CALIFORNIA
Film Commission

Frequently Asked Questions

California Film and Television Tax Credit Program 3.0
January 2024 California Film Commission

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GENERAL

Q: What, exactly, is a Qualified Motion Picture?

A: See APPENDIX A at the end of this document.

Q: What is an "Independent Film"?

A: An Independent Film ("Indie") is a project intended for commercial distribution to a motion picture theater, home video, television or via the internet, with a running time of at least 75 minutes. It must have a minimum budget of $1 million ("$1M") and be produced by a company that

1. is not publicly traded and
2. a publicly traded company does not directly or indirectly own more than 25% of the producing company.

Indies are the only projects permitted to sell their tax credits.

Q: Can a production begin principal photography outside of California before receiving a Credit Allocation Letter (CAL)?

A: Yes, however any principal photography filming in California before the CAL date will disqualify the project from the program.

Q: If principal photography cannot begin prior to receiving CAL approval, what about pre-production spending? Is that allowed?

A: It is permitted but it is not qualified. Please exclude any costs prior to CAL from your qualified spend budget when submitting it for evaluation.

Q: If we spend less money than our estimated credit amount, will we be penalized?

A: There is no penalty if your budget decreases, but you may be penalized if your Jobs Ratio is reduced by more than 10% after an audit of all your expenditures. Please refer to the Program Guidelines for more information.

Q: If our budget goes up, will we be eligible for the additional amount?

A: No. Productions are capped by the amount on the Credit Allocation Letter.

Q: Will our Detailed Narrative Statement (on why we would like to shoot in California versus another location) be used to make a decision as to whether our production will be granted approval for tax credits?

A: No. However, it will be requested in Phase II of the application process. It is a written statement which describes the extent to which the credit is expected to influence the choice of filming locations with respect to financial considerations. It should include other locales which have or would be considered in the absence of a California tax credit.

Q: If 50 projects apply and 10 are accepted, am I correct that these are the projects with the highest Jobs Ratio figures?

A: The projects are ranked by Jobs Ratios within their categories; those with the highest Jobs Ratios will receive a tax credit reservation. Once a series is accepted into the program, it will be awarded credits for the life of the series regardless of its Jobs Ratio, as long as funds are available.

Q: How are insurance premiums prorated?

A: Insurance premiums are usually prorated 10% for pre-production, 70% for production and 20% for post-production. However, applicants may request a statement from their insurance brokers which would state the amount of premium proration.

Q: Can you explain what constitutes the $1M minimum spend with regards to the Total Production Budget?

A: The $1M minimum spend refers to both Qualified and Non-Qualified expenditures <u>in California</u>. So ATL ("above-the-line") talent, although a non-qualified expenditure, would count toward your Total Production Budget as long as services are provided in California. Overhead costs do not count towards the $1M minimum spend requirement.

Q: Are half-hour TV series eligible to apply for the California tax credit? Once they are in the program, are they eligible to stay in the program each year until the show is cancelled?

A: Half-hour shows are only eligible to apply if they are relocating to California from another locale. Once accepted to the Program they will be eligible to stay in the program for the life of the series at the length they entered the program at, as long as funds are available.

Q: Is a stop motion project eligible to apply to the Tax Credit Program?

A: Yes, stop motion projects are eligible for the Tax Credit Program, as they are not part of the animation exclusion.

Q: If a film project has come to a halt during preproduction/production as a result of the coronavirus pandemic, do Force Majeure conditions apply?

A: In general, yes. Please refer to the Force Majeure section in the Program Guidelines. This is not the same as a hiatus.

HIATUS

Q: We are planning to film one day of principal photography and then go on hiatus for a while, as described in the Guidelines. I have some questions about that single shooting day:
Does the footage need to appear in the final cut of the show?

A: No, it does not.

Q: Do we have to shoot a minimum number of hours, or screen time or script pages, etc.?

A: The regulations state:
Principal photography refers to days in which the principal unit director and lead actors are usually present. It does not include the filming of primarily backgrounds, visual effects, action, and/or crowd scenes by second, stunt, establishing shots, inserts or visual effects units.
Once you assemble the crew, along with the principal director and actors (lead or supporting or day players), and shoot a single scripted scene or more, you have complied. We usually see at least a 6-to-8-hour day as the crew and cast are normally being paid for at least 8 hours. There is no minimum page count or screen-time requirement.

Q: Can the day be shot entirely on location?

A: There is no obligation to shoot on a stage.

Q: When does our new 120-day hiatus begin? The day after our shoot or upon CFC approval?

A: There is no “new” hiatus period. The first day following the day you shoot will be Hiatus Day # 1. You must begin Principal Photography no later than 120 calendar days after that Day of shooting.

Q: Do we need to complete our orientation before commencing principal?

A: Yes.

Q: Are there any other best practices to ensure our hiatus approval or things we should avoid?

A: Do not restart Principal Photography on Day # 121 of the Hiatus, lest your count put you 1 day late, and you lose eligibility entirely. Try to start after 118 or 119 days, just to be safe. Understand that once you shoot a day in California, if you do not resume within 120 days, the project will no longer be eligible for the program, now or in the future.
The CFC will need to receive the first day’s call sheet, production report, and a copy of the first day’s dailies. You can send the documentation to the CFC Incentive email box.

Q: Can we add the two-week Christmas and New Year’s Eve end-of-year holiday extension to the 180-days start date or hiatus requirement?

A: No. There is no exclusion for the last two weeks of the year.

Q: After resuming principal photography, we want to take a break from filming to allow for the change of seasons. Can we take more than one hiatus without losing our tax credit?

A: The hiatus that we register days for is when *the production shoots one or more days within the 180/240 period after the CAL date in order to qualify the project, and then stops filming for up to 120 calendar days before resuming Principal Photography.*
There is no “Completion of Principal Photography” requirement in the program. Once a project begins/resumes Principal, it doesn’t matter if you shoot 2 days a week for 20 weeks or 40 days in a row with no days off.

PRODUCTION COMPANY FORMATION

Q: Two different companies are financing my film and both members are partners in the production company. Both of them have a tax liability in the state. Do I need to provide the tax ID for both?

A: We accept only one taxpayer ID on the application, which should be the tax ID of the company that is formed to produce the project. One thing to be aware of, however, is the disproportionate allocation rules governed by the IRS. California conforms to IRS code section 704(b). Applicants should consult their tax advisors with respect to allocating credits to investing entities.

Q: The project we are budgeting is below $10M. We are setting up a separate LLC for this project which will be a subsidiary of a publicly traded company. The LLC will not be publicly traded, however. Would this project qualify for the 25% credit? Could we then “sell” or transfer the tax credits to the publicly traded company for their tax liability in California?

A: No. If the LLC is owned wholly or partially (over 25%) by the publicly traded company the show must apply as a non-independent project and as such will only qualify for a 20% credit. In this case credits cannot be sold, but the LLC may assign its credits to an affiliate.

Q: I am an independent producer. All of the financing for the movie I am producing is coming from a studio subsidiary, but they have no involvement in the production beyond the financing. Does our project qualify in the Independent category?

A: As long as the applicant company (for example, your LLC or "special purpose vehicle") is not publicly traded or owned more than 25% by a publicly traded company, the project will be considered Independent. To qualify as an Independent, the studio may not be directly or indirectly involved in the actual production.

Q: Can I use a foreign production company taxpayer ID number? My project is an independent production, and we would be transferring the credits.

A: A foreign corporation will need to register to do business in the state and obtain a California ID number issued by the California Secretary of State. Here is the link to their website.

Q: When applying for the tax credit as an independent producer, do I need to have established the production-specific entity in order to apply? Or can I apply under my company for now, and update my application with the production-specific LLC when it has been created?

A: Yes, applicants may apply under a parent company or other entity or individual that is principally engaged in the production of the qualified motion picture and that controls the film or television program during pre-production, production, and post-production. If a special purpose vehicle entity or LLC is created for the project, the applicant may submit a request to the CFC to reissue the Credit Allocation letter to the specific LLC.

Q: What if my production entity is not registered to do business in California?

A: We can initially issue a CAL using your US-based or foreign entity (which we assume is not registered to do business in CA). However, either that entity or whatever new SPV (Special Purpose Vehicle) you create to produce this movie, must register with the state immediately upon issuance of the CAL. Once you have an entity registered with the state, we can reissue the CAL.

Q: What is the timeline for complying with this process?

A: We need a taxpayer ID no later than the CAL date, and your state-registered ID no later than the start of principal photography.

Q: Does that mean that once filming starts, we are never able to change the Applicant Name and/or Tax Credit number?

A: Tax credits may only be issued to the entity which controls the production, which is why the entity and taxpayer ID of that entity must be determined prior to the start of principal photography.

Q: Can I apply as a sole proprietor?

A: Yes, the tax credit can be issued to a sole proprietor, using his/her social security number. It's unusual not to create a company with its own taxpayer ID when making a film, but there is nothing in the statute that prevents us from issuing a tax certificate using someone's SS#.

Q: I am planning to apply with Indie project and have 60% of my budget in place. If Netflix takes over the financing of the movie, can I change my category to non-independent Feature?

A: The short answer is NO; once you apply with a project you cannot change categories. If, however, they were to step in as distributors with a negative pickup, the answer would be YES.

APPLICATION

Q: What kind of proof of financing do you require?

A: The production company must show a viable plan to finance the production with evidence that it has at least 60% of the financing in place. The application requires a detailed listing of your funding sources and verification of this funding must be submitted upon request. Acceptable forms of documentation include financing agreements with signed letter(s) on letterhead from your investor(s), stating the amount of funds secured from the investor along with a bank or brokerage statement which verifies the funds are on hand. If you have concerns regarding confidentiality, please call the CFC to discuss.

Q: Regarding the 75% spend test: What if I am shooting a portion of the film in another state?

A: The 75% spend test is based on total production spend – not just qualified expenditures. We recommend breaking the out-of-state rentals/purchases onto separate budget lines and tagging them separately, for ease of calculation. (See "Tagging" section for related question.)

Q: How does the waitlist work?

A: If there are more qualified applicants than funds available, the applicants within the top 200% ranked projects which did not receive tax credits will be notified and placed on the waitlist within their project category. Should tax credits become available in a category, the CFC will notify the applicant at the top of the waitlist in that category to determine if the applicant is still interested in receiving a tax credit allocation. If they are, they will be asked to submit updated budget, schedule, and any changes in their financing situation. The waitlist expires when the next allocation period begins for that project category.

Q: If my project is on the waitlist, can I revise my budget and credit estimation?

A: The initial credit reservation cannot be increased, but a budget and corresponding schedule may be modified to reflect the anticipated production plan more accurately.

Q: I understand that the contingency amount of up to 10% of all qualified expenditures can be added to the budget when figuring out the tax credit amount. Does the contingency get tagged as expenditures or can some of it be tagged as wages?

A: Neither. Contingencies (as well as completion bonds) need to be set up as contractual charges on the top sheet of the qualified expenditure budget. They are not line items. They should also be reflected in the application.

TELEVISION/STREAMING PROJECTS

Q: Can I submit an application for a pilot even if it's cast-contingent?

A: The regulations require that a pilot must have a pick-up order to qualify.

Q: Do I have to have my pickup in order to apply?

A: It depends on what kind of show you're applying for. A New Series, Relocating Series, Limited Series or Pilot must submit a pickup order in Phase II of the application. Recurring TV projects have 140 (calendar) days from the CAL date to submit theirs.

Q: We received our pickup letter last month, but we messed up and neglected to send it to you until today. Meanwhile, we've been prepping for several weeks already – can those expenditures be qualified?

A: No expenditures made prior to the date of issuance on the CAL qualify. Once a pickup order is received, the CFC issues a CAL on the following Monday. We do not date CALs retroactively.

Q: One requirement is that the script supervisor's lined script be submitted with final documentation. For a TV series, how many episodes are required?

A: When submitting final documentation, a copy of the lined scripts for episodes # 2 and # 5 must be included. A spotting/continuity for those episodes may be substituted.

Q: Our script Supervisor submitted her lined script to us in SHOOTING ORDER rather than in SCRIPT order. Is it ok if we submit the lined script to the CFC in that format?

A: Yes.

Q: Can a Limited Series apply as an independent film project?

A: Limited Series fall under the TV category and as such are only open to non-independents.

Q: If our pilot is accepted into the tax credit program and we subsequently receive a pickup order for the series, will we need to apply separately for the series?

A: Yes, you would need to apply for the series with a separate application during a TV allocation period. A series based on a pilot in the program will get priority over new applications in the selection process.

Q: If we shoot a pilot here in CA, can we apply for Season 1 as a "New TV" project even if that original pilot was not in the program?

A: Yes, the tax credit program considers a "pilot" as its own type of production, and therefore a series from a pilot may apply for the program regardless of having shot the pilot in the state.

Q: How would a mid-season additional episode order be treated? Let's say there is a 10-episode order that qualifies for credit, then mid-season more episodes are ordered.

A: Television producers can apply for tax credits for additional episode orders in the TV allocation period prior to when the producers anticipate filming of the additional episodes. A Credit Allocation Letter will not be issued until a pick-up order is confirmed. As a Recurring TV series, the additional episode order will be automatically accepted into the program. Having said that, if the series received its capped tax credit amount from the previous season, no additional tax credits can be allocated.

Q: Does a TV production have to resubmit every year for consideration for continued tax credits?

A: For shows that skip a year or more between seasons, producers must 1) notify the CFC and 2) confirm the project is returning prior to the TV allocation period. In addition, a new application must be submitted.

Q: Are copyright forms required for each episode of a series?

A: Proof of copyright registration (Form PA) is required for only one episode per season.

Q: What about copyright forms for back-order episodes? They have a separate credit allocation letter and Agreed Upon Procedures.

A: No, if you've submitted proof of copyright registration for an episode from the first batch, that will suffice for the entire elongated season. Given that the pickup order episodes are from the same season as the original series order, a submission of any episode within the same season will qualify for this requirement when submitting documentation for the pick-up order episodes.

Q: Does the copyright have to be in the applicant's name, or can it be in anyone's name?

A: There is no stipulation in the statute that the applicant be the copyright owner. Only proof of copyright registration is required.

Q: We have a straight-to-series show. We plan to shoot one or more "enhanced" episodes. Do the extra days for those episodes qualify?

A: Yes, enhanced episodes are allowed. The additional costs should be specified as line items in the amortization budget.

RELOCATING TV

Q: My TV series is moving to California from out of state. Is there a form for the relocation statement?

A: All Relocating Series applicants must submit a letter on letterhead stating that the tax credit provided is the primary reason for relocating. A Detailed Narrative Statement is not required if submitting this document.

Q: If our pilot was shot outside CA and we want to bring the series back to LA, would that be considered a Relocating Series?

A: To qualify as a Relocating Series a television series must meet the following criteria:

- Provide a certification (statement) from the applicant that the tax credit provided is the primary reason for relocating to California.
- Produce episodes of any program length, filmed at least 75% of its most recent season outside of California, and have a minimum production budget of one million dollars ($1,000,000) per episode.

A television season is defined as *the initial exhibition of a set of interrelated new television episodes lasting no less than six (6) episodes and no more than thirty (30) episodes within a period of twelve (12) months.*

- Therefore, a proposed series based on an out-of-state pilot would not be eligible as a Relocating Series. However, the series would be eligible to apply as a New Television Series.

Q: If my TV series films 6 episodes out of state, can I then apply to the program as a Relocating Series for the remaining 5 episodes?

A: A TV series "season" is defined as a minimum of 6 episodes. However, the statutory requirements for Program 3.0 have this added provision: *Applicant must state that at least 75 percent of principal photography days of its most recent season was filmed outside of California*.

Therefore, you would need to have shot at least 75% of your season outside of CA before you could apply as a Relocating TV series.

BUDGET/TAGGING

Q: The Application form says to submit a budget of "qualifying expenditures." What's that?

A: The budget of qualifying expenditures ("Qualified Expenditure Budget" or "QEB") is a budget in industry-standard format which includes only those line items which the state of California considers qualified wages and expenditures (see the Qualified Expenditure Chart.)

Q: What is The Qualified Expenditure Chart?

A: It is a guide to what is qualified in the tax credit program and which tags to apply to the most common expenditures in your budget. Please read it and use it as you prepare your budget. It will answer many questions.

Q: Are there other resources to be aware of?

A: YES:

- The CFC Guidelines are essential.
- Refer to the Budget Tagging and Tracking Tips 3.0 for a full explanation as to how to create a qualified budget.
- In addition, there are multiple tutorials on the website to help guide you through the tagging process.

Q: What are the most frequent errors from applications you've reviewed?

A: Receiving application materials in which

1. In the QEB, Federal fringes (FICA, MEDICARE, FUTA) ARE NOT set to 0%
2. Scripts are not numbered
3. Oneline schedules do not
   a. match script's scene numbers
   b. match application's dates/number of shoot days
   c. properly reflect planned holidays, travel days, hiatus dates.
4. Costs incurred prior to CAL date are (mistakenly) qualified.
5. Tags are misused, particularly
   a. "ZW" vs "ZC" vs "ZE" (Tip – "ZE" is almost never used)
   b. Indies mistakenly tagging with "Z"s
   c. "LW" (see p25 for a deeper dive)
6. Producers, Writers, Directors, Cast are (mistakenly) tagged as though qualified
7. Equipment, office, box and car allowance spans do not match the respective crew spans
8. Remember:
   a. Box rentals are QW: the ONLY fringe they receive is PR
   b. Car allowances are QW; the ONLY fringe they receive is PR+WC

Q: When calculating the Jobs Ratio, can items like fringes, meal penalties, cell phone allowances and per diems be included as qualified wages?

A: The Qualified Expenditure Chart is a reliable guide to what is considered wage and non-wage. Of the items you listed, all are considered a qualified wage. This applies to qualified labor only. Please note that Housing and Living Allowance should be split: Housing allowance is QE; Living allowance is QW (up to guild or state per diem rates.)

Q: Do I have to use the same Chart of Accounts (template) as the CFC qualified expenditure charts?

A: No, but please refer to the QEC to be clear which expenditures are qualified.

Q: One cast member has a clause in her contract requiring that the production pay for (for lack of a better word) her entourage. The contract language is below:
Company will provide reasonable and customary "crew" travel and expenses for Artist's designated Security Guard, hair stylist, makeup artist, and wardrobe personnel.
Do these payments qualify?

A: If the entourage member is paid directly by the production for work performed during the qualified period, the wages qualify. If they are paid through the artist's loan-out it will be considered part of the artist's compensation and is therefore NQ.

Q: Do pension and health payments and California state income tax withholding count as qualified wages in the Jobs Ratio calculations?

A: FICA, FUI, Medicare FUTA and California solvency tax do not qualify. (Please be sure to zero out those fringes when you submit your Qualified Expenditure Budget!) Pension and health payments DO qualify.

Q: Does Per Diem for cast (or other non-qualified personnel) qualify?

A: No

Q: Are Covid stipends ever considered QW?

A: NO. Stipends are NEVER QW, no matter how they are paid. Stipends are always QE. There is no exception to this policy. Covid stipends paid to non-qualified cast or crew do not qualify.

Q: What about stipend related fringes? Are THEY considered QW?

A: No. They are QE.

Q: Do preview costs qualify?

A: No. Items such as preview travel, screening room rentals, projectionist, audience recruitment costs, focus group costs and any additional labor (outside of the normal picture and sound editorial crew) do not qualify.

Q: The production paid $10,000 to the bank lender toward legal fees. Is this qualified?

A: No. Legal fees related to financing, distribution, litigation, or marketing are not qualified. However, all other legal fees paid to a CA based attorney are qualified.

Q: Do purchases from food delivery services such as Postmates, Caviar, and Uber Eats qualify as QE? How about tips?

A: Yes, and yes, provided receipts are turned In and legible.

Q: Alcohol is clearly denoted as NQ in the food/craft purchases sections of the QEC. However, a production was wondering whether or not vodka purchased by a wardrobe department and used exclusively to clean fabric could qualify? I guess it is a fairly common practice to use vodka to clean certain types of fabrics (rubbing alcohol is too harsh). So, I guess the question is: Do alcohol purchases qualify if they are utilized for cleaning/utility purposes rather than for human consumption? Or are they always NQ, no matter the purpose/intended use?

A: As it is impossible for the CPA to verify that the alcohol was used exclusively for that purpose, I'm afraid it must remain NQ.

Q: Are internet purchases permitted?

A: Yes, with qualified back-up receipts verifying the item was purchased in California from an in-state California vendor and shipped from a California location.

Q: If a vendor has a presence in California, but their billing comes from another state (like Staples), will they qualify for California tax credits?

A: The definition of an in-state vendor is "...a vendor or supplier which has an office or other place of business in California and is registered or qualified with the California secretary of state or is required to file a return with the California Franchise Tax Board under Parts 10 or 11 of the Revenue and Taxation Code." Check here to see if a company is registered with the Secretary of State.

Here are the guidelines:

- Goods purchased or rented from an out-of-California business that is registered to do business in California qualify, as long as those goods are rented or purchased in California.
- Internet purchases from online vendors such as Best Buy or Staples which have physical stores in California qualify as long as the goods are purchased in California (shipping label verification).
- Goods purchased online that are shipped from a California fulfillment center (e.g., Amazon) would not qualify, as a fulfillment center is considered a "pass through business".

Q: Location rentals where the payment is made to an individual: Do these individuals need to be registered as a vendor in CA in order for the expense to qualify?

A: Individuals renting CA property do not need to be registered as a vendor. The site rental fee is QE, even if paid to an individual.

Q: The California Healthy Workplace Family Act requires employers to provide paid sick leave to employees. Will wages for those days be considered qualified?

A: Yes. The sick days taken must be indicated on the timecard as well as listed on the daily production report to qualify. Please bear in mind that this requirement only goes into effect after the employee has worked at least 90 days on the production.

Q: Are promo dubs eligible?

A: No. Publicity-related costs do not qualify.

Q: We will be broadcasting our show live. How do we deal with the final element date and letter requirement?

A: Since your final element will be created at the time of the live broadcast, the date of airing will be the date used for final element creation. A letter from the producer stating that the final element was created during the broadcast will suffice; the letter must include the initial airdate.

Q: If we are using a church for a location, does the fee qualify?

A: If a location fee is paid, and there is a location agreement, and the production is actually utilizing the location in CA, it would qualify. There is no restriction on paying non-profits. However, if the money is paid strictly as a donation, then it would not qualify.

Q: Are charitable donations qualified?

A: No, as there is no tangible personal property rented or purchased in the state.

Q: If a production donates an asset at the end, do they still get the 20% tax credit?

A: If an asset is donated so that it constitutes a charitable contribution, it will not qualify for a tax credit.

Q: We incurred charges prior to the CAL date for services that will be rendered after the CAL date. Will those charges qualify?

A: Services rendered during the qualified period qualify; services/costs incurred prior to CAL issuance do not qualify, with the exception of office/stage rentals, completion bonds, and insurance premiums, which may be pro-rated.

Q: Do stage holding fees qualify for the incentive? If so, is there a cap on the qualifying amount? Also, if the fees were incurred 30 days after the final element would they be a qualified expense for the following season assuming we received our CAL?

A: Stage hold fees qualify within the qualified period, so as long as the fees are incurred as of the date of the CAL (or prorated as of the date of the CAL) and no more than 30 days after creation of the final element the expense would qualify.

If the CAL for your next season is dated after the 30-day final element deadline for the previous season, there will likely be a gap in terms of "hold" fees that are not covered by either CAL However, if there is overlap, then the following season's CAL could pick up the hold fees within its qualifying period.

Q: Are there incentives given for a production that is ONLY doing post-production in California?

A: No. However, almost all post-production expenses are eligible for incentives for any project that has qualified for a tax incentive.

Q: On live shows, do technical directors qualify?

A: Yes, they act under the direction of the director, like assistant directors.

Q: If a parent company purchases personal protective equipment (PPE), and then be reimbursed by productions, would these costs qualify for the incentive?

A: This transaction would be seen as a reimbursement. In order for it to qualify, you would need to provide documentation to the CPA performing the audit that the materials were purchased from a CA vendor, or a vendor registered to do business in CA.

Q: Several expensive cars were donated to "Just Donate," and were reduced to 50% for about $17,000 each. Since they are donated and getting a tax deduction, do they still qualify for a tax credit?

A: Tax-deductible donated items do not qualify for a tax credit as it would be a double credit.

Q: How should we handle reimbursements for ATL people for items purchased in CA, with backup for the reimbursement?

A: The production should directly pay for any production-related items for non-qualified individuals. Reimbursements to non-qualified ATL personnel do not qualify.

Q: Do subscriptions to Synchronize and Dropbox qualify?

A: The statute states that "licenses" don't qualify, which is why purchased software and licenses for artwork don't qualify. Buying a subscription to an online service is a bit of a gray area. Although software expenses and subscriptions, by and large, do not qualify, these two do, since they're California companies.

Q: When calculating the 75% test for the CA VFX uplift, are 3D post-Production amounts included in the numerator?

A: As 3D is a type of distribution format, the only uplift for processes in your listing would be VFX vendor costs for 3D elements. (See below for a sample list of 3D post-Production account numbers and descriptions.)

5000 - 3D POST PRODUCTION

	Acct#	Account Description
1	5001	3D EDITORIAL LABOR
2	5002	OTHER LABOR
3	5003	STEREOGRAPHER
4	5005	CONVERSION VENDOR
5	5010	SCREENINGS
6	5015	EXPENDABLES (DRIVES & MISC EQ)
7	5016	SHIPPING & FORWARDING
8	5017	COORDINATORS
9	5018	EQUIPMENT AND OFFICE RENTALS
10	5020	REVIEW/CONFORM
11	5024	TITLES
12	5025	3D DIGITAL INTERNEGATIVES
13	5027	MASTERS & DELIVERABLES
14	5032	SCANNING
15	5044	VFX VENDOR COSTS FOR ELEMENTS
16	**5099**	**Total Fringes**
17		**Total**

Q: How do we handle allowances, paid through payroll or directly, for home internet and home office expenses? Does it matter how it is paid? What if the individual is being paid as a loan out?

A: These are all QE as long as they are related to the production and individual receives qualified wages.

Q: How do we tag Box Rentals from qualified employees from out-of-state?

A: Any qualified labor should have their Box Rentals considered QW. Since there is no residency requirement for employees, it is immaterial whether they are from out of state or not, as long as they are working in CA. If they rent equipment to the production as a vendor, those rentals would be NQ, unless their vendor entity is registered to do business in California with the Secretary of State, in which case it would be QE. However, qualified labor from out of state with box rentals would not receive ZW or LW on their box rentals as they were not purchased out of the LA zone.

Q: How should we handle prepaid gas receipts?
A: We must have actual gas receipts provided from the gas station for review.

Q: I am the production accountant for (Show X). We are ready to start sending documents to satisfy the final requirements. Can you tell me how we can open a new portal for uploading documents to you?
A: Who is your auditor? We can add them to the portal, no problem. Also, you can refer to this checklist for the required documentation in order to receive the final tax credit certificate. The full packet will be sent to us, normally by the CPA, or you, once they are complete and ready for review. You do not need to upload any documents at this time. One requirement, however, that you can email to us are production stills. Please send JPG files and we can cross this off the checklist.

Q: Do we need to do any tax withholdings on Loanouts?
A: That is not what the California Film Commission does. We do not audit for that. You should check with your legal department and with the California Franchise Tax Board what your tax obligations are.

Q: We'll be rehearsing dancers and singers - they would then qualify, correct? What about our actors who are rehearsing for months prior to photography - can we allocate a portion of their salary to qualifying labor?

A: If they are paid on extra vouchers, your dancers and singer will qualify. Your actors will not.

Q: What happens if we encounter a situation where a production has a Director that also gets paid a weekly salary to serve as a Director of Photography? Do we get to qualify the payments re: DP as QW?

A: Yes, the DP salary qualifies, up to a maximum of $100,000. You have to make sure the individual gets credited in both positions so the BTL salary qualifies.

Q: Studio XYZ works with payroll company "Sabron" who pays their musicians. They are a separate payroll company. Sabron pays the musicians, then Studio XYZ pays Sabron via AP. Should these costs be considered QW, and would they be eligible for "MW"? Or should these costs be tagged as QE since they are paid through AP?

A: Musicians and any other positions outlined in our regulations that qualify for music labor bonus points which are paid through a music payroll service like Sabron (or EP or Cast & Crew) can be tagged QW/MW.

Q: Is it true that there are now additional requirements for the stills we are required to submit?

A: Yes. In Program 3.0 the requirement is now:
Applicants must submit five (5) production stills in digital file format (JPG or PNG). The stills must be cleared by the production company, with cast approvals if cast members are in the photographs. These photos may be used by the CFC to promote filming in the state of California. To this end, <u>stills that showcase the diversity of California locations and employment are required</u>.

LABOR

Q: Must crew members be California residents?

A: No. There is no residency requirement.

Q: Do productions have to be signatories to Unions, IA, Teamsters, SAG, DGA, WGA?

A: No, there are no Union or Guild requirements.

Q: Can an individual paid via AP/1099 qualify as QW assuming they provide services in CA?

A: Individuals working in qualified positions who are paid via AP can be tagged QW.

Q: Our Line Producer is also the UPM. How are the wages treated with respect to qualified and nonqualified wages?

A: Producer or Director hyphenates (ATL/BTL functions) are allowed a maximum of $100,000 exclusive of fringes, box rental, etc.; the rest of the salary/fee is NQ. The BTL salary and rentals must be commensurate with those of other department heads at the project's budget level. The BTL function must be credited on-screen for the BTL salary to qualify. This is true for any such combination: DP/Director, Editor/Co-producer, 1st AD/Associate Producer.

Q: Will a box rental or car allowance for a producer be qualified?

A: If a qualified hyphenate, the rate equal to other department heads will be qualified. Otherwise, it would not qualify.

Q: Are the payments to Extra Casting Agencies (a percentage of the moneys paid to the background players) properly included as fringes?

A: NO. This must be shown as a line item and tagged QE.

Q: Are dancers considered qualified labor?

A: If they are paid under a background actor contract, the payments are QUALIFIED; if they are paid under a SAG/AFTRA talent contract, they are considered performers and do not qualify.

Q: Are individuals hired as part of a Covid-19 Safety Crew qualified labor?

A: Covid-related occupations are safety-related and qualified. If they are paid directly through payroll or via AP, they would be considered QW. If paid through a third party, it would be QE. However, the third-party company must be registered to do business in California for the expense to qualify

Q: When we were shooting in a water tank, we had our stunt riggers working in the water, helping to pull the on-camera stunt person through the water. They were never on-camera; however, they were paid stunt adjustments due to working in the water. Would I be able to count those stunt adjustments as qualified spend since they were provided to qualified labor?

A: Yes.

Q: On the final form for diversity, if an individual does not identify as male or female, is there an option other than N/A?

A: Yes. See Portal.

Q: One of the shows we are working on had to pay penalties related to late payroll for several SAG extras. Should this be tagged QW or NQ?

A: NQ. We liken it to union grievances, which are also NQ.

Q: If we outsource set construction to a company that breaks out labor versus materials, does the labor qualify as labor or expenditure?

A: In order for an expenditure to be considered qualified wage, the wage must be paid directly by the production company or its payroll company. Wages paid by a vendor are QE.

Q: I was wondering if the below categories are eligible for the 70% QW / 30% QE split if not detailed.

- Greens
- Set Construction Shop Set-up
- Set Decoration Warehouse Shop Set-up
- Wardrobe Shop Set-up
- Tow Truck Driver and Rental
- Additional Picture Vehicle Trailer
- Camera/Hair/Makeup Tests

A: Only the following categories in the Tracking Tips allow for splits in non-detailed budgets (all 70% QW / 30% QE except as noted):

- Construction
- Set Striking (80% QW / 20% QE)
- Custom Signage
- 2nd or additional units (80% QW / 20% QE)
- Music Scoring Costs
- VFX (for both budgeting and final audit)
- Covid Health & Safety Expenses (40% QW / 60% QE)

Q: Money is being paid to our music producer with the understanding that they will, in turn, pay the other employees. Qualified?

A: Any payments made to a non-qualified individual such as a music producer will not qualify. The production must pay the costs directly In order to qualify.

Q: We have a project that may be scoring in California and currently have composer contracts that are "all-in" package deals. Meaning, we don't process hard costs on the show level, but pay a package fee to the composer that covers the composer fee and scoring costs that they manage themselves. If we wanted to capture the music scoring costs for the CA tax incentive, what do we need to provide to show the split between the music composer fee & the rest of the package?

A: Package deals in which all payments go to the composer are considered NQ. If you want to qualify music expenditures, the production must pay for them directly and pay the composer a separate non-qualified fee.

Q: Our composer is also a band musician. Instead of orchestra work, we are doing a lot of recording of bands. Can we deduct the musician fee from his composer fee?

A: A composer who is performing as a musician - a BTL capacity - can be compensated for BTL work as long as his timecard/invoice is for his work as a musician and the compensation is at the same rate as other band musicians.

JOBS RATIO & BONUS POINTS

Q: Does the money we spend on a completion bond count as a Qualified Expense when it comes to calculating our Final Jobs Ratio?

A: No, the bond is calculated outside of the Jobs Ratio, both before and after filming.

Q: Why doesn't the contingency count toward the Jobs Ratio calculation?

A: Contingencies are not included in the Jobs Ratio calculation since they are funds that might not be spent, and it is difficult to estimate wage vs. non-wage. Also, many projects do not include contingencies.

Q: If our post-production house provides a letter indicating how much of their invoice is labor, will it count as QW and not QE, even though it does not go through our payroll?

A: Labor that is paid via a third-party entity must be tagged QE.

Q: Our project has a budget of $130M in qualified spend. When calculating the Jobs Ratio (on both the initial application and final report), should we ignore the $100M cap and calculate the Jobs Ratio based on the entire $130M?

A: When calculating the Jobs Ratio, you should input the correct qualified wages and non-wages, even if that amount is higher than the qualified expenditures cap in your category. The Tax Credit will automatically be capped by the maximum eligible qualified expenditures amount.

Q: I need clarity on the Jobs Ratio penalty.

A: If the CFC determines that the Jobs Ratio has been reduced by more than 10%, the credit will be reduced by an equal percentage, unless the qualified applicant demonstrates reasonable cause exists for the reduction. If the Jobs Ratio has been reduced by more than 20%, in addition to the reduction of the credit as described above, the CFC shall not accept an application from that company's entire combined reporting group (or the company and its affiliates) for one year from the date of determination.

UPLIFTS

Q: Since the tax credit for non-indies is based on a cap of $100M in qualified expenditures, is that inclusive of any uplifts?

A: No. Uplifts are on top of the amount. The statute allows a maximum 5% of the qualified expenditures with respect to tax credits above the $20M cap, which means a non-indie could receive up to $25M in tax credits.

Q: Can a movie lump multiple uplifts together to receive as much as 20% uplift?

A: No.. Uplifts are calculated on specific spend or days of principal photography and cannot be aggregated above 30%.

Q: How do we get the uplift for hiring local labor?

A: Local Hire Labor should be tagged "QW/LW" in order to receive the uplift. There IS a requirement for this: Local Hire employees need to demonstrate that they reside outside of the LA. zone by providing a California driver's license or State ID Card PLUS one of the following as proof of domicile outside the LA Zone:

- utility bill dated within the last three months
- current home or apartment rental agreement
- mortgage statement
- home internet/phone provider
- apartment renter's insurance or homeowner's insurance bill.

Proof must be requested by production accountants at the time of hire and provided to the CPA performing the audit. Lack of proof of a crew member's domicile will result in the denial of the Local Hire Labor Uplift for that crew member.

Q: Does a camera package which will be rented in Los Angeles, but brought to San Francisco for our production, qualify for the 5% uplift?

A: No. Tangible personal property used outside the Los Angeles zone must be purchased, rented, or leased from a vendor through an office or other place of business outside the Los Angeles zone to qualify for an uplift.

Q: Visual effects: Do all wages and non-wage expenses credited to VFX, including practical shooting costs, qualify for the uplift.

A: No. VFX Producers do not qualify. The qualified expenditure charts indicate those VFX expenditures that qualify for the VFX uplift and for VFX bonus points (they are the same accounts).

- VFX Digital Artists and VFX upper management staff (as indicated on the Qualified Expenditure Chart) who are hired directly by the production company do qualify and should be tagged "QW/VU" (both qualified wage and VFX uplift).
- All VFX accounts concerning third party vendors providing CG asset creation qualify for the VFX Uplift.
- All vendor payments must be split 70% Wages (QW) and 30% Non-wages (QE). Such expenditures will be figured at the same ratio by the CPA handling the audit for the AUP.
- Qualified VFX expenditures in-state must equal at least $10M OR 75% of the total worldwide VFX costs to qualify for uplifts. (Indies with qualified spend budgets $10M and under are not eligible for the VFX uplift.)

Q: Is that $10M in QUALIFIED spend?

A: Yes. Nonqualified expenditures, such as VFX Producers DO NOT QUALIFY and should not be included in the calculation of the minimum VFX spending for eligibility purposes.

Q: In calculating the VFX $10M spend / 75% threshold: can any qualified costs in the VFX category on the Chart of Accounts count, even if not tagged for VU? Expenditures like craft service, meals, furniture rentals, equipment rentals, mo-cap, office rentals, on-set PAs?

A: Yes. When determining the spend test, we can take into account all in-state VFX spend, even if it doesn't garner an uplift as long as it pertains to the VFX department.

Q: Do visual effects expenditures qualify for uplift during prep and post-production periods?

A: VFX expenditures which are indicated on the Qualified Expenditure Charts as qualifying for the uplift (with VU) qualify during prep, shoot, and/or post.

Q: Is motion capture work considered VFX?

A: Not for purposes of the 5% uplift or bonus points. However, they should be included when calculating the percentage of VFX work incurred in California.

Q: What about virtual production costs?

A: Virtual production costs qualify which pertain to digital asset creation, world capture (location/set scanning, volumetric capture, and visualization.

OUT-OF-ZONE

There is a comprehensive explanation of Out-of-Zone uplifts in the preface of the QEC.

Q: I understand that for non-independent productions there is a 5% uplift for shooting out of the studio zone. How is the studio zone defined?

A: "*Los Angeles Zone means the area within a circle 30 miles in radius from Beverly Boulevard and La Cienega Boulevard, Los Angeles, CA and*

includes Agua Dulce, Castaic (including Lake Castaic), Leo Carrillo State Beach, Ontario International Airport, Piru, and Pomona (including the Los Angeles County Fairgrounds). The Metro Goldwyn Mayer, Inc. Conejo Ranch property is within the Los Angeles zone."
Please utilize this link to view the studio zone.

Q: What about the "secondary studio zone"?

A: For purposes of the uplift, the tax credit program only recognizes the studio zone – not the secondary studio zone.

Q: So, are you saying that films eligible for a 25% tax credit could receive as much as 30% with the uplift?

A: Yes. Independent films and Relocating TV series qualify for a 5% Local Hire Labor uplift if shooting outside-the-zone.

Q: Regarding tagging for out-of-zone expenditures, what is the difference between ZE and ZC?

A: Outside the LA. zone consumables (ZC) are items purchased or rented outside-the-zone which are used/consumed entirely outside-the-zone.

- For example: fuel, security personnel hired through a security company, dry cleaning, food, hotel rooms,
- equipment rented outside-the-zone and used solely outside-the-zone
- please refer to Appendix A of the Guidelines for a list of zone consumables

Outside the zone expenditures (ZE) are items purchased or rented outside the zone and could be used both inside- and outside-the-zone.

- For example: if you are shooting in San Francisco and rent your equipment in S.F. but also use it in Los Angeles, the equipment rental would be tagged ZE, as it will be prorated based on the number of principal photography days both in and out of the LA zone.

Q: Does a camera package which will be rented in Los Angeles, but brought to San Francisco for our production, qualify for the 5% uplift?

A: No. Tangible personal property used outside the Los Angeles zone must be purchased, rented, or leased from a vendor through an office or other place of business outside the Los Angeles zone to qualify for an uplift.

- An "Outside Los Angeles Zone Vendor" is a supplier in the State which maintains an office or place of business outside the Los Angeles zone and is registered or qualified with the California Secretary of State; or is required to file a return with the California Franchise Tax Board under Parts 10 or 11 of the Revenue and Taxation Code and employs one or more full time employees; or is a sole proprietor working at the place of business outside the Los Angeles zone. Pass-through businesses do not qualify as an "Outside Los Angeles Zone Vendor" (Items purchased out of state which are shipped to fulfillment centers do not qualify).

Q: Our crew is building a set outside of the zone that will be used inside the zone. Do the labor and set both qualify for the uplift? How about the meals we serve?

A: The labor working outside the zone is eligible for uplift and should be tagged QW/ZW.

- Since the set will not be used outside the zone, it is not eligible for uplift and should be tagged QE.
- If the meals are purchased and consumed outside the zone, they can be tagged QE/ZC.
- If the labor required to provide those meals takes place out of zone, it can also be tagged QW/ZW.

Q: Do 2nd/Stunt/VFX unit expenditures count for the 5% Out of Zone uplift?

A: Wages for work performed outside the zone and tangible personal property purchased or rented and used outside the zone are eligible for the uplift for both principal photography and additional units. Verification, utilizing sufficient documentation, payroll records, call sheets, timecards, etc., will be necessary.

Q: Does the extra 5% for outside the 30-Mile Zone apply to projects shot in San Francisco?

A: Yes. San Francisco is outside the Los Angeles zone. The Uplift applies to all qualified wages and qualified purchases/ rentals utilized in San Francisco related to the applicable period: prep, shoot and strike.

Q: Do permit fees for out-of-zone locations qualify for the uplift?

A: Permit fees for outside the zone locations paid to offices outside the zone do qualify for uplift. However, if the vendor is within the Los Angeles zone, they do not qualify for the uplift.

Q: We are using an in-zone vendor to coordinate an outside-the-zone shoot. Do wages and service fees paid for outside-the-zone work qualify for the uplift?

A: No. Since the vendor is within the Los Angeles zone all expenditures are considered inside the zone and are tagged QE.

Q: Do we need to shoot the full day out-of-zone to qualify for the uplift?

A: No, but the first scene of the day must be at the outside-the-zone location.

Q: Does 2nd unit work count as one day out-of-zone or are OZ days only for 1st unit work that starts the day OZ?

A: Only 1st unit PP days count toward OZ bonus point days.

Q: If we park the crew inside the zone and shuttle them out to the location every day, is that still considered outside-the-zone spend for those shooting days? I'm unsure because the website says that if a day is split between places in and outside the zone that you have to start outside the zone. In this instance, my first shooting location would be outside the zone, but their report to location would be inside the zone.

A: As long as the main unit's first scene of any day is filmed outside the zone, that day will qualify as an out-of-zone principal photography day.

Q: If we travel the crew to an out-of-zone location and shoot on the same day, would the day still count as an OZ Day (even though some of the day was travel)?

A: Travel salaries out of the zone count toward the 5% uplift. You would need to shoot the first scene of the day the same day you travel to have that day count as an OZ principal photography day. Travel to an out-of-zone location without shooting still counts towards the 5% uplift – just not as a principal photography OZ Day.

Q: If we purchase lumber out of zone, bring it into the zone to build the sets and then bring the sets out of the zone to shoot, can we qualify the lumber towards the 5% uplift?

A: The lumber would qualify for the uplift; the labor to build the sets in the zone would not.

Q: Does the out-of-zone uplift apply to sales taxes on items purchased and used out of the zone?

A: Yes, for any expenditures eligible for the out of zone uplift. Totally consumed items, along with the sales tax, should be tagged QE/ZC; all other out of zone purchases with sales taxes should be tagged QE/ZE.

Q: Do car allowances for out-of-zone labor qualify for the uplift?

A: Car allowances paid to qualified out-of-zone labor does qualify and should be tagged QW/ZW. If it is for a car that is rented from an out-of-zone vendor and used both in- and out-of-the-zone, it would be tagged QE/ZE. If it is used only out of the zone, it would be tagged QE/ZC.

Q: Would location scouting labor that occurs OZ be considered ZW – even if no principal photography occurred on those days, or if principal photography was occurring in-zone?

A: As long as all of the scouting can be shown to be OZ, YES, it would be ZW.

Q: Would a VFX Coordinator qualify for both VU and ZW if they accompanied the production to an OZ shoot and were paid for that day?

A: Yes.

Q: If we have a VFX Data Wrangler (LA hire) working during the shoot and the individual travels out of the zone (San Diego), are we allowed to tag both ZW and VU?

A: Yes, for both.

Q: Would build labor and expenses that occur OZ be considered "ZW, ZC" – even if no principal photography occurred on those days, or if principal photography was occurring in-zone? For example, what if a Construction Coordinator who lives in, say Ventura, has his entire shop and crew out of the zone and do all their work out of the zone for a show that is shooting in the zone.

A: The uplift is for work performed out of zone which pertains to filming outside the LA zone. Work performed out of the zone for filming inside the zone does not qualify for the uplift.

Q: If we hire a vendor in San Francisco to shoot miniatures, will these days qualify as principal shoot days and the costs eligible for the 5% uplift?

A: Principal photography days involve the principal director and usually the lead actors, so a miniature shoot carried out by a vendor would not qualify as principal photography. If you contract with an out-of-zone vendor to perform services outside the zone, payments to that vendor will qualify for the uplift (ZC).

Q: How should we handle box rentals while out of the zone?

A: It will be "QW, ZW" for LA-zone residents working on an out-of-zone day (e.g. – a Los Angeles resident, working in Ventura), and "QW, LW" for any out-of-zone residents working an out-of-zone day (e.g. – a San Francisco resident working in San Francisco).

Q: For an individual who is hired from out of state with a box rental, but works in San Francisco, is their box "QW, LW" (as it would be for outside-the-zone residents), QW (as it would be for LA residents who bring their boxes), or NQ because they're from out of state? (Assume that the boxes will be used solely outside the zone in San Francisco, and not in Los Angeles.

A: The box rental would be treated the same way as it would in the LA zone – ZW. It does not garner an uplift since the individual is not from that out-of-zone location.
Additionally, when used out of state, they are XX.

Q: If a vendor is located outside the LA. Zone, but not in the county where filming occurs, does the expenditure in the ledger require an out-of-zone county tag if the item IS NOT utilized in the out-of-zone county being filmed in? (For example, an item is purchased in Oakland County, but is utilized in Los Angeles County and not at the out-of-zone filming site)

A: The Local Community Expenditure Report reflects the amount of money spent in a given out-of-zone county for filming <u>in that county</u>.

- If an expenditure is made in an OZ county but is used for filming in the LA zone : it does not qualify for any uplifts; it does not qualify for any bonus points; it does not require a Local Community Expenditure Report.
- If an expenditure is made in an OZ county and is used in a different OZ county, it cannot be said to be an expenditure made in the county where filming takes place. Therefore, it would not be tagged with either the county it was made in or the county it was used in.

Q: If a vendor is located outside the LA. Zone, but not in the county where filming occurs, does the expenditure in the ledger require an out-of-zone county tag if the item IS utilized in the out-of-zone county being filmed in? (For example, an item purchased in Oakland County is utilized at the filming site in Alameda County)

A: The answer is the same - the Local Community Expenditure Report reflects the amount of money spent in a given out-of-zone county for filming <u>in that county</u>:

- As above, if an expenditure is made in an OZ county (Oakland) and is used in a different OZ county (Alameda), it cannot be said to be an expenditure made in the county where filming takes place (Alameda). Therefore, it would NOT be tagged with either the county it was made in (Oakland) or the county it was used in (Alameda).

- Except for Independent Films, which do not get the Z uplifts, the full amount of the expenditure would be tagged ZC.

Q: If a production films in Alameda County, but has Local Crew that renders services in LA. County, does this labor get reported on the local community expenditure report?

A: If the project is filming OZ (in Alameda County, per the example) but the crew is working in LA (the Accounting staff, some wardrobe people or prop people buying stuff, postproduction, vfx etc), their wages are NOT reported in the Local Community Expenditure Report. They would not be eligible for any uplifts, no ZW and no LW.

Q: If a crew from LA goes to film OZ, do their wages get reported on the Local Community Expenditure Report?

A: The answer is NO. Their wages are not expenditures made in the OZ county where filming takes place. The same is true of non-wage expenditures such as equipment rentals made in LA but used in an OZ county. However, the LA crew filming OZ should be tagged ZW. OTOH, the non-wage expenditures are NOT tagged ZE or ZC when rented or purchased in the LA zone.

TRAVEL

Q: If airfare is purchased from a CA vendor but it is for travel outside of CA, is it NQ or XX?

A: It would be considered XX. To qualify, both the ORIGIN and DESTINATION must be within California ("intrastate".)

Q: Would the travel agent fee qualify as QE?

A: No, the travel agency fee only qualifies for travel within CA.

Q: Does a CA travel agency need to have a specific number of employees located in the CA office? (or at least one?)

A: There is nothing in the statute that sets the minimum number of employees of the travel agency. However, it must be registered to do business in CA and have whatever other qualifications are necessary to form a travel agency business. There may be standards or certifications for someone to act as a travel agent as well.

Q: Is it required that the travel booking be done within the CA office? (i.e., would the travel be disqualified if booked out of a NY office?)

A: The booking needs to be made in California through a California travel agency. This includes the billing and the ticketing.

Q: Does the travel agency need to charge any specific taxes for the travel and their fees to qualify?

A: If you are working with a travel agency registered to do business in CA, they will be aware of any taxes and fees that must be charged.

Q: Would a private jet from LA to San Francisco or Palm Springs qualify?

A: As long as the company is registered to do business in CA, yes it would. However, the CFC discourages the use of private jets and would hope if they are used, the company will purchase carbon offsets.

Q: Can travel invoices come from the travel agency or does it need to come from the airline/hotel/etc.? Do the film production and the travel agency need to enter any sort of agreement for the travel and fees to qualify?

A: The CPA performing the audit is tasked with verifying that expenditures are qualified, and that includes that they were made with a qualified CA vendor. <u>Please keep in mind that any transactions made with a vendor who does not meet program standards will not qualify</u>.

Q: I understand that airfare outside of California does not qualify. What about travel day salary payments to qualified crew?

A: Travel Day payments to crew flying out of or into California are not considered qualified expenditures.

Q: For intrastate airfare, for example Burbank to Sacramento, do we need to purchase tickets through a California travel agent for it to qualify, or can we simply purchase tickets from the airline, Southwest for example?

A: Airfare, ancillary charges, and agency fees DO qualify when purchased from a California travel agency for intrastate travel. If you purchase a flight from an airline's website, this cost will not qualify.

Q: What about airfare for companion tickets based on contractual obligations?

A: The following must BOTH be true for the cost to qualify: The person whose companion is being considered must be QW, and travel must be within the state of California.

Q: What if a cast member pays for such expenditures. Can they be reimbursed?

A: If a cast member is compensated for outlaying these expenditures, those costs will not qualify; any monies paid to a cast member are NQ.

Q: For intrastate flights, if the airfare or luggage fee was purchased via a show purchasing card or a personal credit card, would that travel-related cost qualify based on the fact that the cost was absolutely a California expense?

A: As long as the airfare was purchased from a CA travel agency/agent for travel within California, ancillary fees would also qualify. The use of a company or personal credit card will require the CPA performing the audit to request multiple statements to make sure that the airfares were not refunded at some future date (unless there are boarding passes to provide proof that the airfare was utilized), or they may look for credits in the ledger.

Q: Do payments to Airbnb for accommodations qualify?

A: Yes. In Program 3.0 Airbnb costs qualify.

CAREER READINESS

Q: How do we find interns, instructors, or schools who want to participate in the Career Readiness requirement?

A: The CFC has a database to help match productions with local schools, community colleges (no four-year institutions) and career-based learning programs, both in LA and throughout California. Producers wishing to work with specific schools or programs should contact the CFC to inquire if the organizations they are interested in are approved by the CFC. If they are not currently on the database, it is possible they can be added.

Q: Does a production have to use the CFC list to locate interns/teachers to fulfill the career readiness program, or are we able to look for our own?

A: Producers wishing to work with specific schools or programs should contact the CFC to inquire if the organizations they are interested in are approved by the CFC. If they are not currently on the database, it is possible they can be added if they conform to our program requirements. Any interns employed on the production must be over 18 years old and residing in California.

Q: Our production wants to make a financial contribution – how do we do that?

A: The Career Readiness page has a section for financial contributions which includes forms and copies of W9 forms for both the high school and community college funds that will be receiving the contributions. Be sure to go to the individual websites for either the high schools or community colleges for more detailed information. The filled-out form and check should be mailed to one of the funds listed. The check should indicate that the contribution is for the Career Readiness program and a receipt should be requested for submittal to the CPA performing the Agreed Upon Procedures, along with a verification form.

Q: We would like to hire interns for a craft position (grip/electric/sound/camera/etc.). Is it necessary to notify the unions?

A: Yes, when hiring interns in any union categories, productions must contact the prevailing union to inform them of the names and dates when interns will be on set. Union crew members on your show may not understand the situation and notify their unions that non-union workers are on set.

Q: If we hired paid interns for the Career Readiness requirement, is the salary qualified?

A: Yes. In Program 3.0 the salary of paid interns qualifies for a tax credit.

Q: How much do we have to pay them?

A: Generally, CA minimum wage, but there is nothing to keep you from choosing to pay them more.

Q: Can interns work a full day?

A: Typically, they work a reduced schedule, generally 8 hours a day and perhaps three days a week, but this is not a requirement

Q: How has the pandemic affected the Career Readiness Program?

A: Should you choose one of the in-person career readiness options (Professional Skills Tour, Paid Internship, Educator Externship) it is imperative to maintain strict Covid-19 protocols, taking any and all actions needed to ensure the safety of all participants. Individuals participating in said events should be informed and consent to any risks prior to participation, and their acknowledgment and consent should be memorialized in writing.

- Since the Covid situation continues to be in flux, always observe the prevailing safety recommendations.

Q: I keep hearing about asking interns and others to provide video testimonials about their time on the show. Is this a requirement of the program?

A: No, it isn't a requirement. But it generates so much goodwill with the Commission, its legislators and stakeholders that it is highly encouraged. (Extra "Brownie Points" are awarded if they mention their gratitude to the Film Commission by name!)

Q: Can we use an intern as a production assistant? Can they make runs?

A: The intent of the Career Readiness Program is for the people involved to be exposed to jobs in the industry and to <u>learn</u>. They should <u>not</u> be making deliveries and pickups. Such tasks are not considered learning experiences and <u>will not</u> satisfy the Career Readiness requirements.

END CREDITS

Q: A Production Alert was issued on January 12, 2024, about changes in end credits requirements. I am currently in the program; am I subject to this new rule?

A: If you have a Credit Allocation Letter (CAL) issued on or before December 21, 2023, the end credit requirements in effect were as follows:

> Provide an on-screen acknowledgement to THE STATE OF CALIFORNIA AND THE CALIFORNIA FILM COMMISSION and include the California Film Commission Logo.

Approved projects with CAL dates on or after December 22, 2023, are subject to the new end credit requirements, which states:

> Provide an on-screen acknowledgement to THE STATE OF CALIFORNIA and THE CALIFORNIA FILM COMMISSION and include a five-second-long static California Film Commission Logo in the end credits before the below-the-line crew crawl, for the life of the project.

NOTE: The California Film Commission (CFC) is currently in the process of modifying current regulations to address conflicting laws between CFC regulations and specific bargaining unit or guild agreements within the motion picture and television industry.
The CFC is currently aligning the end credit requirements to conform with terms of relevant collective bargaining agreements.

For specific questions, please contact the California Film Commission.

UTILIZATION OF TAX CREDITS

Q: How does the cap on tax credit usage affect the carryover of film tax credits for both Program 2.0 and Program 3.0 projects?

A: The Program 2.0 carryover language reads:
(3) In the case where the credit allowed..exceeds the 'net tax', the excess credit may be carried over to reduce the 'net tax' in the following taxable year, and succeeding five taxable years, if necessary, until the credit has been exhausted.

Translation: Even though the only number that shows up in that paragraph is five, the number of carryover years is "five plus the following taxable year," or six. There is a similar issue with the Program 3.0 language.

Please see the section on the website regarding the $5M cap on tax credit usage for the period beginning Jan. 1, 2020 and before Jan. 1, 2023: CFC Using Your Tax Credits Jan 2021 (ca.gov)

Q: Is there a list of available qualified California companies who can broker the tax credits?

A: A list of tax credit buyers and brokers is available upon request.

Q: Can the tax credit be used by a company with the same ownership as the production company?

A: Affiliated companies may utilize the tax credits.

Q: Does the cap of $5M per fiscal year apply to income taxes at the combined reporting group level?

A: Yes, for buyers of both Independent and Non-Independent project credits.

Q: Does the cap of $5M per fiscal year apply to sales and use taxes at the combined reporting group level?

A: Yes, but only for non-indies, as independent project credits cannot be used against sales and use tax liability.

Q: What else do I need to know?

A: More information here.

Q: How does this affect credits for entities purchasing credits from independent projects?

A: Such companies will have the same limitations as the original recipients when they elect to utilize their credits against state income tax liabilities.

DIVERSITY PROGRAM REQUIREMENT

Q: Is every applicant required to submit a summary of its voluntary programs to increase representation of women and minorities?

A: Yes. There used to be a carve-out for Indies under $10M, but that no longer applies. ALL shows must now submit this summary.

APPENDIX A

(18) (A) "Qualified motion picture" means a motion picture that is produced for distribution to the general public, regardless of medium, that is one of the following:

(i) A feature with a minimum production budget of one million dollars ($1,000,000).

(ii) A miniseries consisting of two or more episodes, each longer than 40 minutes of running time, exclusive of commercials, that is produced in California, with a minimum production budget of one million dollars ($1,000,000) per episode.

(iii) A new television series of episodes longer than 40 minutes each of running time, exclusive of commercials, that is produced in California, with a minimum production budget of one million dollars ($1,000,000) per episode.

(iv) An independent film.

(v) A television series that relocated to California.

(vi) A pilot for a new television series that is longer than 40 minutes of running time, exclusive of commercials, that is produced in California, and with a minimum production budget of one million dollars ($1,000,000).