



CASE STUDY

Video Game Studio



Nth Degree CPAs Helps Video Game Studio Save Millions in Taxes, Defend R&D Credits, and Secure \$50M Exit Deal From One of the Biggest Companies in the World.



Nth Degree CPAs

www.nthdegreecpas.com

When a successful video game studio approached Nth Degree, they were facing a problem: they hadn't filed taxes in seven years. What happened next was a testament to the power of strategic tax planning.

About the Client:

Our client is a video game studio with annual revenues of approximately \$25 million. Despite the founder's impeccable reputation and professional demeanor, the studio had fallen behind on its tax filings for seven years due to issues with their previous accounting firm.

The Challenge:

This video game studio had been working with a large national accounting firm, ranked in the top ten but outside the Big Four. When their representative handling their account was abruptly fired, the studio was left in a difficult position. Their new rep disagreed with the previous rep's recommendations, and the studio found itself faced a potential tax bill of \$3 million, plus penalties and interest.

Complicating matters further, the video game industry has unique financial challenges, with years of development costs incurred before any revenue is generated. Our client had secured a major deal with a tech giant to fund the development of a game, but the inconsistent revenue stream made tax planning particularly complex.

Our client was also in acquisition talks with one of the largest companies in the world. Sloppy tax filing history and audit risk are just two of the factors that could have blown up this deal.



The Nth Degree (UN)Conventional Approach:

Dan Nicholson and the entire Nth Degree team dove deep into the studio financials and the unique tax considerations of their industry. We conducted extensive research and developed a tailored tax strategy that included:

- Implementing a different accounting methodology based on the results of very recent (read: most other CPAs had no awareness of them) and relevant court cases
- Identifying and calculating a substantial R&D tax credit of approximately \$1 million
- Amending seven years of tax returns using this new accounting methodology, turning their \$3M tax liability into a \$200K payment.

Our client then had their finances in order, helping them secure a \$50,000,000.00 acquisition. After this, the owner then worked with us to claim a \$2.2 million R&D tax credit.

The IRS challenged this claim, which we knew would happen (any time you ask them for \$2.2M you can expect them to challenge). But Dan and our team successfully defended both the R&D credit and the accounting methodology used for the seven-year period in court, and our client received his \$2.2M check in addition to the large exit.



The Solution:

By applying our industry-specific expertise and strategic tax planning, we were able to:

- Reduce our client's potential tax liability from over \$3M to approximately \$200,000.
- Successfully defend an R&D tax credit, resulting in an additional \$2.2M in tax savings.
- Help the studio secure a \$50M acquisition deal with one of the biggest names in tech.

The Impact:

Our fractional CFO services not only saved the studio millions in taxes, penalties, and interest but also positioned them for successful acquisition.

This case demonstrates the power of having a team that understands the unique challenges of your industry and can develop a tailored approach to maximize your financial success.

As Dan Nicholson notes, "This case demonstrates the power of industry-specific knowledge and strategic tax planning. By taking the time to understand the unique challenges of the video game industry and developing a tailored approach, we were able to not only save the studio millions in taxes but also help them navigate a successful acquisition. It's not about avoiding an IRS challenge – it's about having the expertise and confidence to defend your position when that challenge inevitably comes."

The Counterfactual:

While it's impossible to say with 100% certainty what would have happened had our client not worked with us, it's likely that they would have faced significant financial consequences. Paying the \$3M tax bill, missing out on the R&D credit, and potentially jeopardizing the acquisition deal are all possible outcomes that could have occurred without our intervention.

This is Not a One-Off Story:

This transformation is repeatable. Many businesses in complex industries face similar challenges and miss out on significant tax savings and growth opportunities.

The key is having an accounting team that stays at the forefront of industry-specific strategies and can proactively identify opportunities to minimize your tax liability and maximize your financial certainty.

If this case study raises questions for you, we encourage you to take a closer look at your own business:

- Are your accounting practices aligned with the unique needs of your industry?
- Are you taking full advantage of all the tax credits, deductions, and strategies available to you?
- Are your financials clean and strong so that you're poised for a large exit?
- Do you have a team that can confidently defend your position in the face of IRS challenges?

If you're unsure of the answers to these questions, you might consider [booking a call](#) with us so we can see if you're a good fit to work with our company.





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