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The Plus Approach to the Video Games Industry

2025



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The Plus Approach to the Video Games Industry

Whether you are planning on starting out on your own, opening a new indie dev' studio, looking to expand your studio or the time has come to consider a sale, we can provide you with the support and guidance that you need to help ensure success.

Services Plus Accounting can provide include:

- Advice on appropriate business structure
- Assistance with Business Plans and forecasting
- Company formations
- Bookkeeping, VAT Registration, VAT returns and VAT advice
- Monthly and Quarterly Management Accounts preparation
- Advice and support with implementation of bookkeeping systems such as Xero
- Company accounts and corporation tax return preparation
- Audits
- Company secretarial including submission of Confirmation Statement
- Company payroll
- Business Health Checks
- Tax Planning advice
- Advice and support with obtaining BFI certification
- Accountant's reports to assist with obtaining BFI certification
- Accountant's / audit reports to assist with obtaining funding
- VGTR and VGEC claims
- Research & Development Tax Relief Claims
- Company share valuations
- Assistance with EIS, SEIS and EMI Options
- Self-Assessment registration and tax return preparation

Indie Dev' Guide 1

Limited Companies

Introduction

A Limited company is a separate legal entity, which you can set up to run your business through. Most video game developer start-ups will choose to form a Limited company, as this is one of the most recognised forms of trading. It is also the only entity that gives games access to Video Games Tax Relief claim and Video Games Expenditure Credit.

The company is accountable for everything it does and its finances are separate to that of your own personal finances.

Director and Shareholder

A company's day to day activities are managed by the company director, who is an employee of the company.

Commonly the company director is also the shareholder of the company, meaning they are both an employee (as a director) and owner (as a shareholder) of the company.

Most limited companies are limited by shares, which means any shareholders financial risk is limited to the value of shares that they own.

A director will often receive a salary from the company, but does not have to be paid a salary, because the minimum wage rules do not apply to UK company directors. As long as company directors have met their duties and not broken any laws, they are not responsible for debts the business can't pay if it fails. If the company makes a profit, it pays corporation tax. Post-tax profits can then be paid to shareholders as dividends (profit shares).

Important Dates

The initial company year is set automatically based on the date the company is formed. For example, a company formed any time in March will automatically have a first accounting period ending on 31 March the following year. The company year-end can be shortened or extended, if there is a desire to do so. It can be shortened as many times as you like, but only extend once every 5 years.

Normally, you have 9 months after the accounting period end to submit the company abbreviated accounts to Companies House. However, in the first period this may vary as the deadline for submitting your first set of accounts is 21 months after the date the company was formed.

Corporation tax is due 9 months and 1 day after the accounting period end and the company tax return is due 12 months after the accounting period end.

Limited Companies – The Basics

Important Matters

When starting a company there are a number of matters you will need to consider.

Each of the topics below are covered by their own individual guides

Director and Shareholder

- **Self-Assessment** – As a director of a UK Limited company you are required to register for self-assessment and complete tax returns.
- **VAT** – The current threshold for compulsory registration is turnover of £90,000.
- **Payroll** – Paying yourself and employees a salary and being tax efficient.
- **Funding** – Ways you may be able to finance the development of your prototype.
- **Auto Enrolment** – Work Place Pensions for directors and employees.
- **Corporation Tax** – How much will you pay, when is it due and how you can mitigate?
- **British Film Institute (BFI) certification** – Why, how, where & when to apply.
- **Video Games Tax Relief** – Am I eligible, what relief is available and how do I claim?
- **Video Game Expenditure Credit** – Am I eligible, what relief is available and how do I claim?
- **R&D Tax Relief** – Am I eligible, what relief is available and how do I claim?
- **Withholding tax (WHT)** – Mitigating tax incurred on overseas income.



Indie Dev' Guide 2

Personal Tax

Introduction

Directors may need to register for Self-Assessment and file annually if they receive untaxed income or have an income tax liability.

In addition, if you are a shareholder of a company and receive dividend income in excess of your personal allowance and dividend allowance, you will also be required to submit personal tax returns. The personal tax return incorporates all your personal taxable income (e.g. salary and dividends) in the tax year in order to compute your tax liability for the year.

Important Dates

The tax year begins on 6 April and finishes on 5 April.

If you submit a paper personal tax return it is due for submission to HM Revenue & Customs by 31 October following the end of the tax year.

The majority now submit online and if you do so, the deadline for submission is extended to the following 31 January. Your tax liability for the previous tax year ended 5 April is due for payment by 31 January (the same date for submitting your return online).

If your liability for the previous tax year was more than £1,000, HM Revenue & Customs will automatically assume your liability will be the same for the next tax year. In this case they will request that you make two payments on account towards your liability for the next year. The payments on account are 50% each of the previous year's liability. The first payment is due on 31 January (along with the tax due for the previous year). The second payment is due on the following 31 July.

The two payments are offset against your actual tax liability for the year. You can claim to reduce these payments on account, if you have good reason to believe your liability will be lower the following year and can compute a reliable estimate of your liability. If you do reduce them and the tax is higher, you may be liable to interest on the underpayment of your payments on account.



Tax

In a typical director/shareholder company the director will be remunerated by way of a tax efficient mixture of salary and dividends.

As a result of changes to the threshold at which employers National Insurance applies from April 2025, more careful consideration is required as to the level of the salary a director is paid. The new rules mean that a director earning more than £5,000 will incur 15% Employers National Insurance (ERs NI) on any earnings above this.

One option is to keep salary at £5,000 and pay no ERs NI. However, one of the added benefits of paying a small salary up to £9,100 in 2024/25 was that this also entitled the director to a credit towards their state pension for the tax year (without incurring any National Insurance liabilities). The salary threshold to obtain the state pension annual credit for 2025/26 is £6,500 and therefore a salary at £5,000 would not achieve this. A decision needs to be made as to whether a salary of at the least £6,500 should be paid to ensure the credit is received, despite incurring ERS NI.

Many who still have a number of years remaining to ensure a full state pension will determine that the ERS NI on a higher salary is overall worth it. Generally, we see many individuals increasing salary to £12,570 with the notable benefit that the salary and ERS NI are tax deductible for the company. However, each case must be assessed on its own merit.

In 2025/26, assuming no other sources of taxable income and that the director has received a salary of less than £12,570, the director could receive dividends to top up their income and utilise their remaining income tax.

The director could then receive a further £500 dividends, which are covered by their dividend allowance. This equates to a total income of £13,070 tax free.

Any further dividend income at the basic rate of tax (between £13,071 and £50,270) would be taxed at 8.75%. This means for every £1,000 of dividends paid, the personal tax liability would be £87.50.

The tax rate on dividends received above £50,270 increases to 33.75%. This means for every £1,000 of dividends paid, the personal tax liability would be £337.50.

The director may wish to consider alternative methods of remuneration, especially if they are considering Video Games or R&D Tax Relief claims, where only salary qualifies as expenditure and dividends paid do not.

Introduction

The compulsory VAT registration threshold is £90,000. You must register for VAT if:

- your VAT taxable turnover is more than £90,000 in a rolling 12 month period
- you receive goods in the UK from the EU worth more than £90,000
- you expect to go over the threshold in a single 30 day period

You have 30 days from the month end in which you exceeded the registration threshold to register for VAT

Voluntary registration

You can voluntarily register for VAT even if your turnover is below the VAT threshold, as long as you can prove to HM Revenue & Customs that you are or will soon be trading.

You may wish to register for VAT for a number of reasons including:

- Enabling you to reclaiming VAT on certain pre-VAT registration expenditure
- Potential gains under the VAT flat rate scheme
- Business “Kudos” – If you are not VAT registered, potential clients will know you are a small business with turnover of less than £90,000. If you are registered, they are not able to determine the size of your business and it gives the impression of a more serious and sizeable business.

The disadvantages of registering for VAT include:

- Potential impact on your profit margin if VAT can't be passed on to clients or reclaimed by them.
- Extra administration with invoicing and VAT returns
- Increased risk of HMRC inspections and penalties

Charging VAT

If you are selling goods or services to businesses or consumers in the UK, the standard VAT rate is 20%.

The VAT charged is 1/5th of the amount you are invoicing. For example, the VAT on charges of £10,000 + VAT equates to
 $£10,000 / 5 = £2,000$.

The customer pays you £12,000 in total, of which £2,000 is the VAT and £10,000 is your income.

If you are selling the countries outside the UK, then it is recommend that you take specialist advice to ensure you are dealing with this correctly.

VAT returns

VAT returns are usually required quarterly. You can choose which month is the final month of each quarter, so if your company has a March year end, it is usually sensible to request your VAT quarters are 31 March, 30 June, 30 September and 31 December.

Following the quarter end, you have one month and 7 days to submit your VAT return to HMRC. For example, for a VAT quarter ended 31 March, you would need to submit your VAT return by 7 May. Any VAT payable to HMRC would need to reach HMRCs bank account by 7 May also, unless paying by DD, which gives you until the 10th.

The VAT due to HMRC or refundable to you is the difference between VAT charged on your sales in the quarter and VAT you incurred on expenditure.

VAT schemes

Cash accounting or invoice accounting for VAT:

When preparing your VAT return you can choose whether to apply cash or invoice accounting for VAT and you do not need to tell HMRC, which method you have applied.

Cash accounting means that you only include sales invoices (or purchase invoices and expenditure) on your return, if you have actually received payment for the invoice (or paid the purchase invoice / incurred the expenditure) during the VAT quarter. This means you will only ever pay VAT to HMRC when you have had the money, so is beneficial from a cash-flow perspective. Cash accounting can be applied until turnover exceeds £1.6m, at which point you must switch to invoice accounting.

Invoice accounting means that you include all sales invoices and purchase invoices dated during the VAT quarter. The risk with this method is that you raise a large invoice, which is unpaid for a couple of months, but still have to pay over the VAT to HMRC 5 weeks after the end of the VAT quarter.

Flat Rate Scheme for VAT:

With the Flat Rate Scheme you pay a fixed rate of VAT to HMRC, which is lower than the 20% you charge your clients. You keep the difference between what you charge your customers and pay to HMRC. You can't reclaim the VAT on your purchases - except for certain capital assets e.g. computers costing £2,000 or more including the VAT.

To join the scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC. You must leave the scheme, on the anniversary of joining, your turnover in the last 12 months was more than £230,000 (including VAT) - or you expect it to be in the next 12 months. The method of completing VAT returns is a much simpler way of dealing with your VAT

Introduction

Many start-ups will begin with one or two directors and no other employees. The minimum wage rules do not apply to directors of UK Limited companies, which allows them to have extra flexibility over payroll.

Taking on your first employee is a big step and there are a number of matters you will need to consider.

The government have introduced work place pension schemes (auto enrolment for all businesses, which may come at a cost to your company and with an administrative burden.

Director only companies

When a company only has directors (who by default are employees), there is not an automatic requirement to set up a Pay As You Earn (PAYE) scheme. Directors do not have to be remunerated by way of salary and where this is the case and the director is also a shareholder, they could be remunerated purely by way of dividends. This method can be more tax efficient and cost effective, but is not always the most appropriate way to be remunerated.

Often director only companies will pay the director a basic salary, under the personal allowance of £12,570, equivalent to the Primary National Insurance threshold. There should be no income tax due, as it is less than or equal to their personal allowance (currently £12,570).

Changes to the threshold at which Employers National Insurance (ERs NI) arises means that for single director companies, National Insurance on salary exceeding £5,000 per annum will apply from April 2025. Due to the added benefit of being entitled to an annual credit towards their state pension and the corporation tax relief, many will consider a salary of at least £6,500 (the minimum needed for the annual state pension credit), despite incurring ERS NI. Where there are at least two employees/directors paid more than £5,000 each, the company may be entitled to the employment allowance, which would mean there would be no ERS NI on the first £10,500 arising during the tax year.

It is important to consider whether a higher level of salary is more appropriate. There are several reasons this may be preferred including:

- Certainty over your level of income each month. Dividends can only be paid when there are sufficient post-tax profits available and in the early stages of a business, profit can be difficult to predict
- A higher level of taxable income, when dividends are uncertain, may help with obtaining mortgages
- Increased value of R&D and Video Games Tax Relief claims, because only salary qualifies and not dividends.

Employees

In the early stages of a business, it is common to use freelancers (subcontractors) to help complete certain projects. This is because freelancers, can be used for a fixed amount of time at a fixed rate and also because it enables the business to bring in specialist skills as and when required, without attracting the administrative and financial burden of employing someone.

As the business grows, it is likely that at some point the company will look to take on its first employee. An employee works under an employment contract with your company.

An employee has employment rights, which include some of the following, some of which require a minimum length of service:

Statutory sick pay, statutory maternity and paternity pay

Minimum notice periods if their employment will be ending

Protection against unfair dismissal

Statutory Redundancy Pay

There are a number of matters to consider when taking on your first employee including:

How much the employee will be paid, the Employers NI and Pension liability

Obtaining Employers' liability insurance

Notifying HMRC by registering as an employer

It is recommended that you take specialist advice when taking on employees.

Workplace pensions

The government have introduced a legal requirement for all employers to offer a workplace pension scheme. The employee, the employer and the government will pay into the employees' pension, if they are enrolled into a workplace scheme.

Director only companies can claim exemption from this legal requirement, but they must actively do so by contacting The Pensions Regulator and submitting this request. Claiming exemption will avoid the need to set up a scheme and subsequently "opt-out", if they do not wish to pay into a pension and have the administrative burden of running this. Exemption does not prevent the director from setting up a company pension scheme. Once the company has employees, the employer must automatically enrol the employees into a pension scheme and make contributions to their pension if they:

- are aged between 22 and State Pension age
- earn at least £10,000 per year
- work in the UK

It is recommended that you take specialist advice when considering workplace pensions.



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Funding Your Prototype

Introduction

One of the key issues facing start-up game developer companies, is how to raise the finance needed to develop a prototype. A fortunate few have the finances to develop their prototype. The majority need to raise finances externally to enable them to afford the costs of developing a prototype, with the hope that this leads on to obtaining a deal with a publisher.

Raising finance

The first step in raising the finance you need is preparing a business plan. A business plan is a written document that describes your business, its objectives, strategies, sales, marketing and financial forecasts. A business plan helps you to clarify your business idea, identify potential problems, set out your goals and measure your progress.

A major part of your business plan will be working out how much capital you require to develop your prototype. You will need to consider the budget required to cover a wide range of costs including equipment, office rent, wages, sub-contractor charges and day to day running costs of the business, while the prototype is being developed and assuming a deal is then agreed with the publisher, for the period the game is under development.

At the prototype stage of development it is important that you aim to keep costs to a bare minimum.

Once your business plan is ready, it is time to start trying to raise funds. The following are a number of options you could try:

- Borrow from family and friends
- Approach angel investor groups or Venture Capitalists
- Try approaching individual investors who may have an interest in your prototype
- Use personal savings, which will at least demonstrate your commitment
- Use credit cards
- Do freelance work on the side
- Seek workers who are willing to volunteer their time for free or are willing to work for a revenue share should the game be a success
- Apply to the UK Games Fund, Creative England or the Art Council



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Corporation Tax

Introduction

A UK Limited company pays corporation tax on its taxable profits for the accounting period. Corporation tax is due 9 months and 1 day after the accounting period end. For example, a company with a 31 March year end, would be required to pay any tax due by the following 1 January. However, the company tax return is due 12 months after the accounting period end.

The main corporation tax rate for 2025/26 is 25%. The rate for businesses with profits of up to £50,000 remains at 19%. Profits above £50,000 are taxed at 25% less marginal rate relief until profits exceed £250,000 where the full 25% tax rate applies.

Important points to consider

Accounting profits vs taxable profits:

Profits taxable for corporation tax are often different to profits appearing in the company accounts and this can be for a number of reasons such as:

- Not all business expenses are allowable for tax purposes e.g. client entertaining or depreciation; and must be added back into the profits for tax purposes.
- Capital additions, which are depreciated in the accounts, attract different rates of allowances for tax purposes. For example, if you buy a computer, the cost might be written off in the accounts over 3 years, but for tax purposes, you are likely to obtain full relief in the year of purchase
- Taxable profits can be reduced by way of Patent Box Relief, Research & Development (R&D) Tax Relief, Video Games Tax Relief and Video Games Expenditure claims.

Tax losses:

- If a company has made a taxable loss for the accounting period, these losses can be carried forward and offset against future profits of the same trade.
- If the company had a corporation tax liability in the previous period, the losses for the current accounting period can be carried back, enabling you to claim a corporation tax refund.
- Losses created by R&D or Video Games Tax Relief claims, can be surrendered for repayable tax credits.

Tax planning:

The corporation tax liability can be manipulated through effective, legitimate pre year-end planning including bringing forward planned expenditure or extra pension contributions.

Introduction

For Small and Medium Enterprises in the UK, Research and Development (R&D) tax relief enables companies that incur costs in developing new products, processes or services to obtain additional deductions against their taxable profits. Where this additional deduction creates losses, the company is entitled to surrender the losses for a repayable tax credit.

This scheme is designed to encourage innovation and increase spending on R&D activities by UK companies.

Eligibility

In order to determine whether the company will qualify for an R&D claim, your answers to the following questions, must fall within the definition of qualifying R&D:

- What is the project?
- What is the scientific or technological advance?
- What were the scientific or technological uncertainties involved in the project?
- How and when were the uncertainties overcome?
- Why was the knowledge being sought not readily deducible by a competent professional?
- Cost of R&D to company?

Rates of relief

Over the last few years, the rates of relief for R&D have changed, mainly increasing the value of the relief for companies that qualify.

From April 2023, the tax relief on allowable R&D costs was reduced to 186%. This means that for every £100 of qualifying costs, your company could reduce your taxable profits by a further £86 on top of the £100 you actually spent.

If your company has an allowable trading loss, this can be increased by 86% of the qualifying R&D costs - so that's £86 for each £100 spent. This loss can be carried forward and offset against future profits of the same trade, potentially saving corporation tax at 25%, based on the current main corporation tax rate. It could also be carried back and offset against the previous year's corporation tax liability, if there was one.

Alternatively, you can choose to convert the losses into a repayable tax credit, which from April 2023 is at a rate of 10%. This may be preferred as it offers an instant cash injection, whereas although carrying losses forward could obtain greater tax relief (at 25%), there is no guarantee the company will be profitable in the short term, and the cash may be more important. However, in order to deter abuse of this scheme HMRC announced a restriction from April 2021 to the amount of tax credit a company can receive in one year. The cap is set at £20,000 plus three times the company's total PAYE and NIC liability for the year.

Video Games Tax Relief Claims

Introduction

Video Games Tax Relief (VGTR) is a creative industry tax relief for Video Games Development Companies (VGDC) which was introduced in April 2014. You can claim VGTR up to 2 years after a qualifying accounting period end. VGTR is available for any games that start development before 1 April 2014 and can continue to be claimed until 31 March 2027.

Qualifying Rules

Your company qualifies for and can claim creative industry tax reliefs if it is:

- liable to Corporation Tax
- directly involved in the production and development of video games

Eligibility

Your company will be entitled to claim VGTR if the video game is British and:

- the video game is intended for supply, rather than for a marketing tool, for example
- at least 25% of core expenditure is incurred on goods or services that are provided from within the European Economic Area (EEA)

If your company qualifies to claim VGTR your company is also entitled to:

- an additional deduction in computing its taxable profits
- where that additional deduction results in a loss, to surrender losses for a payable tax credit

The 'Cultural Test'

To qualify for the creative industry tax reliefs all video games must pass a cultural test with the BFI, certifying that the production is a British video game.

Information you will need:

1 - Confirmation of the start date and end date of the development of each video game subject to a VGTR claim.

2 - A copy of the interim or final certificate issued by the British Film Institute for each video game under development during the accounting period, which confirms a game is culturally British.

3 - Details of estimated and actual income for each video game under development, which is subject to a VGTR claim.

4 - Details of estimated and actual expenditure incurred on the development of each game.

Introduction

The majority of gamers starting up in business will have little or no experience of accounting or tax. Many starting up in business will have developed their skills as employees of larger businesses.

As a business owner it is vitally important you have an appreciation of accounting and tax terminology, so that you can make good business decisions and help ensure the future success of your company.

Key terms

The following provides brief explanations of some of the key terms with which you should familiarise yourself, when starting your own business:

- **Profit & Loss Account:** A summary of the income and expenditure in the accounting period
- **Turnover:** Total sales of goods and services, excluding VAT
- **Cost of sales:** The direct costs of producing the turnover above, which might include purchases, staff wages, freelance costs etc
- **Gross Profit:** Turnover less cost of sales
- **Gross Profit Margin:** Gross Profit as a percentage of turnover
- **Profit on Ordinary Activities Before Tax:** Profit after taking account of all business expenditure, allowable or disallowable for tax
- **Profit for the financial year:** Profit after the deduction of tax
- **Balance Sheet:** A summary of the assets and liabilities the company has at that date starting your own business:
- **Fixed Assets:** These can be tangible e.g. computers and desks or intangible e.g. goodwill
- **Goodwill:** The value of a business over and above the value of physical assets and cash
- **Current Assets:** Amounts held by the business e.g. stock or cash or due to the business within 12 months of the accounting period end
- **Trade debtors:** Amount owed to the business by customers
- **Prepayments:** Expenditure incurred in the accounting period which wholly or partially relates to future accounting periods
- **Current Liabilities:** Amounts owed by the business and due within 12 months of the accounting period end
- **Trade creditors:** Amount owed to business suppliers
- **Accruals:** Expenditure relating to the accounting period which was not invoiced until after the accounting period
- **Reserves:** Cumulative profit after tax to date, available for distribution

British Film Institute (BFI) certification

Introduction

In order to show HM Revenue & Customs your company is eligible to claim Video Games Tax Relief (VGTR), your company must hold an interim or final certificate for the particular game being claimed for. These certificates are issued by the British Film Institute (BFI).

To obtain certification from the BFI, your company must pass a cultural test, certifying that the production is a British video game.

The video games development company (VGDC) must be registered with Companies House and be subject to UK corporation tax. An important point to note is that the VGDC must be set up before development begins and have responsibility for all aspects of the video game making process from design and development through to testing and delivery.

When to apply

You can apply for interim certification before or during development and production. Interim certification will allow you to claim video game tax relief during development of the game.

You will need to submit a final application following completion of the game in order to obtain your final certificate.

Where to apply

You can apply for certification at:

<http://www.bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-video-games>.

How to apply

The cultural test is points-based. Your game will require at least 16 out of 31 available points to pass the test. The test is made up of four sections:

Section A

Cultural content (up to 16 points).

Section B

Cultural contribution (up to 4 points).

Section C

Cultural hubs (up to 3 points).

Section D

Cultural practitioners (up to 8 points).

If you are applying for certification and are applying for points in Section C and D, you will require an accountant's report as well.

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Business Expenses

Introduction

A key part of the success of any video games business is ensuring it claims all allowable business expenditure. This ensures actual profits are reflected, the correct tax is paid and any reliefs, such as Video Games Tax Relief are maximised. While not exhaustive, the list below is a guide to some of the main costs you are likely to incur. It is recommended that you take professional advice on exactly what you are eligible to claim. This list should be of use whether you are preparing a business plan or working on your company accounts.

- Salaries, Employer National Insurance and Employer Pension contributions.
- Freelance / subcontractor payments.
- Royalties payable.
- The cost of subsistence while away from your workplace.
- Accommodation costs when away from normal place of business.
- Travel and parking costs, mileage allowance if using own vehicle of 45p per mile for the first 10,000 miles, and 25p per mile thereafter. 20p per mile rate for bicycles.
- Training course fees if the skills are relevant to the business.
- Stationary, postage, and printing costs.
- Business insurance, such as a professional indemnity insurance.
- Company formation and ongoing costs (e.g. Confirmation Statement fee), although the company formation fee is a 'capital cost', and cannot be set off against Corporation Tax.
- Telephone and broadband packages (if the contract is in the company name).
- Mobile and Smartphones (if the contract is in the company name).
- The cost of business calls can be reclaimed on a residential phone bill.
- Home office costs (a flat £6 per week without receipts is allowed by HMRC, or work out a proportion of the household bills).
- Computer equipment and software.
- Costs of advertising and marketing your business.
- Business gifts up to £50 per individual are allowable before more complex rules apply.
- Incidental overnight expenses of £5 per night (£10 per night if overseas) can be claimed as a flat rate if you are working away from home.
- Authorised bank charges, e.g. standing charges each quarter.
- Christmas party exemption for directors and employees of £150 per person (including VAT) per year (you can include your partner or spouse).
- Professional fees, such as accountant or solicitor.
- A limited number of professional subscriptions, if allowed by HMRC.
- Capital allowances (depreciation of assets).
- Business magazines and books.
- An eye test for employees who use computer equipment.

Introduction

From a UK Games Developer perspective, Withholding Tax (WHT) is an amount of tax withheld from a payment by one business to another business or individual. Business transactions commonly resulting in WHT being applied, include salaries (income tax deducted through PAYE), payment for services and payment of interest & royalties.

Implications for UK Indie developers:

When a UK based business (e.g., sole trader or Limited company) provides a service or is due business income from an overseas entity, it can often result in WHT being applied against the income due to the UK business.

An example of this would be where a UK based Indie company has created a game, which has been listed on a popular US based platform for sale. The platform will be in receipt of all the games sales revenue and before transferring this revenue to the UK developer, it deducts its share of the revenue (to cover its own charges) and it deducts the appropriate level of WHT (Foreign tax), which generally for the US is 30% and pays this to the Internal Revenue Service (US equivalent for HM Revenue & Customs). The reason for this WHT being applied is to ensure that the recipient has paid sufficient tax on its income.

The consequence of incurring WHT is that the UK developer receives income net of WHT. This can have a severe impact on cash-flow. When calculating its profits, the UK developer would need to include the total income (inclusive of WHT). The UK developer will base its UK corporation tax liability on this profit and may well have a UK tax liability on top of the WHT suffered at source.

If WHT is applied, there is potentially a way of getting relief for this. Foreign tax suffered on a UK company's profits can lower the UK corporation tax due on the same profits. This is known as Credit Relief. Where the foreign tax exceeds the UK corporation tax on the same profits, the unutilised foreign tax can potentially be carried back one year or carried forward. Foreign tax becomes an absolute cost where there is not enough UK corporation tax against which to offset (credit) the foreign tax.

Credit relief can only be claimed against the UK corporation tax on the same income on which the foreign tax is suffered. It is therefore necessary to determine how this income is measured, and how the tax is calculated. The income must be adjusted for any allowable deductions that would also be allowable in calculating the UK corporation tax on that same income.

DTR is only available if all reasonable steps have been taken to minimise the WHT. HM Revenue & Customs will not accept a claim for DTR if the business has not taken reasonable steps to make any relevant claims or elections for reliefs, deductions, reductions or allowances which would lower the WHT.

Withholding Tax on overseas income

Options for mitigating WHT for a UK games company:

The key to minimising the impact of WHT is to ensure you get the right paperwork in place before you begin receiving income from a foreign entity.

For UK based companies trading with US businesses (e.g. publishers or platforms), you can usually request 0% WHT is applied to income receivable. Some US businesses have their own mechanism for enabling you to apply for this. Others will require the submission of form W8-BEN-E <https://www.irs.gov/pub/irs-pdf/fw8bene.pdf>.

For UK based companies trading with countries other than the US, providing a UK Certificate of Residence to the overseas business, should be sufficient. You can apply to HM Revenue & Customs for a certificate using form RES1 <https://www.gov.uk/guidance/get-a-certificate-of-residence>.



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Benefits of an Audit

Introduction

An audit is an independent and professional service which will report on whether the financial statements are true and fair. An audit can help improve the information managers, directors and owners receive with which they make important day to day business decisions. The accountant will issue a conclusion on the financial statements in the form of an audit report which is included as part of the accounts.

Thresholds

A company will be required to have an audit if it exceeds two of the three thresholds set by the government. The audit thresholds have recently been revised, increasing the financial criteria that determine whether companies must undergo statutory audits. The updated thresholds are outlined in the table below.

	Current Threshold	New Thresholds <i>(periods beginning from 06/04/25)</i>
Turnover	£10.2m	£10.2m
Gross Assets	£5.1m	£5.1m
Number of staff	50	50

Some companies must have an audit even if they are under these thresholds. These include banking, insurance and public companies. It is worth noting that companies in a group can claim the company audit exemption although there are strict criteria and certain reporting requirements to be met.

An audit of a company will continue to bring greater shareholder confidence as well as promoting sound financial practice and controls. An independent view can act as a deterrent to fraud, tax evasion and company mismanagement and auditors have an important role in supporting businesses and helping them grow.

Due to company law changes brought about by Brexit, a previous audit exemption that was available to the UK subsidiary of an European Economic Area (EEA) parent company is no longer available. Therefore, UK registered subsidiaries with an immediate EEA parent will need to have their accounts audited.

These subsidiaries should also check whether they will maintain their eligibility for exemption from producing group accounts. Intermediate UK parent companies with an immediate EEA parent may need to produce their own group accounts and file them with Companies House. This is unless they benefit from the exemption by other means – for example, because their EEA parent produces group accounts that are equivalent to those required by UK law and which are available for public review.

Benefits

- a closer look at a business through the eyes of a skilled business professional.
- ensures users are more confident that the information is reliable.
- gives more credibility to business reporting processes.
- facilitates the running and management of the business.
- advice and recommendations will be given during the process.
- improves business processes.
- aids the process of obtaining finance.
- assists management in understanding and reducing business risks.
- better controls can increase profit.
- gives more confidence in internal controls.
- More valid conclusions can be drawn from the accounts.

Indie Dev' Guide 13

Benefits of an Audit

Innovate UK Independent Accountants Report

Innovate UK, part of UK Research and Innovation, is a public body funded by grant aid from the UK government that help businesses develop their idea by issuing grants to support the added cost of realising their potential.

An important part of obtaining any grant is a requirement for the business to engage an independent accountant to perform a reasonableness check on the expenses spent by the business in line with the terms of the grant and to report their findings to Innovate UK.

Innovate UK requires that the independent accountant must be a registered auditor as listed at the audit register and Innovate UK reserves the right to approve the selection of the independent accountant as necessary.

It is important to note that the business is responsible for maintaining proper accounting records which comply with the terms and conditions of Innovate UK's grant offer and is also responsible for providing this information to Innovate UK as per the terms of the grant.

The independent accountant will review the accounting records, correspondence and obtain any information or explanations considered necessary to be able to perform the work to the required standards expected by Innovate UK and the auditing profession. The business must accept that they have a responsibility to provide the independent accountant with full access to its financial records and ensure that all explanations are supplied in a truthful and timely manner.

The independent accountant must ensure that they undertake the work required of them with reasonable care and skill that would be expected of a registered auditor. Innovate UK also requires the independent accountant to carry out specific procedures.

Video Games Expenditure Credit

In order to provide further support for the UK games industry, the government have introduced **Video Games Expenditure Credit (VGEC)**, which is set to replace the current **Video Games Tax Relief (VGTR)**.

Qualifying Rules

- Your company qualifies if it is liable to Corporation Tax and directly involved in the production and development of video games.
- The eligibility requirement for the VGEC will require a minimum of 10% of expenditure to be used or consumed in the UK.
- The video game is intended for supply, rather than for a marketing tool, for example.

The 'Cultural Test'

To qualify for VGTR or VGEC the video games must pass a cultural test with the BFI, certifying that the production is a British video game.

Key points

- The new games credit will have a rate of relief of 34% on 80% of 'qualifying expenditure'.
- Expenditure made in the European Economic Area is no longer allowable qualifying expenditure.
- The £1m per game cap on subcontracting costs no longer applies.

Timeline

VGEC will be compulsory for games commencing development from 1 April 2025, while those who wish to do so, can adopt the new relief from January 2024. Any titles already in development prior to April 2025 can continue claim under VGTR until March 2027.

Other important information

- All claims, whether VGTR or VGEC will need to be required to be made digitally.
- The time limit for making a claim is to be changed to two years from the end of the period of account to which they relate. This is as opposed to 12 months from the statutory filing date.
- The government have introduced an anti-abuse measure on payments between connected parties to restrict qualifying expenditure.
- The government will legislate to prevent credits being paid out to companies that are undertakings in difficulty.

Taxation of Non-Cash Benefits for Employees and Directors in the Gaming Sector

In addition to their salaries, it is common for studios to reward their employees and directors using non-cash benefits in kind, the value of which are still taxable on the staff. Examples are:

Company cars	Interest-free loans over £10,000
Medical insurance	Use of company-owned accommodation
Provision of food and drink	

This is not an exhaustive list, and there are exemptions and reliefs available for most types of benefit, but generally the employee will be taxed on the cost to the employer of providing the benefit, or by reference to a scale figure based on the particular type of benefit provided, as in the case of a car where the taxable benefit is often based on the CO2 emission factor of the particular vehicle.

Normally the value of the benefit is included in the employees' PAYE code, leading to the tax being collected by deduction from their salary, although it will usually be necessary for the employee to submit a self-assessment tax return to confirm the amount, which needs to be provided to them by the employer on a Form P11D each tax year.

It is possible to include the value of some benefits in the amounts put through the payroll, although this is quite a complicated procedure for employers.

There are also a number of non-cash benefits which are not treated as taxable by HMRC, and the following list includes a common selection of these:

Mobile phones - these must be under an employer contract	Cycles	Car parking	"Trivial" benefits (non-cash gifts of up to £300 per annum, with each one being £50 or less)
Childcare	Pension contributions	Staff parties	

Taxation of Non-Cash Benefits for Employees and Directors in the Gaming Sector

Again this is not an exhaustive list, and most of the exemptions require adherence to particular rules so you need to ensure that these are followed.

Sometimes employers want to provide benefits to their staff without them having to pay tax – this commonly happens where staff events are laid on as incentives and rewards. Examples are Christmas parties, summer outings or other social meals/drinks events. Normally the total cost of these events (subject generally to a limit of £150 per person including VAT, per annum) has to be divided between those who attend and included on their P11ds for declaration on their tax returns. However, to prevent the bad feeling that this would generate, it is possible for the employer to inform HMRC of the amounts applicable to each employee and pay the tax on their behalf, based on their individual tax circumstances – this process is known as a “PAYE Settlement Agreement” (PSA) and is done by the employer without any intervention or knowledge of the employees.



Management Accounts and Forecasting in the Gaming Sector

Management accounts and forecasting are essential tools for gaming companies to make informed decisions, manage finances, and plan for the future. In this guide, we will explore the significance of management accounts and forecasting in the gaming industry, how to create them, and how to leverage them for better financial control and strategic planning.

The Importance of Management Accounts and Forecasting

Understanding why management accounts and forecasting are crucial for gaming companies:

- **Decision-Making:** Management accounts provide real-time financial data that helps in making informed decisions, such as game development investments, marketing strategies, and resource allocation.
- **Financial Control:** Management accounts offer a clear view of your financial performance, helping identify cost-saving opportunities and revenue optimisation.
- **Strategic Planning:** Forecasting allows you to anticipate future financial trends, enabling better long-term planning and mitigating financial risks.

Creating Management Accounts

A step-by-step guide to creating effective management accounts for your gaming company:

- **Select Key Performance Indicators (KPIs):** Identify the most relevant KPIs for your gaming business, such as monthly recurring revenue, user acquisition cost, and customer lifetime value.
- **Gather Financial Data:** Collect financial data, including revenue, expenses, and other relevant metrics.
- **Prepare Regular Reports:** Set a schedule for generating management accounts (e.g., monthly or quarterly) and stick to it.
- **Analyse and Interpret Data:** Use the reports to analyse your financial performance, comparing actual results to budgets or prior periods.
- **Identify Actionable Insights:** Look for trends, opportunities, or issues that require action.

Management Accounts and Forecasting in the Gaming Sector

Forecasting for the Gaming Sector

How to develop accurate financial forecasts for your gaming business:

- **Revenue Forecasting:** Predict future revenues by considering historical data, upcoming game releases, and marketing strategies.
- **Expense Forecasting:** Estimate costs for game development, marketing campaigns, employee salaries, and other operating expenses.
- **Cash Flow Forecasting:** Forecast cash inflows and outflows to ensure your business has enough liquidity to operate smoothly.
- **Scenario Analysis:** Develop multiple scenarios to understand potential financial outcomes under different circumstances.

Leveraging Management Accounts and Forecasting

Ways to use management accounts and forecasts effectively:

- **Performance Evaluation:** Compare actual results to forecasts and budgets to evaluate your financial performance.
- **Strategy Adjustment:** Make informed strategic decisions based on the insights gained from management accounts and forecasts.
- **Investor Relations:** Use accurate financial data to attract potential investors and secure funding for game development.
- **Risk Mitigation:** Identify potential financial risks early and implement mitigation strategies.



Management Accounts and Forecasting in the Gaming Sector

Tools for Management Accounts and Forecasting

A discussion of software and tools available for creating and managing management accounts and forecasts:

- **Excel:** A versatile tool for creating and maintaining management accounts and simple forecasts.
- **Dedicated Forecasting Software:** Explore options like Futurli, or Float for more advanced forecasting capabilities.
- **Accounting Software:** Consider integrating your accounting software with financial forecasting features for real-time data updates.

Working with Professionals

The role of accountants and financial experts in managing accounts and forecasting:

- **Hiring a Gaming Sector Specialist:** Consider partnering with professionals who understand the unique financial challenges of the gaming industry.
- **Consulting Services:** Engage financial consultants for expert advice and assistance with financial planning.

Management accounts and forecasting are invaluable tools for gaming companies looking to manage their finances effectively and plan for a successful future. By creating accurate management accounts, developing sound forecasts, and using the insights gained, gaming businesses can achieve better financial control, make informed decisions, and thrive in a competitive industry.



Bookkeeping Software for the Gaming Sector

Bookkeeping is a vital aspect of financial management for any business, and the gaming sector is no exception. As gaming companies deal with unique financial transactions and revenue streams, it's crucial to choose the right bookkeeping software to streamline operations and ensure compliance. This guide will help you navigate the options, pros and cons, and pricing of bookkeeping software tailored to the gaming industry.

Understanding Your Bookkeeping Needs

Before diving into the specifics of bookkeeping software, it's essential to understand the unique needs of the gaming sector

Revenue Recognition

Gaming companies often generate revenue from various sources, such as game sales, in-game purchases, advertising, and more. Your bookkeeping software should be able to handle these diverse income streams effectively.

Cost Tracking

Managing development costs, marketing expenses, and other overheads is crucial. Your chosen software should provide robust expense tracking features.

Compliance

Gaming businesses must adhere to tax regulations and accounting standards. Ensure the software you choose supports compliance in your region.

Comparison of Bookkeeping Software

Let's look at some of the popular bookkeeping software options suitable for the gaming sector:

QuickBooks

- Offers competitive pricing.
- Offers various industry-specific add-ons and integrations.
- Provides customisable reporting features.
- Suitable for both small and large gaming companies.

Xero

- Highly regarded for its user-friendly cloud-based platform.
- Integrates with many gaming-specific tools.
- Strong emphasis on collaboration with your accountant.
- Suitable for small to mid-sized gaming companies.

Bookkeeping Software for the Gaming Sector

Pricing and Affordability

Pricing is a critical factor when choosing bookkeeping software:

- **QuickBooks:** Offers tiered pricing, with higher plans providing more features.

Pricing can vary based on the number of users and additional services required.

- **Xero:** Offers a subscription-based model with different plans based on your needs.

Pricing is a monthly price plus add-ons.

- **Zoho Books:** Known for competitive pricing, suitable for small businesses.

Offers a straightforward subscription model.

- **Wave:** Offers a free accounting software option with limited features. Additional features come at extra cost.

- **FreshBooks:** Offers tiered pricing with varying features. The price depends on the number of clients and additional services required.

Making the Right Choice

Choosing the right bookkeeping software for your gaming business depends on your specific needs and budget. Here are some tips to help you make an informed decision:

- Identify your company's unique bookkeeping requirements.
- Consider your budget and the scalability of the software.
- Evaluate the learning curve for your team and the availability of support.
- Explore available integrations and add-ons tailored to the gaming industry.

Comparison of Bookkeeping Software

Zoho Books

- Offers competitive pricing.
- Supports multi-currency transactions.
- Allows customisation and automation of workflows.
- Suitable for small gaming businesses.

Wave

- Known for its free accounting software.
- Provides basic bookkeeping features.
- Suitable for independent game developers or startups with limited budgets.

FreshBooks

- Specialises in invoicing and time tracking.
- Offers project management and collaboration tools.
- Suitable for freelancers or small gaming studios.

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