



Politicians Don't Understand the Economics of Video Games, Tax Expert Says

Former adviser to the Senate Finance Committee DEAN ZERBE adds that the elimination of the permanent R&D credit for software companies would be a "real blow" to US game developers.

Simply stated, many legislators on Capitol Hill do not understand the economics of video games and how important the gaming industry can be to the economy. That's the opinion of Dean Zerbe, former adviser to the Senate Finance Committee, who spoke with GameSpot about the controversial tax reform bill R&D provision that stands to sting software developers, including makers of "violent" video games if it ever becomes law.

"I think there is a real lack of understanding in Washington, D.C. of the economics of video games to the industry--one video game can make far more than a summer blockbuster movie," Zerbe said. He is now the **National Managing Director for Houston-based tax consulting service firm, alliantgroup.** "In addition, video games are providing good jobs at good wages. Unfortunately, many policymakers in DC need to be educated about the reality of the gaming industry."

Rockstar Games' acclaimed open-world game Grand Theft Auto V generated \$1 billion in three days, a feat most movies never reach in their lifetimes. Of course, GTAV is a special case. But Halo, Call of Duty, and Skylanders are all billion-dollar franchises. Video games are no doubt big business, but their growth could be hampered if the Tax Reform Act of 2014 ever becomes law, Zerbe says.

The document includes an "improved, permanent R&D tax credit," which architects of the blueprint like Rep. Dave Camp (R-Michigan) say will give American companies the "certainty they need to compete against their foreign competition." Any software company can apply for the credit and potentially save thousands of dollars to help grow their businesses. That's good news for businesses in general, but it's not the whole story. The provision's executive summary specifically singles out "violent" video games, but actually "any research" with respect to computer software would be denied the credit under the provisions of the reform act, according to a draft of the legislation. This would be decidedly detrimental to the game industry, Zerbe argues.

"The R&D tax credit is of significant importance to the gaming industry and especially video games. While the Ways and Means Committee talks about targeting violent video games, the reality is the language eliminates the R&D tax credit from all software--a very real negative for everything from Google to Super Mario--not just

violent video games," he said. "Elimination of the R&D tax credit would be a real blow to the gaming industry in this country."

"Elimination of the R&D tax credit would be a real blow to the gaming industry in this country." -- Zerbe

Though the reform act specifically calls out "violent" video games, it fails to provide any criteria in all its 979 pages by which such games would be judged. This is a non-issue, Zerbe says, because the "violent" provision of the current iteration of the reform act is not going to hold up.

"Happily, no organization is going to define a 'violent' video game because this provision will never see the light of day," Zerbe said. "I suspect that the Committee itself realized it couldn't just single out violent games because of definitional problems. In addition, such a rifle-shot wouldn't give them the cost-savings they were looking for. So that's why they opted instead for going after software development overall. It's like hunting rabbits with an elephant gun."

The Entertainment Software Association, the group that represents the gaming industry's interests in Washington, is critical of the tax reform act's provision to deny software companies like game developers the permanent R&D credit. Such a measure would threaten American technological advancement, for video games and all software, a representative for the company told GameSpot.

"The U.S. video game industry is a leader in entertainment, providing more than a hundred thousand Americans with jobs across the nation. We are innovating and creating new opportunities constantly in employment, entertainment, fitness, and education. This industry, like all software developers who would be impacted under this proposal, invests billions of dollars every year in research and development and this proposal threatens American technological advancement and economic growth," a representative said. "We look forward to continuing to educate policymakers on our societal and economic contributions and the need to preserve and expand this unique industry."



Dean Zerbe is alliantgroup's National Managing Director based in the firm's Washington D.C. office. Prior to joining alliantgroup, Mr. Zerbe was Senior Counsel and Tax Counsel to the U.S. Senate Committee on Finance. He worked closely with then-Chairman and current Ranking Member of the Finance Committee, Senator Charles Grassley (R-IA), on tax legislation. During his tenure on the Finance Committee, Mr. Zerbe was intimately involved with nearly every major piece of tax legislation that was signed into law - including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform), and the Pension Protection Act. Mr. Zerbe is a frequent speaker and author on the outlook for short-term and long-term changes in tax policy, as well as ways accounting firms can help their clients lower their tax bill.

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