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Assessing in-game taxes from a tax perspective

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“You looking to buy? Everything is tax-free.”

Vendor bot Wallace, Berkeley Springs Station, Fallout 76 videogame

Public interest in taxation is rising in the recent decade. Digital giants and multinational enterprises attract lots of attention, and gaming companies are no exception.

On top of the heated discussions about taxation of the digital(ized) economy and cryptocurrencies in the real world, other tax-related issues are also happening in the realm of virtual worlds, namely in videogames. For example, the plot of a whole videogame built around the idea of getting away with tax evasion, e.g. a recently issued game [Turnip boy commits tax evasion](#). The game description attracts users to play “as an adorable yet trouble-making turnip. Avoid paying taxes ... all in a journey to tear down a corrupt vegetable government!”.

Another example is certain videogames that introduce in-game taxes, which only exist within a such virtual world and are payable by players with virtual currencies. This opinion analyzes such in-game taxes from a tax perspective, focusing on several issues arising from their virtual imposition.

In-game taxes in force

Taxes and similar obligatory fees are usually present in the so-called massively multiplayer online role-playing games (MMORPG), virtual worlds populated by different players sharing the same game environment. Few examples of such MMORPG are:

- Grand Theft Auto Online (GTA Online), an open-world game where the player makes a syndicate career in one of the West Coast cities;
- World of Warcraft, an open-world fantasy game where the player joins one of two combatting civilizations, Alliance or Horde; or
- Fallout 76, an open-world survival game in a post-apocalyptic environment.

These games are usually not free-of-charge for the user, who makes either one-off or periodical

payments for access to these games.

In addition to this real-life cash payment that every player usually has to make to play the game, other mandatory payments with virtual currencies are an essential part of these games. For example, in *GTA Online*, players are charged with a “daily” fee for the virtual property and vehicles owned. In *World of Warcraft*, players are not obliged to pay a periodical fee, but the in-game sales they make with other players through the so-called auction houses, are subject to a withholding fee. In the case of *Fallout 76*, all the sales made between players are subject to a 10% tax. Specific rules on tax seasons, returns submissions, and audits have not been introduced in any of these games so far.

These in-game fees/taxes supposedly fit in the virtual economy concept and at the same time, they resemble some types of tax existing in tax systems of the real world. The fixed fees from *GTA Online* look like property or luxury taxes. The auction house fees from *World of Warcraft* are similar to intermediary fees, and their resemblance with taxes is far-fetched. The possible qualification of the tax imposed on in-game sales in *Fallout 76* is not clear. This turnover tax seems similar to a sales tax or a value added tax, but it is only charged on transactions between players and not between vendors and players. Similarly, this tax cannot be theoretically qualified as a profits tax (no deduction is allowed) or digital services tax (vendor sales are not taxed). This charge is labeled as a “tax” by the game itself, but it is an intermediary fee from a strict tax design/technical perspective.

Mitigation of in-games taxation

As in real life, some videogame players issue manuals on how to mitigate the in-game taxes, for example, for *GTA Online* and *Fallout 76*. This approach brings real-life and in-game taxes closer to each other: in both worlds, taxpayers try to pay less.

Objectives of in-game taxation

From a tax perspective, the term “tax” means an obligatory financial charge imposed on a taxpayer by a governmental organization to fund government spending and various public expenditures. In other words, a tax is a tool for the redistribution of public wealth.

From the game design perspective, taxes and similar obligatory fees serve a different purpose. They are used to reduce the amount of cash in the hands of players and, in this way, **fight hyperinflation of the virtual economy**. This hyperinflation arises in virtual economies because the amount of the in-game currency crafted by the players is typically unlimited. For example, to earn virtual cash, players kill monsters and loot the remains. These monsters are regularly respawning, so the players craft unlimited resources. As the amount of existing in-game currency expands, it causes the devaluation of the virtual currency: the price of an in-game item multiplies with time because the amount of virtual currency at the hand of players is scaling up constantly. Thus in-game taxes do not have a fiscal nature and are named taxes incorrectly.

Taxes and similar fees in the games’ storyline

The plot of a videogame is one of the selling points of a game. Logical and meaningful plots are coherent with their own virtual rules, such as those that demand the payment of in-game taxes. In *GTA Online*, for example, players operate in a virtual world governed by **virtual authorities**. Similarly, in the *World of Warcraft* universe, players live in virtual civilizations with centralized

authorities and never-ending war conflicts. Differently, *Fallout 76*'s universe is a post-apocalyptic world with no central governance and functioning economy, ruled by mutants and survivors' gangs.

With the first two examples, the imposition of in-game taxes or similar obligatory fees seems coherent with the plot of the game. Indeed, in the particular case of *World of Warcraft Alliance and Horde*, taxes even could be justified by the revenue necessities created by the virtual "state of war". However, such coherency breaks when in-game taxes or similar charges appear in videogames with plots like one in *Fallout 76*. Imposing taxes in an anarchical world with no central authority and a destroyed economy provides a perfect example of a sloppy game design. The game designers took for granted that the transactions between the users can be taxed. However, there is no rationale to justify why players in such an anarchical environment should pay taxes. It is also unclear which virtual government collects these taxes and how they are redistributed. Videogames usually do not provide a clear explanation of such incoherence. This game design misinterprets the term tax and introduces it to the plot and the virtual economy hastily.

In-game taxes as a promotional instrument

Videogames companies sometimes use tax-related issues as a promotional instrument. For example, *GTA Online* announced the in-game tax refund to attract users during the real-life tax returns filing season: log in to *GTA Online* and receive a "hefty GTA\$250,000 bonus to celebrate "tax season in style", while every *GTA* dollar you spend will be subjected to a [10% tax rebate](#), meaning you can live the high life in Los Santos without lifting a finger". Such use of the terms tax and tax refund was not technically correct, as it was not the refund of the in-game personal income taxes overpaid by the player. But these similar to tax fees of the virtual economy at least fit in the storyline of the game.

Relevance of in-game taxation

From a first glance, it seems that in-game taxation is not connected to the real-life one. In-game taxes and fees are instruments to fight virtual inflation, and not to fund or maintain virtual governments' functions. Videogame companies' employees are the ones who perform such maintenance in the real world. Of course, the gamers are the ones that, in the end, support videogames companies by paying their subscription fees with real-world currency.

However, the relevance of in-game taxes should not be underestimated. Despite not being real taxes, these virtual charges may teach players the concept of taxation and tax systems. As it has been demonstrated above, some recent in-game taxation developments are contrary to the notion of taxes as a system for redistribution of public wealth. Existing virtual taxes are conceived as a money-draining system and have a negative connotation. Such virtual tax undermines the concept of taxation as a public good and compliant behavior of taxpayers.

The misinterpretation of the term tax has been used by certain videogame companies for plotting and promotion, which could have led to confusion between virtual and real-life tax concepts and benefits. To avoid such misinterpretations, the term tax should be used correctly, i.e. reflecting its fiscal and wealth redistribution nature. In addition, the design of the games should carefully describe the mechanics of the hyperinflation fighting instruments to better reflect their actual character and make them coherent with the plot of the game. That would mean avoid using the term tax to name mandatory in-game charges of a different conceptual nature.

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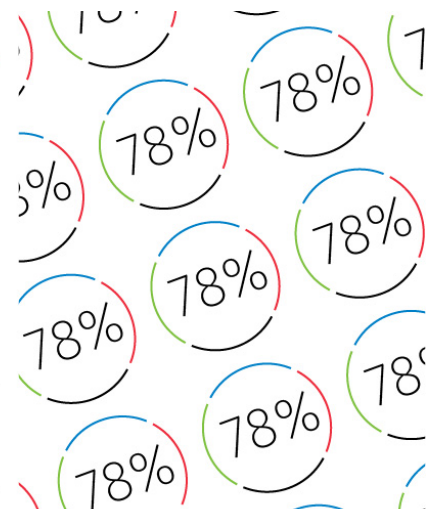
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