meet deadlines, set by the client.

“If the majority of your revenue is coming from a couple of clients, if there are any problems or you're running late ... the original teams get cannibalised at key milestones and that's incredibly disruptive for the original game you're trying to create.”

Large/multinational, used VGTR

However, even with VGTR, developers cautioned that this move away from work-for-hire would be a slow process for the industry as a whole. This was because developers felt that the UK had historically been a largely work-for-hire industry, with content typically produced for foreign publishers (since there were relatively few British publishers), and that it would take years to turn this around to a stage where most games content was both created and owned within the UK.

Sustainability, recruitment and retention

Developers felt that VGTR made their business more sustainable between projects, because they could continue to pay salaries and did not have to let staff go at the end of each project. Developers explained that they would rather keep on reliable staff if they could, but this simply had not been an option in the past. There were examples of developers who had also taken on new staff funded by VGTR money and kept them on for their next game, effectively growing their business.

As previously noted, some developers also felt that VGTR could give them something to fall back on when games were not commercially successful. This was particularly felt to give the **fresher** archetype start-ups a second chance to survive beyond their first game. For instance, one developer was of the opinion that initiatives such as the UK Games Fund had led to a large number of new start-ups in the UK video games industry, but that in the absence of ongoing support like VGTR, these start-ups were liable to have a high failure rate if their first game was not a commercial success.

“It will help companies survive ... It will allow the famous second album to come out.”

2 to 9 staff, likely to apply

Improved financial monitoring and record-keeping

A recurring indirect impact of VGTR on the business was in getting developers to improve their financial monitoring and documentation, to align it with the evidence they needed to produce for claiming VGTR. In an industry dominated by micro businesses where record-keeping could be relatively poor, and where there was a general aversion to paperwork, these micro developers found themselves having to collate substantive documentation for the first time, such as the passport details of the freelancers they had collaborated with (for the cultural test). Several of these developers said that they were now better prepared for their second applications in terms of collating this data at the outset of development, or having changed their financial monitoring to break down costs as required by HMRC.

Access to finance

Developers felt that VGTR had helped to improve their access to finance by de-risking projects for investors. The assurance that *some* money would still be coming back, even if the game was not as much of a commercial success as expected, made video games a more attractive investment choice.

“They wouldn’t normally touch this sort of stuff ... [VGTR] has helped stimulate interest and excitement in what we’re up to.”

10 to 49 staff, used VGTR

This was further evidenced by the arrival of a market for loans, offered to developers on the basis of a VGTR claim. One developer had approached such a company to loan against their incoming rebate, and this money enabled them to complete their game and, they felt, stay in business.

Innovation

Some developers described themselves as being inherently innovative in the games they made, regardless of VGTR. So in this sense, VGTR was again enabling these innovative games to get off the ground and get finished. For example, one developer who made a health-based game felt that they were pushing the boundaries of what a game could be, with regards to having a public health focus. The developer also felt that this idea was “distinctly British” and that such a game would not have been developed in other countries with different attitudes towards public health.

Other developers felt that they would naturally innovate more with VGTR. For instance, one had used VGTR money to hire a new 3D artist to join their studio – which had traditionally always been a 2D games studio – enabling them to branch out into a new type of game.

While developers in these kinds of cases felt they had done innovative things with their VGTR money, the relief was not specifically seen as enabling innovation. There were no specific examples of VGTR enabling technical innovation, such as the development of new software or game engines, although this may simply reflect that developers in these scenarios would claim R&D tax relief instead. For instance, one company who had previously created their own engine in-house, explained how the decision over whether to choose R&D tax relief or VGTR was based on what type of work they would be doing and which umbrella it would fall under – using R&D tax relief for software development and VGTR for core game development.

5.7 Wider impact on the video games industry

Inward investment

Developers felt that VGTR had set the UK industry on a path to becoming globally competitive again, but that at this point it was too soon for the full effect of the relief to be felt. This was in part considering that relatively few developers had been through the whole cycle of certification, claiming, receiving the relief, investing the money and seeing the impact of the investment.

One multinational developer also noted that VGTR had not yet existed for long enough to create a sense of permanence, which meant the full potential of the relief in terms of inwards investment had possibly not been realised. As a consequence, their five-year financial plan had not factored in the relief for the full five years, and they had *not* accordingly set higher UK budgets and targets for all of those years.

Nonetheless, even at this early stage, multinational developers felt that the UK industry was receiving more investment from global publishers as well as the opportunities to work on better quality games and franchise games. One specific example raised was with one multinational developer who had agreed to keep more of their artwork in-house rather than outsourcing to China, because of the new competitiveness of UK development staff.

“I think for publishers as well, there’s certainly a big incentive now to be in the UK that wasn’t there before.”

10 to 49 staff, used VGTR

Case study: competitiveness and inward investment

One multinational developer used VGTR money to hire new specialist staff and buy new software, sooner than they would otherwise have done. They felt that international publishers were now considering them more favourably for client work, as they were offering a lower commercial rate, and could also use the VGTR money in the future to spend more time working on the game. They would also be able to reinvest more into sequels and updates, making them a better long-term investee.

“I can categorically say that we have won two significant contracts, and I mean significant, with publishers from outside the UK that we would not have won without VGTR.”

Large/multinational, used VGTR

Hiring within the UK and European Economic Area

The research provided mixed evidence of the wider effects of VGTR on hiring of UK or EEA staff across the industry. Typically, developers did not see the cultural test as a strong deterrent to hiring staff members who would work on their games from outside the EEA. Small and micro developers especially noted that for businesses of their size, securing visas for non-EEA staff was a far more significant disincentive to hiring from abroad. In addition, those within a local cluster of video games businesses said they would have typically recruited within their local area anyway.

By contrast, one developer did suggest that as video games businesses grow to being at the high end of small or mid-sized, there is a greater need for specialist staff, and this can necessitate searching further afield than the UK and EU for candidates. They felt that when they reached this stage, they could see how securing VGTR might influence their hiring decisions, if it was a marginal decision.

“If we’re recruiting a specialist role and we have three equally good candidates: one from the UK, one from Germany and one from the US – which is rather likely – it would encourage us to hire from the UK or Germany.”

2 to 9 staff, likely to apply

At the other end, among large developers, there was a mixed view of how VGTR had affected their hiring decisions. One British subsidiary developer explained that they had intended to use VGTR money to hire new staff in the UK but had not been able to do this. The relief money had gone directly to the non-UK parent business, and not to the UK management team, meaning that they had no direct control over how it was spent. In this specific case, the developer said they had not seen the relief money directly reinvested into the UK business.

Skills and upskilling

Amongst multinational developers, there was a general sense that VGTR had stemmed the brain drain of UK talent to countries such as France and Canada (countries which have had tax relief schemes in place for video games development that pre-date VGTR in the UK). They felt that they and other multinational developers based in the UK were now able to offer more competitive salaries to retain skilled individuals.

“VGTR has had an impact on stemming the brain drain to Canada, people want to work here and the UK has the best talent in the world. That exodus was due to other countries offering attractive salaries, but it’s now more of a level playing field.”

Large/multinational, used VGTR

Despite this, these multinational developers felt that the UK was not necessarily level with Canada yet. They explained how, in recent years, many major publishers had based themselves in Canada, and created a pool of talent there that would continue to tempt other publishers. The consequence of this was that the UK would need a number of years under the VGTR regime to be able to catch up, and that the balance of power would only shift incrementally over time.

5.8 Future considerations

It is worth remembering that developers who had been through the VGTR process considered it to have been well-designed and relatively smooth, although there were some suggestions for better tailoring it to the games industry. Suggestions included making the administrative requirements even more straightforward and adding more case studies or a flow chart for developers to better understand the process (see Chapter 4 for details).

A broader reflection on the potential impact of VGTR was that it was still early days for the tax relief. Developers had further thoughts and, in some cases, concerns about how VGTR might affect the UK industry over the next few years.

Some developers thought there would be an increasing use of production companies or special-purpose vehicles – companies set up specifically to produce a single game – to make it easier to tie all costs to one game and make the HMRC claim easier. This view was particularly common among more experienced **old hand** developers and those on the **edge of the industry** who were familiar with the film and television industries, where this type of business model was more common. In another case, an agent had recommended to a developer that they start setting up these kinds of production companies in order to simplify the VGTR process.

“Potentially for every original title we create, we’d operate as a new company, and we’d set up a new company specifically for that purpose. Which is far more a television and film model of working.”

10 to 49 staff, used VGTR

Some developers also expressed concerns about the role of publishers in the VGTR process. There were worries that publishers would eventually expect all UK developers to apply for VGTR and therefore assume that developers would be claiming back a proportion of development costs. Some thought this would give licence to publishers to offer UK developers more restrictive publishing deals, knowing that developers would be able to afford a lesser deal. While it is worth acknowledging that there was no evidence of this happening so far in this research, some developers felt there was nonetheless a role for HMRC to continue to communicate that developers and not publishers were entitled to VGTR, to enforce this notion.

“We’ve been in the situation of pitching a new project recently. It’s a bit like the elephant in the room ... No one wants to mention who’s getting the tax breaks here.”

2 to 9 staff, used VGTR

With that said, developers wanted to see the relief continue, and the overall consensus was that it was a welcome vote of confidence in British developers, which could help maintain a British industry that had previously suffered from having to compete against tax-advantaged developers in France and Canada. There was also a sense that the relief had not reached its full potential, as not all developers were using it as a matter of course for all their potentially eligible games. Further to this, there were other developers who did intend to claim, but had not yet put in an application and so were yet to experience the full benefits. Again, developers thought it would take more time and a greater churn of new games, including repeat use of VGTR, for the relief to become fully embedded in the industry.

“It’s not yet ingrained into people’s thinking, in the same way as it is for film ... All it needs is for people to have good, positive experiences, because it’s only been around for a short amount of time, and that’s what will make the difference.”

10 to 49 staff, used VGTR

Appendices

Appendix A: technical details

Sampling and recruitment

HMRC outlined the list of stakeholders to interview in the scoping phase, and provided their contact details.

Recruitment of video games developers was primarily carried out by telephone using a sample compiled from several difference sources. Ipsos MORI also recruited and interviewed developers directly at the EGX 2016 trade fair. In addition, snowballing was used throughout fieldwork, whereby interview participants were asked if they knew other developers who would be willing to take part in an interview, and then asked to pass on their details to Ipsos MORI.

The sample frame was built manually through online searching for developer contact details. The list of sample sources used in developer recruitment was as follows:

- HMRC-supplied sample of developers who had applied for VGTR
- HMRC and DCMS-supplied sample of UK-based multinational developers
- the Gamesmap online database developed by Ukie and Nesta (<https://gamesmap.uk/>)
- <https://www.gamedevmap.com/>
- Indie DB (<http://www.indiedb.com/>)
- Scottish Games Network (<https://scottishgames.net/>)
- UK Games Fund funded project list (<http://ukgamesfund.com/funded-projects/>)
- publicly-available TIGA and Ukie membership lists
- indirect promotion via agents who participated in the stakeholder interviews.

The recruiter was set quotas to ensure the final achieved sample had a good mix of developers by the following criteria:

- use of VGTR, or intentions to apply
- size of developer (number of staff)
- use of R&D tax relief
- UK region
- sources of external advice on VGTR
- publishing status
- age of business
- business model
- development platform.

Fieldwork

All fieldwork was undertaken by Ipsos MORI researchers. A total of 8 interviews were carried out face-to-face at developers' premises, with the remaining 43 being undertaken by telephone or via Skype. All interviews lasted around 45 minutes. As a thank you, Ipsos MORI offered a cheque for £50 to all video games developers who took part, which was made out either to the interview participant or to a charity of their choosing.

The topic guide and associated stimulus materials were drafted by Ipsos MORI and approved by HMRC. A copy of the topic guide is included in Appendix B.

The following table shows the breakdown of achieved interviews:

| Criteria | | Completed |
|--------------------------------|--|-----------|
| VGTR application status | Received full or interim certification | 34 |
| | Aware, but have not applied and are likely to apply in the future | 11 |
| | Aware, but have not applied and are unlikely to apply in the future | 5 |
| | Not aware | 1 |
| Size of developer | Incorporated solo developers | 5 |
| | Micro developers (2 to 9 staff) | 22 |
| | Small developers (10 to 49 staff) | 17 |
| | Medium developers (50 to 249 staff) and large/multinational developers (250 or more staff, or part of a multinational group) | 7 |
| R&D relief | Have used on previous projects | 24 |
| Country | England | 40 |
| | Scotland | 7 |
| | Northern Ireland | 2 |
| | Wales | 2 |
| Sources of advice | External agents | 33 |
| | BFI | 28 |
| | Not used any sources | 5 |
| Publishing status | Develop only | 27 |
| | Publish and develop | 24 |
| Age of business | Less than 2 years | 5 |
| | 2 to 5 years | 21 |
| | 5 years or older | 25 |
| Business model | Physical products only | 1 |
| | Downloadable products only | 21 |
| | Free-to-play games/in-game purchases only | 7 |
| | Multiple/subscription-based | 22 |
| Platform | Mobile | 9 |
| | PC/Mac/console | 12 |
| | Both | 30 |

Analysis

Interviews were summarised in a notes template, based on an analysis framework arranged by themes and subthemes. Throughout fieldwork, the fieldwork team and HMRC discussed interim findings and outlined areas to focus on in subsequent interviews. At the end of fieldwork, a final analysis meeting was held with HMRC, where key themes and headline findings were drawn out.

Appendix B: topic guide

| Section | Purpose | Timing |
|--|---|-----------------|
| <p>Introduction</p> <ul style="list-style-type: none"> ▪ Introduce yourself and Ipsos MORI. ▪ HMRC want to understand more about the impact of VGTR, and will use the views gathered to build up their knowledge about views and experiences of those in the video games industry regarding it. They have commissioned Ipsos MORI to independently gather these views. ▪ Interview should last about 30–45 minutes (typically shorter for those who have not received VGTR). ▪ No right or wrong answers. ▪ Reassure on confidentiality/anonymity – names will not be used when reporting the findings and no one outside Ipsos MORI will know which individuals/companies have taken part. ▪ Permission to record discussion (for analysis and quality assurance purposes only). <p>FURTHER REASSURANCES ONLY IF NECESSARY:</p> <ul style="list-style-type: none"> ▪ Recordings will be destroyed securely six months after the end of the project. ▪ They will be stored securely and only the research team at Ipsos MORI will have access to these. ▪ We do not have access to your tax records or any information on your tax affairs. ▪ This won't affect anyone's applications for VGTR now or in the future. | <p>Set scene, introduce research, reassure about anonymity etc.</p> | <p>2 mins</p> |
| <p>About the developer</p> <p>Could you tell me about your job role? How might you get involved in projects/development?</p> <p>And could you tell me a bit more about the company?</p> <ul style="list-style-type: none"> ▪ Age of company/experience of staff ▪ How is the company structured? How many developers/staff do you have in the UK/outside the UK? | <p>Warm-up and useful context for rest of interview and analysis.</p> | <p>2–3 mins</p> |

| | | |
|--|--|-----------------|
| <ul style="list-style-type: none"> ▪ How many games are you currently working on? <p>How would you describe your business model? How do you mainly make money/a return on your games? How do you decide what projects to work on/greenlight?</p> <ul style="list-style-type: none"> ▪ Type of products – physical, downloadable, subscription, freemium etc? Games that receive continuous version updates (so might never be considered as “finished”)? ▪ Bid for contracts/licences to produce games for others/third parties? ▪ Work-for-hire for larger developers? ▪ Develop their own intellectual property/ideas? ▪ Develop then seek publishers retrospectively? <p>What aims/ambitions does the company have for the next few years? PROBE: Would you like to develop more of your own intellectual property/ideas?</p> | | |
| <p>Awareness of VGTR</p> <p>IF HEARD OF VGTR:</p> <p>Where did you hear about VGTR? Who told you about it? Where else have you heard it talked about (e.g. trade shows, conferences, social networks, online forums, other networks, industry bodies, industry press, agents, accountants etc)? Any other places where it could be successfully advertised/promoted?</p> <p>IF NOT APPLIED: What have you heard about it?</p> <ul style="list-style-type: none"> ▪ From HMRC? ▪ From the BFI? ▪ How clear/easy to understand has this been? What might be clearer? ▪ How much have you heard about the cultural test that the BFI administers to certify games as culturally British or European? From what you have heard, what sorts of things does this test involve? <p>How easy/hard do you think it is to apply for VGTR? How clear is the process? What might be clearer?</p> | <p>Understand how they became aware of VGTR, misperceptions, and how it might be more clearly or better promoted</p> | <p>2–3 mins</p> |

| | | |
|--|---|-----------------|
| <p>How easy/hard do you think it is to be granted VGTR?</p> <p>IF NOT HEARD OF IT (CONFIRM SCREENER RESPONSE):</p> <p><i>Video Games Tax Relief was introduced in 2014. UK developers can claim tax relief on up to 80% of core development expenditure incurred in the UK or European Economic Area. To qualify, there are three broad conditions (though there are also more specific exemptions that apply in certain cases):</i></p> <ul style="list-style-type: none"> ▪ <i>the video game must be intended for supply</i> ▪ <i>at least 25% of core expenditure is incurred within the European Economic Area</i> ▪ <i>the developer must pass a cultural test administered by the BFI to show that their game is culturally British or European.</i> <p>What more would you want to know about it? What are your questions?</p> <p>What sorts of things do you think the cultural test might involve?</p> <p>How likely would you be to apply for VGTR in the future?</p> <p>Where do you think developers like you might be likely to hear about VGTR? Where could it be advertised/promoted? Where would you go to find out more about it? PROBE: trade shows, conferences, social networks, online forums, other networks, industry bodies, industry press, agents, accountants etc. Anywhere else?</p> | | |
| <p>Use of VGTR</p> <p>IF RECEIVED/APPLIED FOR VGTR OR LIKELY TO APPLY:</p> <p>Could you talk me through how you made/will make the decision to apply?</p> <ul style="list-style-type: none"> ▪ PROBE: What game was it for? For a third party? Own intellectual property/idea? How was the game being financed? ▪ What motivated you to apply? ▪ What discussions did you have about it before applying? Who was involved in these discussions? Who else did you talk to (e.g. agents, accountants, BFI, HMRC etc)? What factors were you weighing up? | <p>Explore motivations/ barriers to applying.</p> | <p>7–8 mins</p> |

When did these discussions take place? Before or after starting development?

NOTE DOWN ON TIMELINE STIMULUS: At what stage of development did/will you apply?

- Why did you apply at this point? Why hadn't you applied earlier during development?
- What funding had you already secured by that point?
- What development work had already been undertaken by that point?
- What aspects of the game design and development were fixed by that point?

Have you applied for VGTR for multiple projects? What were your reasons for choosing those projects? Why haven't you applied for your other projects?

What types of games would you be more or less likely to use VGTR for? PROBE: Particular genres, platforms, quick-turnaround games, games with particular content/themes etc?

IF RECEIVED: How likely are you to apply again? What might you do differently next time? Would you apply any earlier/later in the development process? What difference would that make?

IF NOT APPLIED YET: What are your reasons for not having applied so far? What has stopped you doing so? What might make it easier?

IF UNLIKELY TO APPLY:

What makes you unlikely to apply? PROBE: Complexity, no perceived benefits, too late, feel they wouldn't get it granted? What makes you think that?

Have you ever considered applying before? What discussions did you have about it? Who was involved in these discussions? Where did you look for information? Who else did you talk to (e.g. agents, accountants, BFI, HMRC etc)? What factors were you weighing up?

IF PREVIOUSLY USED R&D RELIEF:

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| <p>How likely would you be to apply for R&D relief over VGTR?</p> <p>Why might developers prefer to apply for R&D relief? What are the pros and cons of each one from your point of view? What does the decision depend on (PROBE: size of company, type of game, what has been used before, advice from agents or accountants etc)?</p> | | |
| <p>Development journey (only for those receiving VGTR)</p> <p>Could you talk me through the different stages of development for the game(s) receiving VGTR? How might this compare to any games you developed before VGTR was introduced in 2014? What are the differences? NOTE DOWN CURRENT AND 2014 JOURNEY ON TIMELINE STIMULUS.</p> <p>Would the project have gone/go ahead without VGTR? How might you have financed it differently? What would have made the difference?</p> <p>How does VGTR factor into which projects you have greenlit so far? How might it factor in the future? What kind of games are you more or less likely to develop due to VGTR? PROBE: Particular genres, platforms, quick-turnaround games, games with particular content/themes etc? What has VGTR changed or made easier here?</p> <p>NOTE DOWN ON TIMELINE STIMULUS: What considerations did you make around VGTR when:</p> <ul style="list-style-type: none"> ▪ coming up with the initial creative concept ▪ assigning/employing a team to work on the game (PROBE: nationality and diversity of team – more likely to use staff from the European Economic Area or to ensure gender/ethnicity balance) ▪ undergoing core design and development, e.g. creating artwork, storyboards, scripts etc ▪ outsourcing any aspects of the game (PROBE: writing, audio, music, motion capture, translation etc) ▪ prototyping the game ▪ alpha and beta testing the game ▪ developing any updates or downloadable content? <p>How big a role did VGTR play at each of these stages? What decisions did it enable/encourage? What would have happened anyway? How big a role could it play in the future?</p> | <p>Understand how VGTR has influenced different stages of development.</p> | <p>7–8 mins</p> |

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| <p>At what stage of development does VGTR make the biggest difference? What makes it more important at this stage?</p> <p>What role might VGTR have played in prioritising certain projects or finishing development more quickly? Any examples of it leading to a higher priority status for certain games?</p> <p>How might the final product be different without VGTR? What would have been included/excluded? What difference has it made to the quality/polish/ambitions of the game? What difference does this make for you? For potential publishers/investors?</p> <p>Thinking about what you now know about VGTR, what might you do differently on your next project? What stages of development would this affect? What difference would this make?</p> <p>How has VGTR changed how you document/track different stages of development? What difference has this made for you and the way you develop games?</p> <p>Did you employ new staff to work on these projects? Did you collaborate/partner with any new individuals/organisations/talent on these projects (e.g. new writers, artists, actors etc)? What was the thought process behind this? How did you come across these staff/collaborators? How might VGTR encourage this?</p> | | |
| <p>Cultural test</p> <p><i>As you may be aware, each developer receiving Video Games Tax Relief must pass a cultural test administered by the BFI to show that their game is culturally British or European.</i></p> <p>In your own words, what would you say counts as a culturally British or European video game? What factors come into it?</p> <p>What would you describe as British or European cultural content?</p> <ul style="list-style-type: none"> ▪ How much does this apply to the games you make/intend to make? What aspects don't you think apply? ▪ How much would you describe your own intellectual property/ideas as culturally British or European in terms of content? <p>What would you see as being a game that represents or reflects British creativity, British heritage or diversity?</p> <ul style="list-style-type: none"> ▪ How much does this apply to the games you make/intend to make? What aspects don't you think apply? | <p>Understand perception of cultural test and what difference this is seen to have made.</p> | <p>10 mins</p> |

- How much would you describe your own intellectual property/ideas as reflecting British creativity, British heritage or diversity?

What barriers would you say UK developers face to making these kinds of games? What difference has VGTR made here? What barriers do you still come across? How significant are these?

SHOW OR DIRECT PARTICIPANTS TO THE SUMMARY OF POINTS STIMULUS (F2F SHOWCARD OR ON BFI WEBSITE IF OVER PHONE):

- How easy or hard do you think it is to pass/score points on the cultural test? What makes it so easy/hard?
- How willing would you be to make changes/creative sacrifices to pass the test? What do you think you might have to change?
- What kinds of games would do well under this test? What kinds of games would do less well? How might this affect the kinds of games you develop?

In your experience, has it got any easier/harder to produce culturally British or European video games over the last few years?

- What has changed?
- What barriers do you continue to face?
- Why do you think VGTR has not overcome these barriers?

IF RECEIVED VGTR:

How would you describe your approach to the cultural test?

- Who completed the form?
- How important a consideration was it?
- NOTE DOWN ON TIMELINE STIMULUS: At what stages of development did you discuss/undertake it? Did you have it in mind when greenlighting the game or creating the concept?
- How did it affect creative decision-making at all? Any decisions affirmed/made reluctantly? Any creative sacrifices?
- Did you aim to get as many points as possible, or just enough to pass? What do you think led you to take this approach (PROBE: external advice, looking at the scoring system etc)?

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| <p>What kind of evidence did you have to produce for the cultural test? What were your considerations when putting this evidence together? How easy/hard was it to compile? How well does it reflect the final game?</p> <p>Did you receive interim certification from the BFI as well as final certification? How did interim certification factor in your decisions during the rest of development? Did it encourage you to maintain or not make certain changes?</p> | | |
| <p>Broader business impact</p> <p>IF MADE A CLAIM: What has/will the money from VGTR go towards? PROBE: improving this game, your next project, paying salaries, debts/investors etc?</p> <p>How might VGTR change your strategic approach in future? PROBE:</p> <ul style="list-style-type: none"> ▪ what you might now consider before starting new projects ▪ your discussions with publishers/investors/potential investors ▪ how you structure your teams and your business ▪ who you employ ▪ the creative partners/collaborators you use ▪ the longer-term sustainability/viability of your company? <p>How might VGTR considerations affect your ability to release continuous version updates for your games? How much of a concern would this be?</p> | <p>Explore impact VGTR may have had beyond individual projects, or could have in future decision-making.</p> | <p>7–8 mins</p> |
| <p>Industry-wide impact</p> <p>What impact do you think VGTR has had/will have on video games developers more widely? What examples have you seen of this? PROBE:</p> <ul style="list-style-type: none"> ▪ more home-grown intellectual property/ideas ▪ relocation of companies or development to the UK ▪ upskilling of staff ▪ gender/ethnicity balance within industry ▪ confidence within the industry | <p>Understand thoughts on the likely impact of VGTR on the industry.</p> | <p>5 mins</p> |

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| <ul style="list-style-type: none"> ▪ relationship between developers and publishers/investors ▪ any other benefits/downsides? | | |
| <p>Wrap-up</p> <p>Thinking about everything we have talked about, what's the most important thing for us to feed back to HMRC?</p> <p>Is there anything else you would like to say that we haven't had a chance to cover?</p> <p>To thank you for your time, we would like to offer a cheque for £50 to either yourself or a charity of your choosing. Please could you tell me who you would like the cheque to be made out to? And what address should we post it to?</p> <p>SNOWBALLING: Are you aware of/in contact with any other UK developers that could take part in this research?</p> <p>Would you be happy to pass on any contact details you have for these developers, so that we can get in touch and invite them to take part? Just checking, would you be happy if we mentioned you when we get in touch with them, or would you prefer us not to do this?</p> <p>THANK AND CLOSE.</p> | <p>Wrap up the discussion and admin.</p> | <p>2–3 mins</p> |

For more information

3 Thomas More Square
London
E1W 1YW

t: +44 (0)20 3059 5000

www.ipsos-mori.com

<http://twitter.com/IpsosMORI>

About Ipsos MORI's Social Research Institute

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