

HMT Spending Review 2025

A case for increasing Video Games Expenditure Credit - Ukie

Ukie response to UK Government Spending Review 2025

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About Ukie

1. Ukie is the trade body for the UK's video games and interactive entertainment industry. A not-for-profit, it represents more than 700 games businesses of all sizes from start-ups to multinational developers, publishers, and service companies, working across online, mobile, console, PC, esports, virtual reality and augmented reality. Ukie aims to support, grow, and promote member businesses and the wider UK video games and interactive entertainment industry by optimising the economic, cultural, political, and social environment needed for businesses in our sector to thrive.

Preface

2. In 2024 UK Interactive Entertainment (Ukie) engaged Nordicity in order to assess the economic and workforce impact of the Video Games Expenditure Credit (VGEC) in the UK and how it and its predecessor relief, Video Games Tax Relief (VGTR) compared internationally to other countries in relative terms. Ukie also asked Nordicity to model the potential impact of a series of reforms and model scenarios which could be applied to VGEC by the UK Government with a view to generating further economic growth and associated benefits. Nordicity undertook significant desk research, surveys and interviews for this report, building on substantial developed expertise and information on video games companies which has been developed over the past decade. Ukie supported Nordicity in their research for this project in facilitating surveys and interviews directly with video games businesses. In the report, Nordicity modelled six differing scenarios – ranging from extending eligibility criteria on VGEC, to increasing its headline rate, eligible expenditure and introducing new conditional rates for budgets of a certain size. This report details a range of benefits found in each of those scenarios and makes recommendations based on Ukie's assessment of those benefits.
3. Ukie's goal is to ensure that the UK will be the leading global hub for intellectual property and innovation in video games and interactive entertainment by 2030 – and we believe that can only be done by building a pro-games policy environment, supported by a robust research and evidence base. In order to continue to grow the sector and develop the next generation of new games and intellectual property – Ukie has put a business case forward to Government for increasing the headline rate of VGEC to 39% of 100% of qualifying expenditure, and for a new 'growth' rate of 53% for projects with a budget of £10 million or less, underpinned by analysis from Nordicity. Ukie believes this combined reform suits the needs of the UK video games industry now and will enable it to grow in the long term. Increases to these rates will make the UK the most internationally competitive place in the world to make a video game, allowing the next generation of games businesses to thrive and supporting high skilled jobs across the nation.

Executive Summary

4. The UK video games industry is a significant success story for the UK creative industries, which have been identified as a key growth area in the Government's recent industrial strategy. Our industry is a global leader in new and original IP and emerging technologies; fusing creativity, art and technology to develop new games and experiences for a domestic and global audience. The

industry contributes £6bn in Gross Value Added to the UK economy and supports over 73,000 jobs.

5. The UK industry has however been affected by a global industry slowdown which has seen thousands of layoffs, studio closures, delayed projects and consolidation. Despite consistent recent growth, the UK industry has also seen key aspects of its competitiveness eroded through new incentives in neighbouring countries, as well as decreased labour mobility and skills shortages which have affected UK companies.
6. The UK must think ambitiously about how to support the video games industry more broadly so that it can continue to innovate, develop new intellectual property and support high skilled employment across our nations and regions. We are calling for the existing tax reliefs to be made more globally competitive, and for continued action to improve access to finance for our industry.
7. **Competitive Tax Reliefs:** The UK industry has seen huge growth underpinned by video games Tax Relief (VGTR) and now Video Games Expenditure Credit (VGEC). However, this competitive rate has been eroded over the past decade. **We believe the time is right for Government to reform the Video Games Expenditure Credit (VGEC) by:**
 - **Introducing a ‘games growth’ rate of 53% for projects with a budget of £10m or lower;**
 - **increasing the current rate of relief to 39% for projects with budgets in excess of £10 million (Enhanced Relief) and removing the 80% cap that currently applies to qualifying expenditure that may be subject to relief.**
8. By increasing the rates to these levels, the UK will have the most internationally competitive rate of tax incentives which support the video games industry, and one which will incentivise continued investment in the UK, generate after five years an additional **£529m in GVA annually (on top of GVA already generated by VGEC)**, and provide an additional **5,969 jobs in the UK. It will also stimulate the growth of a new wave of smaller, domestic studios generating employment across our regions and nations through new and innovative intellectual property, and export led growth.**
9. **The overall return on investment in this combined scenario would be an additional £1.87 for every £1 in VGEC disbursements, on top of a baseline VGEC rate of return of £3.20 for every £1 invested.**
10. **Access to finance and funding schemes:** The UK video games industry, and the creative industries more broadly, have historically struggled to access finance through traditional means and with traditional lenders. The UK video games industry runs the risk of being an ‘incubator economy’ with a lack of clear avenues to scale.
11. Schemes such as the UK Games Fund have been vital in providing early-stage development funding for small and growing companies and now more significant ‘content’ grants to support further projects and later stage development. It is vital that this support continues to be available beyond 2025/26. **We call for the fund to be maintained for the entirety of this**

Parliament and increased beyond its current annualised rate of £5.5m to help support demand and catalyse development of British games and original IP across the UK.

12. We welcome Government's recent announcement of the British Business Bank's intention to extend support to a wider range of creative industries. We urge them to engage directly with the sector to ensure there is an understanding of the complexities and needs of the sector.

The current state of the UK video games industry

13. The UK video games industry has been a significant success story for the UK creative industries. There is a rich and varied history of UK developers across the nation which have played a part in the development of some of the most iconic games and characters of all time from Lara Croft through to Grand Theft Auto. The UK has seen significant sustained growth since the advent of creative industry tax reliefs – initially Video Games Tax Relief (VGTR) and now revised to Video Games Expenditure Credit (VGEC). The industry now supports 73,000 jobs and contributed £6bn in Gross Value Added (GVA) to the UK economy in 2022. The UK games industry has truly been a nationwide success story, with 55% of development jobs being based outside of London and the South East.
14. Despite its successes, the UK video games industry has not been immune from the economic headwinds which have hit the global video games industry hard over the past few years following the pandemic. There have been significant job losses across the UK with studio closures, reorganisations, or downsizing affecting both larger domestic and international studios as well as smaller domestic studios. There were also a significant number of shuttered or delayed projects and a reduction in new and innovative intellectual property.
15. In the UK alone, between 2023 and 2024 there were 248 studio closures¹ and the number of freelancers in the workforce increased from 4.4% to 12.7%. These studio closures and reorganisations have continued into 2025 and will significantly affect the UK video games industry and workforce.
16. At the same time, from these closures have come significant new business registrations and the potential for a new wave of 'phoenix' studios based around experienced teams with the potential for the development of new and exciting IP – however they do so in an environment where the overall volume of investment has decreased and access to traditional forms of finance has been historically limited.

Supercharging our sector

17. VGTR and VGEC have largely done what they were intended to do – they have grown the UK industry by de-risking development and offering an attractive and competitive environment for overseas investment. As the industry has grown, other nations have sought to replicate this success by developing their own incentive schemes or games strategies.
18. The UK remains the sixth largest video games market in the world, with annual consumer expenditure of £7.82bn, however research commissioned by Ukie shows that the effective rate of VGTR and now VGEC has dropped in comparison to new or similar rates of relief in competitor markets. This is due to a combination of factors including high development costs,

¹ <https://www.gamesindustry.biz/number-of-uk-game-dev-freelancers-triples-amid-layoffs-and-studio-closures>

wage increases and inflation (which have outpaced the UK's nearest competitors) and restricted labour mobility and access to markets following Brexit.

19. For a typical games project, the UK now offers a less competitive tax environment for development than France, Ireland, Australia and some Canadian provinces.
20. Whilst the previous Government made some broad administrative revisions to expenditure credits to align them to new global tax regulations, it failed to capitalise on that opportunity to optimise VGEC to reflect the UK's development landscape, ensure its continued competitiveness and act as a beacon for investment and economic growth.
21. We believe that a targeted package of reforms to VGEC, coupled with wider reforms which open better avenues for finance, talent, and investment for smaller businesses in the video games and wider creative economy can supercharge our industry and support Government to achieve its growth mission.

An increase and reform of Video Games Expenditure Credit

22. Research commissioned by Ukie and conducted by Nordicity (attached to this letter) has looked at broad comparative analysis of video games tax reliefs and expenditure credits globally in order to evaluate the relative benefits of available incentives – and model potential improvements which will generate growth and higher employment in the UK video games industry.
23. The research found that **increasing the nominal rate of relief to 39% on 100% of qualifying expenditure with a new 'games growth' rate of 53% on projects of £10m or less would make the UKs video games incentives the most internationally competitive in the world.**
24. **It would also, after a 5-year period, deliver an additional total £479m in GVA annually (on top of GVA already generated by VGEC) and provide an additional 5,969 jobs in the UK.**
25. **The overall return on investment would be an additional £1.87 for every £1 in VGEC disbursements, on top of a baseline VGEC rate of return of £3.20 for every £1 invested.**
26. We believe a reform of this significance would benefit the entire UK video games ecosystem. It would help to address the acute needs of larger multinational studios, many of whom have a significant footprint in the UK, whilst providing a significant boost to smaller, growing studios to help them scale, develop new IP and export.
27. Additionally with the video games industry traditionally clustered in regions across the UK outside of London in places such as Dundee, Liverpool, Leamington Spa, Leeds, Edinburgh and Glasgow – we feel that this reform would give a significant boost to growth in our regions and nations – providing high skilled and productive jobs.
28. Government can also take this opportunity to refresh the rules and guidance around VGEC to better reflect modern development, as well as make it advantageous for businesses looking to invest and locate in the UK. Unlike in the Film and High-End TV sector, there currently no real consideration about how the reliefs can support 'co-development' productions which are

increasingly common in video games development – owing to the higher internationalised nature of the industry.

29. We also have seen in the past few years in particular a number of examples of companies having their claims delayed severely and put under additional scrutiny by HMRC – in some cases causing companies to close - despite them passing through the BFI certification process. In some cases, these related to games with long development timelines, and which include ‘live service’ elements – where in effect these are not one single game or production, but a series of significant developments and updates. In other cases where companies have chosen to locate and invest in the UK to continue future stages of development on a game – their claims have been held up by HMRC because the initial stages of development may have taken place in another territory.
30. We believe these grey areas need closer examination and reform, to ensure that companies can continue to create great experiences and thrive – and to ensure VGEC remains internationally competitive and attracts investment in the UK to help boost economic growth.

Supporting our small and medium sized games studios – the UK games fund

31. The UK Video Games industry, and the creative industries more broadly, have historically struggled to access finance through traditional means and with traditional lenders which has been a shackle on creativity through the disproportionate risk profile on video games businesses and intellectual property-based businesses. Companies are left having to seek equity investment from overseas or growing their companies through an eventual sale – which risks leading the UK video games industry as part of a wider ‘incubator economy.’
32. Therefore, schemes such as the UK Games Fund have been vital in providing early-stage development funding for small and growing companies seeking to make prototypes of games in order to leverage a wider range of financial opportunities. Recently the previous Government expanded the fund to allow it to offer more significant ‘content’ grants to support further projects and later stage development.
33. We welcome the Government’s commitment to renew the UK Games Fund for this coming year and the £5.5 million grant, which is the biggest single year grant the fund has received. There has to be long term certainty for this vital fund beyond 2025/26. Analysis conducted by Alma Economics on behalf of the Department for Culture, Media and Sport found that there was a benefit of £5.40 for every £1 of public funds invested in the UKGF, generating around 530 jobs and long-term productivity benefits of £42m.
34. We call for the fund to be maintained for the entirety of this Parliament and increased beyond its current annualised rate of £5.5m in order to help support demand and catalyse development of British games and original IP across the UK.

Reforming access to finance

35. The creative industries contribute £126bn annually to the UK economy, with video games a significant sub sector and a global success story. Yet the sector faces persistent challenges in accessing capital as traditional financial institutions and models often fail to recognise the value of IP, which is integral to games and the creative economy. This is despite the UK

possessing the correct conditions for the development of more IP based finance models according to the World Intellectual Property Office (WIPO)².

36. To fully realise the growth ambitions of the Government for the Creative Industries there needs to be a blend of financial options available to developers comprising grants, loans, guarantees, equity and debt. In this mix the continuation and escalation of the UK Games Fund – both its prototype and content fund – are a vital component of this given its success to date and the return on investment that the Government has seen.
37. There is also an opportunity to increase the support of venture investment in UK video games. Options include extending and increasing the British Business Investments (BBI) intended match funding support of specialist early-stage investment groups. Consideration should also be given to supporting later stage venture investments to growing companies to reduce the focus on overseas funding and return value to the government investors, for example ring-fencing portions of worldwide VC funds with additional matched UK funds, to only be spent in the UK, or the establishment of a UK-focussed industry supported VC/ investment fund.
38. The Government needs to encourage funding bodies such as the British Business Bank and British Business Investments to look at games and the wider creative industries, as it has done with the digital and tech sectors, to provide medium sized companies with debt and equity finance options.
39. We welcome Government's recent announcement that the British Business Bank and UKRI will increase their support to businesses in the creative industries – however we urge Government and these institutions to engage with our sector and to take input on their rules, terminology and classifications in order to reform their selection processes and lending criteria so that they properly reflect and understand our industry – as SIC code classifications are out of date and inappropriate in this context.

² <https://www.wipo.int/publications/en/details.jsp?id=4705&plang=EN>