



# California Film & Television Tax Credit Program 2.0

PROGRAM YEAR 4

## **GUIDELINES**

**October 2018**

For Projects with Credit Allocation Letters on or after July 1, 2016

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## I. Introduction

The “**California Film Commission**” (CFC) prepared these guidelines to assist Production Companies and taxpayers in utilizing the California Film & Television Tax Credit Program 2.0. The material below contains information from the statute (Sections 17053.95 and 23695 of the Revenue and Taxation Code) and Program Regulations (Title 10, Chapter 7.75, Sections 5508-5516) in a more readable, organized format. It may add clarity to certain provisions of the statute and contains new and additional requirements. “**Applicants**” should read and understand the requirements of AB 1839 and the Permanent Regulations, and are also strongly advised to consult with their legal and financial advisors. All the information contained in this document pertain to productions with Credit Allocation Letters on or after July 1, 2016. Documents cited also pertain to Program Years 2-5.

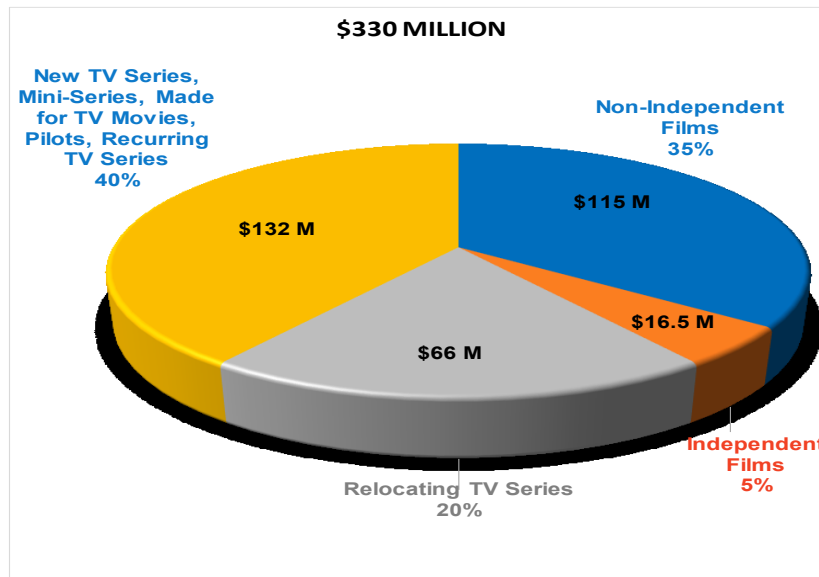
**Appendix B** includes a fringe chart with acceptable fringe ranges for budgeting purposes. Detailed information on budget preparation, coding, and tagging is available in a separate document: [Budget Tagging and Tracking Tips 2.0](#).

These guidelines contain terms whose meanings are defined in Section XVI. When defined terms initially appear, they will be in **bold** and “quotations.”

## II. Program Funding and Project Eligibility

The California Film & Television Tax Credit Program 2.0 provides tax credits based on “**Qualified Expenditures**” for qualified productions that are filmed in California. Enacted in September 2014, the 5-year, \$1.55 billion program commenced on July 1, 2015. \$330,000,000 is available beginning fiscal year 2016/17 through 2019/20. The California fiscal year is July 1 through June 30.

- A. Tax credits will be allocated each fiscal year according to the following designated funding:



- B. **“Qualified Motion Picture”** must be an independent film, non-independent film, made for television movie, miniseries, television pilot, or television series, AND meet one of the following conditions:
1. A minimum of 75% of the production budget must be incurred and used for goods, services and/or wages within California.
- OR
2. A minimum of 75% of total **“Principal Photography”** days must occur wholly in California. Principal photography days in California do not include the filming of primarily backgrounds, **“Visual Effects,”** action and/or crowd scenes by the second, stunt, or visual effects units;
- C. The following types of Qualified Motion Pictures may apply for the California Film & Television Tax Credit Program 2.0:
1. A **“Non-Independent Film”** with a minimum **“Production Budget”** of \$1,000,000. Tax credits apply to the first \$100,000,000. There is no cap on the total budget amount.
  2. A **“Made for Television Movie”** or **“Miniseries”** with a minimum production budget of \$500,000.
  3. A new **“Television Series,”** licensed for any distribution outlet, with a minimum episode budget of \$1,000,000 and an episode running time longer than forty (40) minutes, exclusive of commercials. **“Television Pilots”** with a running time minimum of 40 minutes are also qualified and must have a minimum budget of \$1,000,000. Pilots and series may be produced for distribution in any media outlet, including basic cable, pay (premium) cable, internet transmission, or network broadcast.
  4. A **“Television Series that Relocated to California”** (Relocating Television Series) without regard to episode length that filmed its most recent **“Television Season”** (minimum of 6 episodes) outside of California. There is a minimum production budget requirement of \$1,000,000 per episode. The series may be produced for distribution in any media outlet, including basic cable, pay (premium) cable, internet transmission, or network broadcast.
  5. An **“Independent Film”** with a minimum production budget of \$1,000,000 that is produced by a company that is not publicly traded and that publicly traded companies do not own more than 25% of the producing company. While there is no budget cap, credits apply only to the first \$10,000,000 of qualified expenditures. An independent film must have a running time of at least 75 minutes and be intended for commercial distribution to a motion picture theater, home video, television or via the internet. Independent films may be made-for-television movies, but cannot be mini-series or TV series, due to the running time requirement.

## Allowable Tax Credit for Qualified Motion Pictures

### NON-INDEPENDENT PROJECTS

1. **20% NON-TRANSFERABLE TAX CREDIT** (Non-Independent Productions) (plus 5% uplift)
  - a. “Non-Independent Films”: \$1,000,000 minimum budget; credit allocation applies only to the first \$100,000,000 in qualified expenditures
  - b. Made for television movie and miniseries: \$500,000 minimum budget
  - c. New and recurring television series: for any distribution outlet; \$1,000,000 minimum budget per episode (at least 40 minutes per episode, scripted only)
  - d. Television pilots: \$1,000,000 minimum budget (at least 40 minutes)
2. **5% CREDIT UPLIFT** (Non-Independent Productions)
  - e. Filming outside the “Los Angeles zone”
  - f. Music Scoring and music track recording expenditures
  - g. Visual effects expenditures (minimum spend required)
  - h. The maximum credit a production can earn is 25%.
3. **25% NON-TRANSFERABLE TAX CREDIT** (Non-independent relocating television series - initial season in CA) – Any episode length that filmed its most recent season (minimum 6 episodes) outside California; \$1,000,000 minimum episode budget. Tax credits are non-transferable. (Additional seasons are eligible for 20%)

### INDEPENDENT PROJECTS

1. **25% TRANSFERABLE TAX CREDIT** (Independent Films) – maximum credit is 25%, uplifts do not apply. Independent films: \$1,000,000 minimum budget; credits apply only to the first \$10,000,000 of qualified expenditures. (Only independent projects may sell their tax credits.)
- E. The following types of productions are not considered qualified motion pictures and are not eligible for the program:
- Half-hour (airtime) episodic TV shows (unless it qualifies under the conditions for a television series that relocated to California)
  - Animated productions
  - **“Reality Programs”**
  - Unscripted programs

- Documentaries, informational programming
- Commercials & music videos
- News programs, current events or public affairs programs
- Talk shows, game shows, “**Strip Shows**”
- Sporting events
- Awards shows
- Productions that solicit funds
- Student films
- Industrial films
- Clip-based programming where more than 50% of content is comprised of licensed footage
- Variety programs
- Daytime dramas
- Any production for which records are required to be maintained with respect to any performer in such production under Section 2257 of Title 18 of the United States Code (reporting of books, films, etc. with respect to sexually explicit conduct)

### III. Qualified and Non-Qualified Expenditures

Qualified expenditures are the portion of production expenditures that qualify for a tax credit allocation. These costs must be incurred and services performed during the “**Production Period**” in the state of California, and can include crew and staff salaries, wages, and fringe benefits; cost of facility rentals and equipment; production operation costs such as construction, wardrobe, food, lodging, and lab processing. Qualified wages also include payments to “**Qualified Entities**,” such as Loan-Out Corporations. In order for purchases and rentals to qualify, they must be purchased and/or rented and used in the state.

- A. The [Qualified Expenditure Charts](#) and [Budget Tagging and Tracking Tips](#) (available on the CFC Incentives website) are helpful guides for determining which expenditures qualify in the calculation for credits. They also provide important information for budgeting, tracking, and reporting qualified expenditures.
- B. **Non-Qualified Expenditures** do not qualify for tax credits and include, but are not limited to the following:
  1. Wages paid to “**producers**,” writers, directors, actors, stunt performers, music directors, music composers and music supervisors and performers. [Background actors (extras) or off-camera stunt personnel do qualify].
  2. Expenses, including wages, paid or incurred with respect to acquisition, development, turnaround or any rights thereto.

3. Expenses, including wages, related to financing, overhead, marketing, publicity, promotion or distribution of a qualified motion picture. This includes, but is not limited to, digital cinema distribution copies and release prints.
4. Expenses, including wages, related to “**New Use**,” “**Reuse**,” “**Clip Use**,” “**Licensing**,” “**Secondary Markets**,” “**Residual Compensation**” or the creation of any “**Ancillary Product**” including, but not limited to, a soundtrack album, toy, game, video game, trailer, or teaser.
5. Expenses for services performed outside the state of California, e.g., Visual effects work which is physically performed out-of-state.
6. Certified Public Accountant Expenses for an independent Agreed Upon Procedures Report.
7. Financial contributions and intern salaries related to the Career Readiness requirement.
8. Federal Payroll taxes.
9. CA Solvency taxes.
10. Expenditures paid or incurred prior to issuance of the “**Credit Allocation Letter (CAL)**” or 30 days after the process of “**Post-Production**” is “**Completed**.”

#### **IV. Calendar Requirements**

- A. Applications must be submitted via the online application portal during specific allocation periods. Principal photography may not begin in California until the production has been admitted into the program and been issued a CAL. *Any expenditures incurred for services, wages, or goods (whether paid or not) prior to the issuance of the CAL will not qualify for credits. (For the only exceptions to this rule, see [“Budget Tagging and Tracking Tips.”](#))*
- B. Principal photography in California must commence no later than 180 days after the CAL is issued. If the production does not begin filming in California prior to the 180-day deadline, the tax credit allocation will be revoked unless a “**Force Majeure**” event has occurred. The production company may reapply when a firm start date is known during an open allocation period; however, there is no guarantee that tax credits will be available.
- C. If a production implements a “**Hiatus**” during the principal photography period, any and all hiatus period(s) may be no longer than 120 calendar days in aggregate for the entire duration of the production. If the production does not resume within the 120-day period, the project will no longer be eligible for the program and cannot re-submit an application for that project in any future year. There is no statutory or regulatory clause that can extend the hiatus period.

If a production has completed the scheduled number of principal photography days, has commenced post-production, and requires additional photography, the Hiatus provision is not applicable. The 2 weeks encompassing the Christmas holiday and New Years are not included as part of a hiatus period during that

- time of year. Hiatus provisions do not apply between television series seasons or minor breaks between episodes.
- D. Post-production must be completed within 30 months of the CAL. The process of post-production will be considered complete when a final composite answer print, air master or digital cinema files (DCP) of the qualified motion picture is/are produced. Final elements do not include international versions, alternative distribution outlets, or archival elements.

## **V. Phase I & II - Budget Creation, Application Process and the Queue**

- A. Phase I is a specific open allocation period in which applicants can submit application information via the CFC's online portal and includes the submission of a detailed synopsis of the project. All applicants must have their schedule and budget information in order to input requested details into the online application. Please refer to the [Budget Tagging and Tracking Tips](#) (TTT), **Appendix B** of this document, and online tutorials before creating your qualified expenditure budget so that it contains the correct fringes and "tagging" methodology. Upon inputting all requested schedule and budget information, a Jobs Ratio number will be generated and projects will be ranked within their category according to that number. (See Section VI: Jobs Ratio Ranking).
- B. In Phase II of the application process, the top 200% ranked projects (double the amount of projects for which tax credits are available) will be notified to submit, within 3 days via the online portal, the following supporting documentation:
1. **Budget** must be submitted *in an industry standard budgeting program without security lock, including fringe accounts*.
    - a. Budget must contain only qualified expenditures – the detailed qualified expenditure budget\* must include only qualified non-wage expenditures, wages, and fringes. Non-qualified expenditures (NQ) must be tagged and grouped as NQ and excluded in the budget. Expenditures outside of California (all Non-Qualified) should be tagged XX and be excluded as well.
    - b. The budget amount stated in the application must match the total in the submitted budget, including completion bond and/or contingency. These expenditures should be based on the budget which, after revisions, will become the locked production budget utilized by the completion Bond Company, Production Company, and/or studio for the purposes of tracking costs. The [Qualified Expenditure Charts](#) (available on the CFC website) provide detailed information on qualified and non-qualified expenditures for different types of productions. If the budget contains non-qualified spend, applicant may be asked to revise it. Revised budgets should address only those line items which require adjustment – budget revisions with increased qualified expenditures are not permitted. Budget tutorials are also available on the CFC website.

\* If not detailed, the labor/non-labor set construction cost estimate allowed is 70% labor / 30% materials.
    - c. The tax credit allocation, if approved, will be based on the qualified expenditure estimate.



- d. A television series may submit pattern and amortization budgets of qualified expenditures in an industry standard budgeting program in lieu of the budget listed above. The same tagging methodology applies.
  - e. A contingency of not more than 10% of the qualified expenditure budget total may be included only in the contractual portion of the budget.
  - f. A bond fee of not more than 2% of the qualified expenditure portion of the production budget may be included in the qualified expenditure budget if the production is purchasing a bond. This figure should appear only in the contractual section of the budget.
  - g. Insurance costs must be included as a budgeted line item and properly tagged – not in the contractual section. E & O Insurance must be specified and tagged NQ.
2. **One-Line Shooting Schedule with Shooting Dates, Scene Numbers and Descriptions** ("Production Board") – Production schedule **must** indicate any anticipated principal photography days outside the Los Angeles zone and/or outside of California and any principal photography days in a “**Production Facility.**” *[PDF File via Online Portal]*
- Television series may submit a **Production Calendar** *[PDF file via Online Portal]* and a summary in lieu of a one-line schedule, which must include:
- The estimated start and end dates of the season (including prep).
  - The number of in-state and out-of-state principal photography days.
  - The number of principal photography days scheduled in a production facility.
  - The number of principal photography days scheduled outside the Los Angeles zone.
  - The total number of episodes.
3. **“Pick-up Order”** – A television pilot, new television series\* and relocating television series must submit evidence that the project has received a pick-up order and is thus “greenlit.” The number of episodes indicated in the pick-up order for a series must be the same as the number of episodes on the application. If additional episodes are ordered during the same season, the applicant may submit a new application during the next allocation period. (See Section C.7. below for details.) Recurring series are not required to submit a pick-up order during Phase II, however a CAL will not be issued until the CFC has received one. *[PDF File or equivalent format via Online Portal]*
- \*A television series from a pilot that was previously accepted into the program must apply as a new television series and therefore must have a pick-up order. This type of series may apply even if the allocation period is closed to new television series.
4. **Screenplay (preferably with scene numbers that match the schedule)** – A television series may provide a script from one episode, or if not available, from the television pilot episode. If application is for a television pilot without a script, a detailed synopsis will suffice. *[PDF File via Online Portal]*

5. **Detailed Narrative Statement** – Provide a written statement on letterhead establishing that the tax credit is a significant factor in the applicant’s choice of location for the project. Include information about whether the project is at risk of not being filmed and specify the jurisdiction where the project may be located in absence of the credit. The statement must be signed by an officer or executive of the applicant. *[PDF file of signed statement via Online Portal]*
6. **Relocation Statement** – All relocating television series applicants must submit a letter on letterhead stating that the tax credit provided is the primary reason for relocating. Detailed narrative statement (#5) is not required if submitting this document. *[PDF File of signed statement via Online Portal]*
7. **Financing back-up documentation** – Establish proof that, at minimum, 60% of the funds are available by providing accounting statements, brokerage or bank statements, or commitment letters from an established motion picture company, or lender. *[PDF File via Online Portal]*
8. For applicants that are a partnership or single member LLC and not owned more than 25% by a publicly traded company (this applies to independent corporations as well) provide:
  - a. **Financial information**, if available, including, but not limited to, the most recently produced balance sheets, annual statements of profits and losses, audited or unaudited financial statements, summary budget projections. *[PDF File via Online Portal]*
  - b. The names of all **partners in a partnership** or names of all members of a limited liability company classified as a partnership not publicly traded for California income tax purposes. The list of members on this document must match the individuals listed under the **Owners** section of the **Financing Sources and Ownership** section in the online application portal. *[PDF File via Online Portal]*
9. For applicants that are publicly traded companies or “**Affiliates**” of publicly traded companies, provide:
  - a. A listing of all members of the applicant’s most recently filed California **combined reporting group** and any members to which the credit is assigned. *[PDF File via Online Portal]*
  - b. If readily available, a **listing** of all states, provinces or other jurisdictions in which any of those members finance motion picture productions. *[PDF File via Online Portal]*
- C. Any project with missing or inadequate application materials during Phase II will not be eligible for tax credit allocation. Failure to provide requested materials may result in removal from the queue.
  1. 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 type 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 that applicant is still interested in receiving a tax credit allocation. Waitlist applicants are requested to notify the CFC if they have a change in status e.g., filming out of

- state or if project is not going forward. The waitlist expires when the next allocation period begins for the same project category.
2. Waitlisted productions that begin principal photography in California prior to receiving a CAL are not eligible for the program.
  3. Applicants should not submit more than one application per project per allocation period. If the CFC receives duplicate applications for the same project, both applications will be disqualified from the tax credit program.
  4. A television series must submit one application for the entire season as indicated in the pick-up order.
  5. Any television series approved and accepted into the program will receive priority placement in the queue for subsequent seasons. The recurring series will be ranked based on the fiscal year of original credit allocation. (This also applies to a television series picked up from a television pilot that had been previously approved). If further prioritization is necessary, the jobs ratio for the series in the current allocation period will be used.
  6. Television producers are requested to notify the CFC in writing prior to the next open allocation period if the series will be returning so the CFC can set aside credits prior to the start of the allocation period. A new application must be submitted for each season.
  7. Additional episodes for the same season require a new application and should indicate that the production is requesting credits for additional episodes by adding a “.5” to the season, e.g. “*TV Series Title 1.5*”. Once accepted, the back-order episodes will receive a CAL and require a separate Agreed Upon Procedures and final review.
  8. Made for television movies applications will be accepted in the feature film allocation window, provided the made for television movie meets the budget and running time minimums for a feature film and will be available on the internet prior to or simultaneous to the broadcast.

## **VI. Jobs Ratio Ranking**

- A. The jobs ratio ranking process is statutorily mandated in order to identify those projects which create the most jobs and increase economic activity in the state. Applicants are required to input, via the online application portal, qualified wages and qualified non-wage expenditures. To determine the jobs ratio of each project, 35% of the non-wage expenditures are automatically added to the qualified wage amount, which is then divided by the amount of tax credits requested. This results in the Base Jobs Ratio. [NOTE: Qualified wages must be paid directly by the applicant or its payroll service in order to be included in this calculation as a wage; labor paid via a third party contracted vendor must be identified as a qualified (non-wage) expenditure]. Qualified expenditures, for the purposes of the jobs ratio ranking, do not include uplifts (if applicable), contingency, or bond amounts.
- B. Please refer to the [Qualified Expenditure Charts](#) (QEC) on the CFC website which delineate the types of expenditures, wages, box rentals, allowances and fringes considered “wage” and “non-wage” expenditures.

- C. The base jobs ratio may be increased based on activity in any, or all, of the following areas. These are referred to as the “bonus points:”
1. **Visual effects** performed in-state – Please refer to the applicable [Qualified Expenditure Charts](#) (QEC) to determine which expenditures qualify for the bonus points; they are the SAME expenditures that qualify for the 5% uplifts. (Section VII).
  2. **Principal photography days incurred at an approved production facility**  
- Bonus points are determined by the percentage of principal photography days at a facility in relation to total principal photography days in the state.  
  
Productions must utilize a facility on the approved production facility list on the CFC website or receive written approval from the CFC prior to principal photography to utilize an unlisted building or ranch whose primary use is film, television, commercial or digital production. (*Contact the CFC to request written approval of an unlisted facility for your production.*) Facility days must be indicated in the one-line schedule or production calendar. Facility days are defined as days in which the shooting crew utilize the facility for 6 hours or more. On split days, when the company moves from location to facility, the script supervisor should note in the script supervisor’s report what time s/he reported to and left the facility; this must also be noted on production reports. This report time is the start and end of the facility-usage period.
  3. **Principal photography days outside the Los Angeles zone (OZ)** - Bonus points are determined by the percentage of principal photography days outside the Los Angeles 30-mile zone in relation to total principal photography days in the state. The first scene of the day must be shot outside the zone in order for the day to be considered an OZ day. To verify if a location is outside the zone, please refer to the interactive 30-mile zone map available on the [CFC website](#)  
  
Bonus point ranges per project type are posted on the CFC website under [Jobs Ratio Ranking](#).

## **VII. 5% Uplifts - Additional Tax Credits for Non-Independent Productions**

- A. Non-independent productions (excluding relocating television series in its first season in California) are eligible for an additional 5% in tax credits (uplifts) if spending occurs in any or all of the three (3) categories listed below (see [Tagging and Tracking Tips](#) for further details).
1. **Visual effects performed in the state** – Please refer to the applicable QEC to determine which VFX expenditures qualify for the uplift; they are the SAME expenditures that qualify for the bonus points and are indicated with a green “VU” tag. In order to qualify for VFX uplift, a production must spend a minimum of \$10 million in qualified visual effects (includes all qualified VFX, not just VFX that qualify for bonus points/uplift) or at least 75% of the total worldwide VFX expenditures must be incurred in California for qualified VFX.

2. **Music Scoring** and/or **Music Track Recording** – Please refer to the applicable QEC for expenditures that qualify for this uplift; these expenditures are indicated with a green “MU” tag.
3. Qualified wage and non-wage **expenditures outside the Los Angeles zone** (OZ) during the “**Applicable Period.**” (This applies to expenditures for both principal photography & 2<sup>nd</sup> units during the applicable period.)
  - a. Qualified wages for labor performed outside the zone must be tagged ZW (in addition to QW) in the budget and when tracking incurred wages outside the Los Angeles zone.
  - b. Productions which can provide adequate documentation to the CPA performing the Agreed Upon Procedures on non-wage expenditures purchased and/or rented outside the Los Angeles zone and totally consumed outside the Los Angeles zone will be allowed 100% of the cost of these items. Examples of property that can be considered totally consumed are included in **Appendix A** of this document and may be tracked as QE/ZC. Estimates for totally consumed expenditures may be included in the estimated OZ qualified expenditures calculations in the application.
  - c. Qualified non-wage, non-consumable expenditures purchased or rented outside the Los Angeles zone and used both outside and inside the LA zone may be tagged QE/ZE. These expenditures will be calculated via the online portal based on the percentage of principal photography days outside the Los Angeles zone in relation to the total principal photography days in California. ZE expenditures are infrequently tagged.
  - d. Please refer to the [“Tagging Out of Zone Expenditures”](#) tutorial on the CFC website (Under FAQs and Tutorials) which explains how to track expenditures out of the Los Angeles zone.

## VIII. Phase III - Issuance of Tax Credit Allocation Letter

- A. Within approximately 20 business days of receipt of the completed application and all requested supporting documents, the CFC will notify the applicant by e-mail of accepted, waitlisted, or rejected status. It is important that the applicant include more than 1 contact in its project application so that a back-up person is reachable in the event the primary contact does not respond. Upon approval, a CAL will be issued to the applicant indicating the amount of credits reserved and the verified jobs ratio pending the project’s continued eligibility and final documentation.
- B. The date of issuance of the CAL is the same date by which the program's date-sensitive parameters will be assessed: e.g. (1) date when monies paid or incurred are considered Qualified Expenditures; (2) 180-day deadline to commence principal photography; and (3) 30-month deadline to complete the motion picture.
- C. No later than four (4) weeks prior to principal photography, the production accountant is required to attend an orientation meeting with the CFC, along with any or all of the following production personnel: a primary Producer, Unit

Production Manager (UPM), and/or other appropriate personnel; post-production accountants and post supervisors are encouraged to attend as well. Applicants are advised to schedule their orientation meeting as soon as the production team is in place to be better informed of the requirements of the program, tagging methodologies and the process necessary to obtain the “**Credit Certificate.**” Please inform the CFC of production personnel who have previously attended a CFC 2.0 Orientation Meeting as they are not required to re-attend, but may do so at their election.

- D. Each CAL is issued to the specific project (synopsis, script, schedule and budget) which was submitted. Exchanging the approved project for another project is strictly prohibited and will result in revocation of the tax credit reservation. Producers with projects, which for unforeseen reasons do not move forward into production, are asked to notify the CFC as soon as possible so that the credits may be reallocated.

## **IX. Approved Applicant Responsibilities**

The following must be submitted by e-mail to [incentiveprogram2@film.ca.gov](mailto:incentiveprogram2@film.ca.gov). Please include queue number and title of project in subject line.

- A. **Call Sheet** - Signed by the UPM, on the first day of principal photography . Productions returning from a hiatus must also submit a call sheet for the first day principal photography resumes.
- B. **Production Reports** – Signed, finalized production reports must be submitted for each day of principal photography, signed by the UPM; may be submitted on a weekly basis in arrears.
- C. **Production Updates** – Notify the CFC via e-mail indicating any substantive changes: e.g., start date change, title change, revised # of episodes scheduled, hiatus start/stop dates, any significant reduction of budget or schedule.
- D. **Hiatus Requirements** – Hiatus stop/start dates: Call sheets and production reports for principal photography day prior to and after hiatus; dailies of principal photography day prior to 180-day deadline.
- E. **Local Community Expenditure Report** - Applicants filming outside Los Angeles County which spend more than \$100,000 in a county or counties must fill out a Local Community Expenditure Report available as part of Phase IV on the portal. (The Applicant must complete this section once the project has finalized expenditures in the county rather than wait until completion of the final element).

After logging into your account, Applicants can access their project and click “Phase IV”. This will bring up the Phase IV menu. Click “Shoot Days and Locations.”, In section “A”, check “Yes” to “Did you spend more than \$100,000 outside the Los Angeles zone?”. Then scroll down to Section D and - click “Add Local Community Expenditure Report”; fill out a form for each applicable county. Once filled out, save the form; the CFC will be notified automatically.

A Local Community Expenditure Report tutorial is available at <https://vimeo.com/215100264>. Please follow the tagging directions to accurately report both labor and non-labor expenditures per county as soon as all work in the county has been completed.

## **X. Career Readiness Requirement**

**Career Readiness Requirement** – All applicants must participate in a career-based learning and training program approved by the CFC. Participation may involve internships, workshops by production professionals, professional skills tours and/or set visits, continuing education for educators, or a financial contribution. This is an opportunity to inspire, train, and give back to the next generation of filmmakers. This requirement may be fulfilled during any phase of the project. Please refer to the [CAREER READINESS](#) section on the CFC website for detailed instructions on this requirement and contact Nancy Rae Stone at the CFC to discuss your options.

## **XI. Screen Credit and Marketing Materials**

- A. All productions that receive a credit certificate must provide an on-screen acknowledgement which includes this exact wording: “The State of California and the California Film Commission,” except where that acknowledgement may be prohibited by the Children's Television Act or any other local, state, or federal government policy. Please inform your credits administrator or post-production supervisor of this requirement.
- B. All productions that apply for a credit certificate MUST include the CFC LOGO in the end credits. For TV projects, the logo and end credit acknowledgement must appear on every single episode's end crawl. Contact the CFC for access to the digital file containing the logo in the format needed for your production.
- C. Production Stills – Five (5) production stills in digital file format cleared by the production company and with cast approvals (if cast members are included in the stills) for promotional use by the CFC. The CFC prefers stills that contain interesting California locations, as well as acting talent. Submit via flash drive with final documentation.

## **XII. Phase IV - Process for Obtaining the Credit Certificate**

Upon completion of the project\* and prior to the issuance of the credit certificate, the applicant must provide to the CFC the documentation listed below. All documents must be saved in a USB flash drive (No CDs). Documents required in hard copy must be placed in a soft cover binder with a press mechanism, sections labeled with tabs, including all appendices. Refer to the [Checklist](#) on the CFC website for tab names and requirements. Packet, along with USB, may be mailed or messengered to the CFC.

Applicants must add the CPA performing the AUP as a user to the on-line portal so s/he can access program documents. To do this, click “Application Options” and then “Application Users”.

**\*Note:** Approved applicants are encouraged to submit final documentation to the CFC once 30 days have passed after completion of the final element, the Agreed Upon Procedures is complete, and all documentation is ready for review. However, there is no formal deadline for submitting final documentation.

### **REQUIRED FINAL DOCUMENTATION:**



- A. **Expenditure Summary Report (Form F)**- After filling out Phase IV on the portal, generate a report. *[Paper copy and electronic PDF file saved in USB]*.
- B. **Copyright Certificate** - Form PA evidencing registration of the screenplay or teleplay OR completed television episodes, miniseries, television pilot, or made for television movie. The copyright holder may be the “**Qualified Taxpayer**,” its affiliate or an unaffiliated company for which the qualified applicant is producing the motion picture. *[Paper copy and electronic PDF file saved in USB]*.
- C. **Final Cast, Crew, and Vendor Lists** – Please do not include social security numbers. *[Electronic PDF files saved in USB]*.
- D. **Main and End title final "checker" or "galley" or actual credit roll** – The checker or galley is the actual layout of the titles normally produced by a Title House or other post-production facility. Must contain an end credit acknowledgement to the State of California and the California Film Commission and the CFC Logo (available upon request). Pilots which are not picked up and therefore do not have titles must submit a hard copy of the titles as approved by a post executive or supervisor. *[Electronic PDF File, Word, QuickTime or similar electronic format, saved in USB]*.
- E. **Five (5) Production Stills** – electronic digital files with cast approvals cleared for CFC usage. JPG files only *[saved in USB]*.
- F. **Local Community Expenditure Report (one for each county)**, if filming outside the 30-mile Los Angeles zone outside of LA County with expenditures over \$100,000 *[Electronic file saved on portal as part of Phase IV Expenditure Summary Report]*.
- G. Copy of **Script Supervisor’s Lined Script** of the project; television series must submit episodes 2 and 5 of the current season. *[Electronic PDF scan of lined script(s) saved in USB]*.
- H. **Distribution Verification**
  - 1. Miniseries – Documentation verifying that its initial distribution on TV consists of two or more episodes with a total running time of at least 150 program minutes. *[Electronic PDF file saved in USB]*.
  - 2. Made for television movie – Documentation verifying its initial distribution on TV with a minimum of 75 program minutes broadcast in one part. *[Electronic PDF file saved in USB]*.
  - 3. Feature Film – any film produced for internet distribution must provide proof of such distribution if also airing simultaneously on broadcast television.
- I. **Updated Information:** Updates to the information provided in Section V(B)(7-9).
- J. Documentation from the **Career Readiness** designated representative, verifying participation in a career-based learning and training program. *[Paper copy of the Career Readiness Verification Form, with signature, and electronic PDF file; please make sure any required surveys have been completed. If applicable, attach copy of receipt for financial contribution.]*



Agreed Upon Procedures Report, performed by a CPA who has attended a CFC CPA 2.0 Orientation meeting (listing available on CFC website). *[Electronic PDF File on USB flash drive plus a paper copy].*

1. Required AUP documentation (discuss with your CPA):
  - a. Exhibit K: Vendor Final Element Creation letter (see template on CFC website) – from the post-production facility (or post-production department), on letterhead with original signature. The process of post-production is considered finished when a final composite answer print, air master or digital cinema files of the qualified motion picture is/are produced. Does not include archival or international elements. In the case of a television series, the required letter should refer to the final episode of the season. *[Paper copy of signed letter printed on letterhead and electronic PDF file].*
  - b. Exhibit J: Verification of In-state Work – Vendor Verification Form Letter (see template on CFC website). On company letterhead from each visual effects, title, post, sound and/or digital effects company contracted by the production company, indicating the total dollar amount of work performed within the state of California with signature. *[Paper copy of signed letter, printed on letterhead and electronic PDF file].*
  - c. Exhibit G: Related Party Disclosure List – Listing of all related party transactions. *[Electronic PDF file saved in USB].*
  - d. Exhibit H: Verification Letter from applicant – Verification of accuracy of related party disclosure list attesting that the related party disclosure list is complete and accurate and (if applicable) verification that all insurance claims related to qualified expenditures” have been credited on cost report. *[Electronic PDF file saved in USB].*
  - e. Exhibit D: Listing of Electronic Assets (see Appendix A in Tracking Tips) with a value of more than \$250.00 including: copiers, printers, cameras, drives, monitors, DVD players, computers, etc. *[Electronic PDF file saved in USB].*
  - f. Exhibit D: Listing of Assets over \$10,000 – Individual assets do not include set pieces constructed from multiple materials unless purchased as a whole. *[Electronic PDF file saved in USB].*
  - g. Exhibit L: Payroll representative letter verifying no outstanding invoices no less than 30 days after creation of final element. *[Electronic PDF file saved in USB].*
  - h. If applicable, statement from insurance company providing explanation of premium proration. *[Electronic PDF file saved in USB].*
  - i. Exhibits should be separated by labeled and tabbed sections as per [“Final Documentation Checklist.”](#)
2. During the audit process, in addition to verifying qualified expenditures, the CPA will recalculate the Jobs Ratio based upon actual wage and non-wage spend. If the jobs ratio submitted with the application was overstated based on a comparison of the verified CAL Jobs Ratio versus the Jobs Ratio based

on actual expenditures, , the applicant may be penalized with a reduction of tax credits unless “**Reasonable Cause**” can be documented. Applicants are to contact the CFC to discuss events that fall within the definition of reasonable cause that may adversely affect their recalculated Jobs Ratio ranking. Overstatement penalties are as follows:

- a. Non-Independent Projects: If the Jobs Ratio has been reduced by more than 10%, the credit will be reduced by an equal percentage, unless reduction is due to reasonable cause. If the Jobs Ratio has been reduced by more than 20%, the qualified taxpayer (applicant) or any member of the qualified taxpayer’s controlled reporting group may not apply for the Program for a year from the date of that determination.

Example: Applicant’s initial Jobs Ratio was 4.5; the final actual Jobs Ratio was reduced to 4.0. The Jobs Ratio was decreased by 11% and therefore the approved adjusted final tax credit amount will be decreased by 11%.

- b. Independent Projects: If the Jobs Ratio has been reduced by more than 30%, unless there is reasonable cause, the tax credit amount will be reduced by the amount of overstatement plus 10%.

Example: Independent applicant’s approved Jobs Ratio was 4.5; the final adjusted Jobs Ratio is 3.0. The Jobs Ratio was decreased by 33%. In this scenario, the independent applicant’s approved adjusted final tax credit amount will be reduced by 43% (33% + 10%).

***Failure to provide the requested documentation may result in loss of the credit.***

### **XIII. Approval / Disapproval of Tax Credit Allocation**

- A. The CFC will review all the required materials submitted by the applicant and CPA to determine if the applicant meets all the criteria for the program and will approve or disapprove the request for the credit certificate. During the review, the CFC may request additional documentation to determine if the production is a qualified motion picture and to verify the qualified expenditures.
- B. The amount of tax credit allocated shall be based on the percentage of the qualified expenditures and jobs ratio confirmed in the Agreed Upon Procedures Report. This amount may be less than the amount indicated on the CAL.
- C. If the request for a credit certificate is denied, the CFC will provide the applicant with a notice of disapproval stating the reasons for such. Disapproval is final and not subject to administrative appeal or review.

### **XIV. Confidentiality**

The CFC is mandated by statute to post the following information on its website: applicant name, project title, tax credit amount, number of principal photography days in the state, number of estimated jobs created, estimated qualified expenditures. All other information submitted to the tax credit program is considered proprietary and is **not** subject to the California Public Records Act.

## **XV. Utilizing the Tax Credits**

Tax Credits may be utilized beginning in the tax year in which the credit certificate is issued. Independent productions may transfer tax credits to an unrelated party. Non-independent productions must utilize the credits against state income tax liability, sales or use tax liability, and may also assign credits to an affiliate. For detailed information on utilizing the tax credits, please refer to the CFC website page [How to Use Your Tax Credit](#).

## **XVI. Definitions**

**“Affiliate”** means a qualified taxpayer's affiliated corporation that has been assigned any portion of the credit amount by the qualified taxpayer.

**“Ancillary Product”** means any article for sale to the public that contains a portion of, or any element of, the qualified motion picture.

**“Applicable Period”** refers to production outside the Los Angeles zone, but in the state of California that commences with **“Pre-production”** and ends when original photography concludes outside the Los Angeles zone. It includes the time necessary to strike a remote location and return to the Los Angeles zone.

**“Applicant”** is any corporation, partnership, limited partnership, limited liability company (LLC) 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. The applicant is the qualified taxpayer that upon final approval will receive the credit certificate.

**“California Film Commission” (CFC)** is a state entity established and described in Government Code sections 14998 et.seq. that, among other functions, facilitates and promotes motion picture and television production in the state of California.

**“Clip Use”** means a use of any portion of a motion picture, other than the qualified motion picture, used in the qualified motion picture.

**“Completed”** means when the process of post-production has been finished. The process of post-production shall be considered finished when a final composite answer print, HD air master, or digital cinema files of the qualified motion picture is/are produced.

**“Credit Allocation Letter” (CAL)** is the document issued by the California Film Commission reserving an amount of tax credits to an applicant having a qualified motion picture based on an estimate of qualified expenditures.

**“Credit Certificate”** means the certificate issued by the California Film Commission upon completion of the qualified motion picture reflecting the credit amount allocated after qualified expenditures have been verified.

**“Force Majeure”** means an event or series of events, which are not under the control of the qualified tax payer including death, disability, or breach by the motion picture director or principal cast member, an act of God, including, but not limited to, fire, flood, earthquake, storm, hurricane or other natural disaster, terrorist activities or government sanction.

**“Hiatus”** means a break or interruption in the continuity of work.

**“Independent Film”** means a production of a film with a running time of at least seventy-five (75) minutes intended for commercial distribution to a motion picture theater, directly to the home video market, directly to television, or via the internet. An independent film shall have a minimum budget of \$1,000,000 and be produced by a company that is not publicly traded and publicly traded companies do not own, directly or indirectly, more than 25 percent of the producing company.

**“Licensing”** means any grant of rights to distribute the qualified motion picture, in whole or part.

**“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 Carillo 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. To verify exact location, please refer to the interactive 30-mile zone map available on the [CFC website](#).

**“Miniseries”** means a motion picture based on a single theme or storyline which is resolved within the piece. A miniseries consists of two or more episodes with a total running time of at least three broadcast hours (150 program minutes).

**“Made for Television Movie”** which is also known as an “MOW” is defined as a motion picture, produced for initial exploitation on television, which contains a scripted storyline requiring a minimum of seventy-five (75) program minutes in length, broadcast in one part.

**“New Use”** means any use of a motion picture in a medium other than the medium for which it was initially created.

**“Non-Independent Film”** means a production of a film intended for commercial distribution to a motion picture theater, directly to the home video market, or via the Internet that has a running time of at least seventy-five (75) minutes in length.

**“Pick-up Order”** means a contractual obligation from a licensee-exhibitor that a pilot or television series has been ordered or renewed for the production of an initial episode or episodes to be delivered within a specific timeframe.

**“Post-Production”** means the final activities in a qualified motion picture's production, including, but not limited to, editing, foley recording, ADR, sound editing, negative cutting, color correction and sound mixing.

**“Pre-Production”** means the process of preparation for actual physical production which begins after a qualified motion picture has received a firm agreement of financial commitment. Customarily includes, but is not limited to, activities such as location scouting, hiring of key crew members, and establishment of a dedicated production office.

**“Principal Photography”** in California means the phase of production during which the motion picture is actually shot, as distinguished from pre-production and post-production. Principal photography days refer to the number of days shot by the principal unit with the director and lead actors usually present. Principal photography days in California do not

include the filming of primarily backgrounds, visual effects, action and/or crowd scenes by the second, stunt, or visual effects units.

**“Producer”** means any individual who receives an on-screen producer credit including, but not limited to, any of the following titles: producer, co-producer, line producer, executive producer, co-executive producer, associate producer, supervising producer, post producer, or visual effects producer.

**“Production Budget”** means the budget used by the qualified taxpayer and production company and shall include, but is not limited to, Above-The-Line costs including wages, and Below-The-Line costs including post-production, insurance, rights, and music and clip licensing fees. Production budget shall include wages, goods, and services performed and incurred within and outside of California. It does not include costs which are not directly associated with the pre-production, production or post-production of the project, such as: distribution prints and advertising, marketing, film festival participation, financing or distribution costs such as theater rentals and DVD manufacturing.

**“Production Facility”** means (1) any facility used by the entertainment industry for the purpose of film, television, commercial or digital production that is in compliance with Title 24, Chapter 48 of the California Fire Code, as determined by the fire authority having jurisdiction or (2) a building, ranch or other facility, whose primary usage is film, television, commercial or digital production, verified by the CFC prior to the start of principal photography.

**“Production Period”** means the period beginning with pre-production and ending upon completion of post-production.

**“Qualified Entity”** means a personal service corporation (as defined in Section 269(b)(1) in the Internal Revenue Code), a payroll services corporation, or any entity receiving qualified wages with respect to services performed by a qualified individual.

**“Qualified Expenditures”** means amounts paid or incurred to purchase or lease tangible personal property used within the state in the production of a qualified motion picture. It includes payments, including qualified wages, for services performed within the state in the production of same.

**“Qualified Taxpayer”** is the entity who has paid or incurred qualified expenditures and to whom the final credit certificate will be issued.

**“Reality Program”** means a program depicting real events and non-actors through actual footage which presents persons engaged in purportedly unscripted situations; no fictional characters are created.

**“Residual Compensation”** means supplemental compensation paid at the time that a motion picture is exhibited through new use, reuse, clip use, or in secondary markets, as distinguished from payments made during production.

**“Reasonable Cause”** means unforeseen circumstances beyond the control of the applicant, including, but not limited to, an event of force majeure, the cancellation of a television series prior to the completion of the scheduled number of episodes, failure by third parties to perform, a change in essential talent such as the director, principal cast and the associated costs, and/or a change in production financing exigencies resulting in a significant reduction to the production budget.

**“Reuse”** means any use of a qualified motion picture in the same medium for which it was created, following the initial use in that medium.

**“Secondary Markets”** means media in which a qualified motion picture is exhibited following the initial media in which it is exhibited.

**“Strip Show”** means television programming in which three or more episodes are regularly produced in their entirety in one week (e.g., “Judge Judy”, “Entertainment Tonight”).

**“Television Pilot”** means the initial episode produced for a proposed television series. This category will include shorter formats which are known as “television presentation,” a production of at least fifteen (15) minutes in length, produced for the purposes of selling a proposed television series, but not intended for broadcast.

**“Television Season”** means the initial exhibition of a set of television episodes lasting no less than six (6) episodes and no more than thirty (30) episodes within a period of twelve (12) months.

**“Television Series”** also known as “episodic television,” means a regularly occurring production.

**“Television Series that Relocated to California”** means a television series, without regard to episode length or initial media exhibition, that filmed all of its prior season or seasons outside of California and for which the taxpayer certifies that the credit provided is the primary reason for relocating to California.

**“Visual Effects”** (VFX) means the creation, alteration, or enhancement of images that cannot be captured on a set or location during live action photography and therefore is accomplished in post-production. It includes, but is not limited to, matte paintings, animation, set extensions, computer-generated objects, characters and environments, compositing (combining two or more elements in a final image), and wire removals. Visual effects does not include fully animated projects, whether created by traditional or digital means.

## Appendix A

### CONSUMABLES

Tangible personal property purchased or leased outside the Los Angeles zone shall be considered completely consumed provided the property was of a type or nature such that it would have no residual material value remaining after its use or consumption.

Examples of such include, but are not limited to:

- Food and catering items
- Rented hotel or corporate housing usage
- Construction supplies and materials for sets
- Automotive or other fuels
- Security services
- Location and stage services
- Governmental permit fees
- Personnel services
- Printing
- Equipment rentals for the applicable period
- Transportation services
- Dry cleaning
- Shipping costs from within the state from the out of zone location
- Cell, Car or Box Rentals from local hires out of the zone

## Appendix B

### To Create a Qualified Expenditure Budget; Fringes

- Once you have finished grouping all qualified and non-qualified expenditures as per the tagging methodology, choose the QE + QW subgroups in order to create your Qualified Spend Budget.
- Insurance costs should reflect your total premium, minus out of state work (tagged XX), Error and Omissions coverage and/or Essential Element coverage.
- Insurance costs must be included in the budget (not as a contractual cost and tagged QE to be included in the tax credit reservation.)
- Completion bond costs can be no more than 2% of California qualified expenditures. You must exclude bond costs for any out of state filming. Completion bonds must be included as a contractual cost in the qualified expenditure budget in order to be included in the tax credit reservation. The cost of a completion bond may only be added if it is a bona fide cost to the production.
- Contingency, as a contractual charge, can be no more than 10% of California qualified expenditures. A contingency must be included as a contractual cost in the qualified expenditure budget in order to be included in your tax credit reservation.
- This methodology is more accurate than creating a sub-budget. When a sub-budget is created, the fringe tables and cut-offs start over, which results in an overestimation of fringes.

### Set up Fringes in Budget

- The CFC will not accept budgets with all-inclusive fringe rates that include Non-Qualifying Fringe (e.g., FICA, MEDICARE, FUI, FUTA, PIT [personal income tax withholding]).
- It is suggested that budgets be set up with the fringe breakdown below as federal fringes and others must be excluded from California tax credit calculations. Non-Qualifying Fringe must be separated or zero'd out when creating the Qualified Expenditure budget. Be sure to select and include the qualified fringes in your QW subgroup.

Description	Type		Max Accepted %	Notes
Unemployment Insurance	Fed	FUI	0	Exclude from Incentive Budget
FICA – Social Security	Fed	FICA	0	Exclude from Incentive Budget
FICA – Medicare	Fed	MED	0	Exclude from Incentive Budget
CA Solvency	Fed	CAFUI	0	Exclude from Incentive Budget
CA State Taxes	CA	CAST	0	Exclude from Incentive Budget
Add'l FUTA	CA	FUTA	0	Exclude from Incentive Budget
State Unemployment Insurance	CA	SUI	6.2	Include in Incentive Budget



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California Care Medical Insurance	CA	NU %	4.5	May Include in fringes or as a line item in Incentive Budget
Workers Compensation – Crew / Background Talent	CA	WC	4.03	Include in Incentive Budget.
Workers Compensation – Clerical / Editorial	CA	WC	1.96	
Vacation Accrual	CA	VAC	4	Include in Incentive Budget. (if applicable)
Holiday Accrual	CA	HOL	3.719	Exclude from Incentive Budget if holiday pay is a line item.
Sick Pay Accrual	CA	SIC	0	Exclude from Incentive Budget
Crew/399 Pension, Health & Welfare	CA	IA %	23.5	May Include in Incentive Budget
Crew Combined	CA	IA/CAT	34.73	IA plus SUI/WC/Payroll Fee
Crew/399 IAP	CA	IA%	6	May include in Incentive Budget
DGA PH&W	CA	DGA	20.38	
UPM/ ADs				
SAG/AFTRA P/H/W				
Stunt Coordinator	CA	SAG	17.3	
SAG/AFTRA P/H/W				
Extras	CA	SAGE	17	
			SUI	
			6.2	
			WC	
			4.03	
Non-Union Flat	CA	NU	Payroll Fee 1.0-2	If combined, <b>include breakdown</b> of how total was achieved and not to exceed individual ranges
			CA Care 4.5	
				Include in Incentive Budget. If combined, include breakdown of how total was achieved; not to exceed individual ranges
Extras – SAG (All inclusive	CA	NUE	29	
ATL Payroll Handling Fee	CA	ATL	Per check fee	Include in Incentive Budget (salary must qualify)
BTL Payroll Handling Fee	CA	BTL	2	
Unemployment Insurance	Fed	FUI	0	Exclude from Incentive Budget

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**For Projects with Credit Allocation Letters on or after July 1, 2016.**