

**State of California
Office of Administrative Law**

In re:
California Film Commission

Regulatory Action:

Title 10, California Code of Regulations

Adopt sections: 5520, 5521, 5522, 5523,
5524, 5525, 5526, 5527,
5528

Amend sections:

Repeal sections:

**NOTICE OF APPROVAL OF REGULATORY
ACTION**

Government Code Section 11349.3

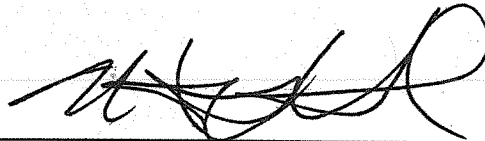
OAL Matter Number: 2020-0520-02

OAL Matter Type: Regular (S)

In this regulatory action, the Film Commission establishes a procedure for allocating tax credits to qualified taxpayers in the motion picture industry. This tax credit program is entitled the California Film and Television Credit Program 3.0.

OAL approves this regulatory action pursuant to section 11349.3 of the Government Code. This regulatory action becomes effective on 7/1/2020.

Date: July 1, 2020



**Thanh Huynh
Senior Attorney**

For: Kenneth J. Pogue
Director

Original: Amy Lemisch, Executive
Director

Copy: Nancy Rae Stone

NOTICE PUBLICATION/REGULATIONS SUBMISSION (See instructions on reverse)

STD. 400 (REV. 01-2013)

For use by Secretary of State only

| | | | |
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| OAL FILE NUMBERS | NOTICE FILE NUMBER Z-2019-0624-03 | REGULATORY ACTION NUMBER 2020-0520-025 | EMERGENCY NUMBER |
|------------------|---|--|------------------|

For use by Office of Administrative Law (OAL) only

ENDORSED - FILED
in the office of the Secretary of State
of the State of California**JUL 01 2020****1:42 PM**

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| NOTICE | REGULATIONS |
|--------|-------------|

AGENCY WITH RULEMAKING AUTHORITY
California Film Commission

AGENCY FILE NUMBER (If any)

A. PUBLICATION OF NOTICE (Complete for publication in Notice Register)

| | | | | |
|---|--|-----------------------|---|--|
| 1. SUBJECT OF NOTICE Film and Television Tax Credit Program 3.0 | | TITLE(S) 10 | FIRST SECTION AFFECTED 5520 | 2. REQUESTED PUBLICATION DATE July 5, 2019 |
| 3. NOTICE TYPE <input checked="" type="checkbox"/> Notice re Proposed Regulatory Action <input type="checkbox"/> Other | 4. AGENCY CONTACT PERSON Nancy Rae Stone | | TELEPHONE NUMBER 323-860-2960X109 | FAX NUMBER (Optional) |
| OAL USE ONLY <input type="checkbox"/> Approved as Submitted <input type="checkbox"/> Approved as Modified <input type="checkbox"/> Disapproved/Withdrawn | NOTICE REGISTER NUMBER 2019 27-2 | | PUBLICATION DATE 7/5/2019 | |

B. SUBMISSION OF REGULATIONS (Complete when submitting regulations)

| | |
|--|--|
| 1a. SUBJECT OF REGULATION(S) California Film and Television tax credit program | 1b. ALL PREVIOUS RELATED OAL REGULATORY ACTION NUMBER(S) |
|--|--|

2. SPECIFY CALIFORNIA CODE OF REGULATIONS TITLE(S) AND SECTION(S) (Including title 26, if toxics related)

| | |
|--|--|
| SECTION(S) AFFECTED (List all section number(s) individually. Attach additional sheet if needed.) | ADOPT 5520-5528 5520, 5521, 5522, 5523, 5524, 5525, 5526, 5527, 5528 |
| TITLE(S) 10 | AMEND (TH) |
| | REPEAL per agency request |

3. TYPE OF FILING

| | | | |
|---|---|---|---|
| <input checked="" type="checkbox"/> Regular Rulemaking (Gov. Code §11346) | <input type="checkbox"/> Certificate of Compliance: The agency officer named below certifies that this agency complied with the provisions of Gov. Code §§11346.2-11347.3 either before the emergency regulation was adopted or within the time period required by statute. | <input type="checkbox"/> Emergency Readopt (Gov. Code, §11346.1(h)) | <input type="checkbox"/> Changes Without Regulatory Effect (Cal. Code Regs., title 1, §100) |
| <input type="checkbox"/> Resubmittal of disapproved or withdrawn nonemergency filing (Gov. Code §§11349.3, 11349.4) | <input type="checkbox"/> Resubmittal of disapproved or withdrawn emergency filing (Gov. Code, §11346.1) | <input type="checkbox"/> File & Print | <input type="checkbox"/> Print Only |
| <input type="checkbox"/> Emergency (Gov. Code, §11346.1(b)) | | <input type="checkbox"/> Other (Specify) | |

4. ALL BEGINNING AND ENDING DATES OF AVAILABILITY OF MODIFIED REGULATIONS AND/OR MATERIAL ADDED TO THE RULEMAKING FILE (Cal. Code Regs. title 1, §44 and Gov. Code §11347.1)

| | | | | |
|---|--|--|--|---|
| 5. EFFECTIVE DATE OF CHANGES (Gov. Code, §§ 11343.4, 11346.1(d); Cal. Code Regs., title 1, §100) | Effective January 1, April 1, July 1, or October 1 (Gov. Code §11343.4(a)) | <input type="checkbox"/> Effective on filing with Secretary of State | <input type="checkbox"/> \$100 Changes Without Regulatory Effect | <input checked="" type="checkbox"/> Effective other (Specify) July 1, 2020 |
|---|--|--|--|---|

| | | |
|--|--|---|
| 6. CHECK IF THESE REGULATIONS REQUIRE NOTICE TO, OR REVIEW, CONSULTATION, APPROVAL OR CONCURRENCE BY, ANOTHER AGENCY OR ENTITY | | |
| <input type="checkbox"/> Department of Finance (Form STD. 399) (SAM §6660) | <input type="checkbox"/> Fair Political Practices Commission | <input type="checkbox"/> State Fire Marshal |
| <input type="checkbox"/> Other (Specify) | | |

| | | | |
|---|---|-----------------------|---|
| 7. CONTACT PERSON Nancy Rae Stone | TELEPHONE NUMBER (323) 860-2960 | FAX NUMBER (Optional) | E-MAIL ADDRESS (Optional) nancy.stone@film.ca.gov |
|---|---|-----------------------|---|

8. I certify that the attached copy of the regulation(s) is a true and correct copy of the regulation(s) identified on this form, that the information specified on this form is true and correct, and that I am the head of the agency taking this action, or a designee of the head of the agency, and am authorized to make this certification.

| | |
|--|------------------------|
| SIGNATURE OF AGENCY HEAD OR DESIGNEE | DATE 5-20-20 |
| TYPED NAME AND TITLE OF SIGNATORY Chris Dombrowski, Acting Director, GoBiz | |

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ENDORSED APPROVED**JUL 01 2020****Office of Administrative Law**

NOTICE PUBLICATION/REGULATIONS SUBMISSION

(See instructions on reverse)

For use by Secretary of State only

STD. 400 (REV. 10/2019)

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For use by Office of Administrative Law (OAL) only

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| <p style="text-align: center;">2020 MAY 20 A 11: 13</p> <p style="text-align: center;">OFFICE OF ADMINISTRATIVE LAW</p> | |
| NOTICE | REGULATIONS |

AGENCY WITH RULEMAKING AUTHORITY
California Film Commission

AGENCY FILE NUMBER (If any)

A. PUBLICATION OF NOTICE (Complete for publication in Notice Register)

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| 1. SUBJECT OF NOTICE Film and Television Tax Credit Program 3.0 | | TITLE(S) 10 | FIRST SECTION AFFECTED 5520 | 2. REQUESTED PUBLICATION DATE July 5, 2019 |
| 3. NOTICE TYPE <input checked="" type="checkbox"/> Notice re Proposed Regulatory Action <input type="checkbox"/> Other | | 4. AGENCY CONTACT PERSON Nancy Rae Stone | TELEPHONE NUMBER (323) 860-2960 x109 | FAX NUMBER (Optional) |
| OAL USE ONLY | ACTION ON PROPOSED NOTICE <input type="checkbox"/> Approved as Submitted <input type="checkbox"/> Approved as Modified <input type="checkbox"/> Disapproved/Withdrawn | | NOTICE REGISTER NUMBER 2019 27-2 | PUBLICATION DATE 7/5/2019 |

B. SUBMISSION OF REGULATIONS (Complete when submitting regulations)

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| 1a. SUBJECT OF REGULATION(S) California Film and Television Tax Credit Program | 1b. ALL PREVIOUS RELATED OAL REGULATORY ACTION NUMBER(S) |
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2. SPECIFY CALIFORNIA CODE OF REGULATIONS TITLE(S) AND SECTION(S) (Including title 26, if toxics related)

| | |
|--|---------------------------|
| SECTION(S) AFFECTED (List all section number(s) individually. Attach additional sheet if needed.) | ADOPT 5520-5528 |
| | AMEND |
| | REPEAL |
| TITLE(S) 10 per agency request | |

3. TYPE OF FILING

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|---|---|---|---|
| <input checked="" type="checkbox"/> Regular Rulemaking (Gov. Code §11346) | <input type="checkbox"/> Certificate of Compliance: The agency officer named below certifies that this agency complied with the provisions of Gov. Code §§11346.2-11347.3 either before the emergency regulation was adopted or within the time period required by statute. | <input type="checkbox"/> Emergency Readopt (Gov. Code, §11346.1(h)) | <input type="checkbox"/> Changes Without Regulatory Effect (Cal. Code Regs., title 1, §100) |
| <input type="checkbox"/> Resubmittal of disapproved or withdrawn nonemergency filing (Gov. Code §§11349.3, 11349.4) | <input type="checkbox"/> Resubmittal of disapproved or withdrawn emergency filing (Gov. Code, §11346.1) | <input type="checkbox"/> File & Print | <input type="checkbox"/> Print Only |
| <input type="checkbox"/> Emergency (Gov. Code, §11346.1(b)) | | <input type="checkbox"/> Other (Specify) | |

4. ALL BEGINNING AND ENDING DATES OF AVAILABILITY OF MODIFIED REGULATIONS AND/OR MATERIAL ADDED TO THE RULEMAKING FILE (Cal. Code Regs. title 1, §44 and Gov. Code §11347.1)

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| <input checked="" type="checkbox"/> Effective January 1, April 1, July 1, or October 1 (Gov. Code §11343.4(a)) | <input type="checkbox"/> Effective on filing with Secretary of State | <input type="checkbox"/> \$100 Changes Without Regulatory Effect | <input type="checkbox"/> Effective other (Specify) |

6. CHECK IF THESE REGULATIONS REQUIRE NOTICE TO, OR REVIEW, CONSULTATION, APPROVAL OR CONCURRENCE BY, ANOTHER AGENCY OR ENTITY

| | | |
|--|--|---|
| <input type="checkbox"/> Department of Finance (Form STD. 399) (SAM §6660) | <input type="checkbox"/> Fair Political Practices Commission | <input type="checkbox"/> State Fire Marshal |
| <input type="checkbox"/> Other (Specify) | | |

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| 7. CONTACT PERSON Nancy Rae Stone | TELEPHONE NUMBER (323) 860-2960 x109 | FAX NUMBER (Optional) | E-MAIL ADDRESS (Optional) nancy.stone@film.ca.gov |
|---|--|-----------------------|---|

I certify that the attached copy of the regulation(s) is a true and correct copy of the regulation(s) identified on this form, that the information specified on this form is true and correct, and that I am the head of the agency taking this action, or a designee of the head of the agency, and am authorized to make this certification.

SIGNATURE OF AGENCY HEAD OR DESIGNEE

DATE

TYPED NAME AND TITLE OF SIGNATORY

Chris Dombrowski, Acting Go-Biz Director

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**Title 10
Chapter 7.75
CALIFORNIA FILM COMMISSION**

Article 3.

CALIFORNIA FILM AND TELEVISION TAX CREDIT PROGRAM 3.0

Section 5520. Definitions

- (a) **"Applicable period"** refers to production outside the Los Angeles zone, but in the state of California, that commences with preproduction 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.
- (b) **"Applicant"** is any person, corporation, partnership, limited partnership, limited liability company (LLC) or other entity that is principally engaged in the production of a "qualified motion picture" and that controls the film or television program during preproduction, production and postproduction. The applicant is the qualified taxpayer that upon final approval will receive the tax credit certificate.
- (c) **"California Film Commission"** (CFC) is a state entity established and described in Government Code section 14998 et seq. that, among other functions, facilitates and promotes motion picture and television production in the State of California.
- (d) **"California 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.
- (e) **"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.
- (f) **"Contracted Services"** means the hiring of a third party to work or perform services on behalf of the applicant including, but not limited to, visual effect shot costs, makeup prosthetic packages, sound mixing, and creation of postproduction delivery items.

(g) "**Feature Film**" means a production of a film with a minimum budget of one million dollars (\$1,000,000) that has a running time of at least seventy-five (75) minutes.

(h) "**Force Majeure**" means an event or series of events, which are not under the control of the qualified tax payer, including death, disability, disfigurement 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, labor disruption, terrorist activities or government sanction.

(i) "**Hiatus**" means a break or interruption in the continuity of work.

(j) "**Independent film**" means a film with a running time of at least seventy-five (75) minutes with a minimum budget of one million dollars (\$1,000,000) which is produced by a company that is not publicly traded and a publicly traded company does not own, directly or indirectly, more than twenty-five percent (25%) of the producing company.

(k) "**Jobs Ratio**" means the amount of qualified wages paid to qualified individuals divided by the amount of tax credit as further described in Revenue and Taxation Code section 17053.98(b)(7) and 23698(b)(7).

(l) "**Local Hire Labor**" refers to qualified individuals who reside in California, but outside the Los Angeles zone, and who are working outside the Los Angeles zone during the applicable period.

(m) "**Miniseries**" means a motion picture based on a single theme or storyline that is resolved within the piece. A miniseries consists of two or more episodes each longer than 40 minutes of running time, exclusive of commercials, with a minimum production budget of one million dollars (\$1,000,000) per episode.

(n) "**Office or other place of business**" means real property with a physical address in California that is owned or leased by a vendor for the purpose of conducting business. For purposes of these regulations, conducting business includes maintaining a product inventory or otherwise creating, assembling or offering for sale the product purchased or leased by a motion picture production company.

(o) "**Outside Los Angeles zone vendor**" means a vendor or supplier in California 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."

(p) **"Pass-through business"** means a company maintaining an office or other place of business in California that primarily fulfills orders from a production company for products or third-party services from sources other than its own inventories or employees.

(q) **"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 time frame.

(r) **"Pilot"** means the initial episode produced for a proposed television series that is longer than 40 minutes of running time, exclusive of commercials, with a minimum production budget of one million dollars (\$1,000,000).

(s) **"Principal photography days"** means the number of days shot by the principal unit with the director present and lead actors usually present. "Principal photography days" in California does not include the filming of primarily backgrounds, visual effects, action, and/or crowd scenes by the second, stunt, or visual effects units.

(t) **"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.

(u) **"Production budget"** means the budget used by the applicant and production company and shall include qualified and non-qualified expenditures. 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 preproduction, production or postproduction of the project, such as, but not limited to, distribution prints and advertising, marketing, film festival participation, financing, or distribution costs such as DVD manufacturing.

(v) **"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.

(w) **"Recurring Series"** means any television series that was approved and issued a CAL in a previous allocation period.

(x) **“Television Project”** means pilots for new television series, new television series, miniseries, and recurring television series.

(y) **“Television Season”** means 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.

(z) **“Television Series”** also known as “episodic television,” means a regularly occurring production and may include a series with multiple episodes available to the public in a single viewing and without regard to distribution transmission.

(aa) **“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 primarily accomplished in post-production. Visual effects research, development, creation, alteration, or enhancement of images may also occur in pre-production or principal photography. Visual effects 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.

Authority Cited: Sections 17053.98(b) and (e) and 23698(b) and (e), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 6902.5, 17053.98 and 23698, Revenue and Taxation Code, Section 14998.1, Government Code.

Section 5521. Application Process For Tax Credit Allocation

(a) The open allocation periods for the California Film & Television Tax Credit Program 3.0 shall be announced by the Director of the CFC prior to each new fiscal year on the CFC website. The California fiscal year is from July 1 to June 30. The announcement shall identify the application categories: Independent films, feature films, relocating television series, and television projects that may be submitted in each application period.

(b) An applicant that begins principal photography in California prior to receiving a CAL shall be disqualified from receiving such letter for that particular production.

(c) An applicant shall not submit a duplicate application for a project during any given allocation period. Submittal of duplicate applications shall be good cause to disqualify an applicant from the tax credit program.

(d) An applicant may submit a new application for the same project during any fiscal year if the qualified production did not receive or retain a tax credit allocation from a previous allocation period in the same fiscal year.

(e) An applicant, including any affiliated entities, that has been issued a tax credit allocation for a particular production that begins but does not complete principal photography of that production, shall not be eligible to reapply for a tax credit reservation for that particular production.

(f) Any expenditures for services, wages, or goods incurred prior to application approval shall not be considered qualified expenditures with the exception of production facility, office rentals, completion bonds and insurance premiums, which may be prorated to include the expenditures which are incurred on or after CAL issuance.

(g) An applicant of a television series shall submit one application for a television season of that television series. A television series with an order for additional episodes for the same season may apply in a subsequent television allocation period.

(h) The application process for tax credit allocation shall occur in two phases. Phase I requires applicants to complete and submit the online application as set forth on the CFC website. Phase II occurs after all applicants have been ranked by jobs ratios and the highest ranked productions per category are required to submit their documentation. The applicant shall initiate the online application process by selecting a production category from the following: Feature film, independent film with a qualified expenditure budget of ten million dollars (\$10,000,000) or less, independent film with a qualified expenditure budget over ten million dollars (\$10,000,000), new television series, recurring television series, pilot, mini-series, relocating television series. The application shall include the information-set forth below:

(1) Section 1: Applicant information.

(A) Production title, date submitted, production category, principal photography start date, post production end date, estimated tax credit, Application Jobs Ratio, applicant entity and taxpayer ID number; Identify if the applicant is a corporation, limited liability company, individual proprietorship, subchapter S corporation, partnership, or other. (A definition of the applicant that will receive the tax credit is included as per section 5520(b))

(2) Section 2: Contact information

(A) Enter the contact type and provide the contact name, title, address, email and phone for each of the following, as applicable: applicant contact, primary contact, production company contact, parent company contact, budget and schedule contact.

(3) Section 3: Financing sources and ownership.

(A) List the following information for financing sources:

1. Names of financing sources, amounts, percentage of funding. Named sources must total a minimum of 60% of total production budget.

(B) For Independents: List names of all equity investors including, without limitations, all partners (including percentage of ownership). Attest that applicant entity is not owned directly or indirectly more than 25% by a publicly traded company.

(4) Section 4: Proposed project.

(A) If it is a new television series indicate if TV Pilot was initially accepted in the program, number of episodes, and confirm over forty (40) minutes of running time exclusive of commercials. If it is a relocating television series indicate previous location, number of episodes previously shot and number of episodes included in this season. Indicate if the previous season was filmed in California and if so, the number of principal photography days inside California and outside California. If it is a mini-series, indicate the number of episodes and confirm over forty (40) minutes of running time exclusive of commercials.

(B) Production schedule. Provide start date of principal photography, end date of principal photography, estimated end date of post-production and projected or actual release date.

(C) Key Creatives: Provide names of executive producer(s), producer(s), writer(s), director, lead actor(s), director of photography, and location manager.

(D) Synopsis. The synopsis must be a minimum of 1600 and a maximum of 6000 characters and include a description of the main characters, plotline, beginning and ending, and major scene descriptions.

(5) Section 5: Production shoot days and Bonus Points.

(A) Principal photography (PP) Days.

1. Enter the requested data for PP Days. The online application will automatically calculate the totals.

a. Enter total PP days in Los Angeles (LA) zone.

b. Enter total PP days outside LA zone, but in California.

c. Total California PP days equals a. plus b.

d. Total percentage of PP days outside LA zone equals b. divided by c. x 100.

e. Enter total non-California PP days.

f. Total PP days equals c. plus e.

g. Total percentage of California PP days equals c. divided by f. x 100

(B) If shooting outside of Los Angeles zone, indicate the California counties where filming will occur.

(C) If shooting outside California, indicate state and/or country where filming will occur.

(6) Section 6: Production statistics.

(A) Provide the following information regarding labor statistics for in-state work:

1. Estimated total number of cast members.
2. Estimated total number of base crew members (Base crew is the average number of staff and shooting crew employed per principal photography day).
3. Estimated total background performers/stand-in man-days. (The sum of the number of days, full or partial, a person is estimated to work).
4. By checking the box, Applicant acknowledges the following required documentation will be submitted if and when the Applicant applies for a tax credit certificate: Subject to self-reported voluntary information, include separate listings regarding the ethnicity and gender statistics of all individuals who received qualified wages (excluding background performers) and all individuals who received non-qualified wages.

(B) Provide the following budget information.

1. Provide total production budget.
2. Provide total California expenditures (qualified and non-qualified).
3. Indicate if seventy-five percent (75%) or more of total production budget will be spent in California.

(C) Visual Effects: (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less). Provide total worldwide VFX budget amount, total California VFX budget amount, and total California VFX budget eligible for bonus points. Indicate if the total California qualified VFX is equal or greater than 75% of total worldwide VFX budget or if the California qualified VFX is at least ten million dollars (\$10,000,000).

(7) Section 7: Additional tax credit calculation: Uplifts and bonus points.

A list of eligible expenditures and wages are provided as stated in section 5523(a)(1) and 5524(e) and (f), as applicable.

(A) Out of zone Uplift. (Non-Independent productions excluding relocating TV series)

1. Enter total budgeted out of zone wages excluding local hire labor (applicable period).
2. Enter total budgeted out of zone non-wages (applicable period) excluding the total consumables.
3. Enter total non-wage expenditures totally consumed outside Los Angeles Zone (applicable period).
4. Applicable period is defined as in Section 5520 (a).

(B) Local Hire Labor Uplift: Total of out of zone local hire labor eligible for additional tax credits (includes independent films and relocating TV series).

(C) Total California Qualified Visual Effects (VFX) Uplift and/or bonus points. (excludes independent films with qualified expenditure budgets of ten million

dollars (\$10,000,000) or less). Total dollar amount for California VFX eligible for additional 5% tax credit and/or additional bonus points.

(D) Music Wages: (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less).
Enter total California music scoring wages eligible for bonus points.

(E) Total Additional Tax Credit: The online application will automatically calculate the following: The total out of zone amount (non-independent productions only) and total California VFX amount and total local hire labor amount (includes independents and relocating TV series) which is eligible for an additional tax credit.

1. Multiply total out of zone amounts by .05
2. Multiply total VFX amount by .05
3. Multiply total local hire labor amount by .10 for non-independent productions and by .05 for independent films and relocating television series.
4. (Total additional amount of 1 + 2 + 3 above)

(8) Section 8: Estimated Credit Allocation and Jobs Ratio.

(A) Qualified Wages

(B) Qualified Non-wages

(C) If, applicable, enter total contingency, which can be no more than 10% of qualified expenditures.

(D) If applicable, enter total completion bond fee, which can be no more than 2% of qualified expenditures.

(E) Total qualified expenditures.

(F) Total tax credit uplifts

Total qualified expenditures shall be multiplied by 25% if production category is an independent film or relocating television series; totals in this section shall be multiplied by 20% for all other production categories. (Credit allocation applies only to the first ten million (\$10,000,000) of qualified expenditures for independent films and the first ten million (\$10,000,000) of qualified expenditures eligible for uplifts. Credit allocation applies only to the first one hundred million (\$100,000,000) of qualified expenditures for non-independent productions and the first one hundred million (\$100,000,000) of qualified expenditures eligible for uplifts.)

(G) Total tax credit uplift amount.

(H) Total tax credit amount including uplifts.

A jobs ratio shall be assigned to the application, based on the criteria in Section 5527 and the information provided by the applicant in this application. The jobs ratio number for the production will be indicated once the application is complete.

(9) Section 9. Certification.

(A) Clicking submit on the Application Summary is the applicant's acknowledgement, agreement and certification that the applicant has read and reviewed the application, including all its attachments, and that the content provided in the application by the applicant is true and accurate to the best of his or her knowledge or at least the knowledge of what would be expected of a reasonable person in the same capacity.

(B) Provide name, title, and date.

(i) Applicants shall be selected for Phase 2 of the application process based on the jobs ratio ranking of their application, pursuant to Section 5527.

(j) The CFC shall notify, by electronic mail, the top ranked projects in each category of qualified motion pictures, as provided for in sections 17053.98(i) and 23698(i) of the Revenue and Taxation Code. These applicants shall provide the additional materials and supporting documentation as requested by CFC as described in subsection (k) below within the timeframe provided on the electronic notification, which shall be within three (3) business days and can be extended to no more than seven (7) business days from the electronic notification date for legitimate business reasons.

(k) The applicant shall submit the following:

(1) An electronic copy of the qualified expenditure budget in an industry standard budgeting program. The electronic copy shall be uploaded to the online application portal for the qualified motion picture. The industry standard budgeting program shall provide the following:

(A) Qualified wage expenditures and qualified non-wage expenditures. If applicable, also indicate costs which will be incurred outside the Los Angeles zone during the applicable period.

(B) For non-independent productions (excluding relocating TV series in their first season in California) indicate those accounts for which an additional five percent (5%) tax credit is allowed for qualified expenditures purchased or rented and used outside the Los Angeles zone during preproduction through strike on location; qualified visual effects if at least ten million dollars (\$10,000,000) or seventy-five percent (75%) of worldwide visual effects paid or incurred in the state; and qualified wages for services performed outside the Los Angeles zone during preproduction through strike by individuals who reside within the Los Angeles Zone. Productions shall also indicate those accounts for which an additional ten percent (10%) tax credit is allowed for local hire labor.

(C) A television series shall submit a qualified expenditure budget including all pattern and amortization costs, or separate amortization and pattern budgets. The budget shall be in an industry standard budgeting program uploaded to the

online application. The Production Budget shall indicate, as applicable, the information required in subsection (k) (1)(A) and (B) above.

(D) For independent films and relocating television series in their first season in California, indicate those accounts for which an additional five percent (5%) tax credit is allowed for local hire labor.

(2) Fringe Benefit Matrix: Applicant shall submit information on fringe benefit payments included in the qualified expenditure budget. After entering project title, category, and date, applicant provides a detailed breakdown of qualified fringe benefit payments for union and/or non-union background performers, union and/or non-union crew, Director's Guild of America (DGA) crew, as applicable. Fringe payments include: state unemployment tax, payroll/handling fees, pension, health, vacation and holiday, workers compensation, DGA fringes benefit payments, and non-union health insurance payments. Casting fees are not included as fringe benefit payments but should be included as a line item in the budget.

(3) One-Line Schedule ("production board"). Applicant shall submit in PDF or equivalent format a One-Line Schedule which shall include scene descriptions, scene numbers, holidays and cast numbers and shall indicate which days are scheduled for filming outside of the Los Angeles zone.

(A) A television series may submit in PDF or equivalent format, a production calendar, including: the start and end dates of the season, the number of in-state and out-of-state principal photography days, holidays, and the total number of episodes in lieu of a one-line shooting schedule. The production calendar must indicate which days are scheduled for filming outside the Los Angeles zone.

(4) Applicant shall submit in PDF or equivalent format the screenplay, including scene numbers that match the submitted schedule for the production. If the application is for a pilot that does not have a script, this requirement shall be waived. This requirement is waived for recurring television series.

(5) Applicant shall submit supporting documentation that confirms at least 60% of production financing. Applicant shall include documentation for each financing source including, but not limited to, commitment letters, financing agreements, term sheets, and/or bank statements in PDF or equivalent format. Applications submitted without the sufficient documentation described above, which shall be determined in the sole discretion of CFC, shall be considered incomplete and good cause to disqualify the application.

(6) Pick-up order. A pilot, new television series or relocating television series shall submit evidence, in PDF or equivalent format, that the pilot or series is scheduled for photography, e.g. a pick-up order, when applying for a credit allocation. Recurring television series may submit applications without a pick-up

order but shall not receive a credit allocation until proof of a pick-up order has been submitted. Any recurring television series that has not supplied a pick-up order within 140 calendar days of the CAL date for the allocation period for which it submitted an application will be removed from the queue and may reapply during the next television allocation period.

(7) Narrative statement pursuant to sections 17053.98 (g)(2)(A)(x) and 23698(g)(2)(A)(x).

(8) Relocating statement. Applicant certifies that the credit provided is the primary reason for relocation to California (if applicable). The Applicant must state that at least 75 percent of principal photography days of its most recent season was filmed outside of California. If submitting a relocating statement, the detailed narrative statement as per Revenue and Tax code sections 17053.98 (g)(2)(A)(x) and 23698(g)(2)(A)(x) is not required. The certification shall be submitted in PDF or equivalent format.

(9) Unlawful harassment policy. Applicant shall submit company's written policy against unlawful harassment as set forth in section 17053.98(g)(2)(A)(xi) and 23698(g)(2)(A)(xi) of the Revenue and Taxation code.

(10) A summary of the applicant's voluntary programs to increase the representation of women and minorities including a description of what the program is designed to accomplish and information about how the programs are publicized to interested parties as set forth in sections 17053.98(g)(2)(A)(xiii) and 23698(g)(2)(A)(xiii). This requirement is waived for independent films with qualified expenditures of ten million dollars (\$10,000,000) or less.

(11) Company and financial information, if available and as applicable, as required by sections 17053.98(g)(2)(A)(v),(vi),(vii) and 23698(g)(2)(A)(v),(vi),(vii).

(l) Within thirty (30) business days of receipt of the completed application and all requested supporting documents, the Director of the CFC, or his or her designee, will notify the applicant whether the application is accepted or disqualified. An approved application shall meet the Eligibility Requirements in Section 5522. Upon approval, a Credit Allocation Letter, (CAL) CFC Form D3 (New. June 25, 2019) hereby incorporated by reference, shall be issued to the applicant indicating the amount of tax credits allocated, as provided in Section 5526. Failure to timely submit all requested documents above, as applicable, shall be good cause to disqualify the applicant.

(m) As soon as feasible, but not less than four (4) weeks prior to the start of principal photography, the production accountant is required to attend an orientation meeting with the Director of the CFC or his or her designee, along with any or all of the following staff members: a primary producer, production manager or other appropriate personnel as determined by the applicant.

Applicants and staff members shall not be required to attend more than one (1) orientation meeting for a motion picture in the program.

(n) Any television series, relocated television series and any television series based on a pilot that has been approved and issued a Credit Allocation Letter, shall be given first priority for a credit allocation during an open allocation period in each subsequent year in the life of that series whenever credits are allocated and available within a fiscal year.

(1) Each recurring television series shall submit a new application and pick-up order, if available, for each season during any open television project application period as specified by the CFC in its written notification. The narrative statement requirement as set forth in sections 17053.98(g)(A)(x) and 23698(g)(A)(x) of the Revenue and Taxation code for all projects shall be deemed as met for recurring television series with the statement submitted by that series when it was accepted into the program as a pilot, new or relocating television series.

(2) Recurring television series will be prioritized in subsequent years based upon the fiscal year of original credit allocation, with oldest television series applications entitled to first priority. In the event that further prioritization is necessary, the jobs ratio from the most current application for the series shall be used.

(o) Principal photography in California shall commence no later than one hundred eighty (180) calendar days after the credit allocation letter is issued. Qualified motion pictures with qualified expenditures of at least one hundred million dollars (\$100,000,000) must begin principal photography (as defined in Section 5520(s)) no later than two hundred and forty (240) days after CAL issuance. If the production does not begin principal photography prior to the 180 or 240 day deadline, the tax credit allocation shall be revoked, unless a Force Majeure event has occurred which directly prevented the production from commencing within the deadline. With submission of documentation verifying such event, the CFC may grant an extension. If a production implements a hiatus during the principal photography period, any and all hiatus period(s) may be no longer than one hundred twenty (120) calendar days in aggregate for the entire duration of the production.

Authority Cited: Sections 17053.98(e) and (j) and 23698(e) and (j), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 6902.5, 17053.98(g) and 23698(g), Revenue and Taxation Code, Section 14998.1, Government Code.

Section 5522. Eligibility Determination

- (a) If applicant is planning to produce a "qualified motion picture," then applicant shall ensure that the "qualified motion picture" complies with the provisions of sections 17053.98 (b)(18) and 23698 (b)(18) of the Revenue and Taxation Code and applicant must film at least seventy-five percent (75%) of principal photography days wholly in California or seventy-five percent (75%) of the total production budget shall be incurred in California.
- (b) To qualify as a new television series, the television series, shall produce episodes with a running time longer than forty (40) minutes, exclusive of commercials, and with a minimum production budget of one million dollars (\$1,000,000.00) per episode.
- (c) To qualify as a television series that relocated to California, the television series shall meet the following criteria:
- (1) Provide a certification from the applicant that the tax credit provided pursuant to this section is the primary reason for relocating to California.
 - (2) Produce episodes of any length, filmed its most recent season outside of California, and have a minimum production budget of one million dollars (\$1,000,000.00) per episode.
 - (3) At least 75 percent of principal photography days of its most recent season have been filmed outside of California.
- (d) To qualify as a pilot for a new television series, the pilot episode shall have a running time longer than forty (40) minutes, exclusive of commercials, shall be produced in California with a minimum budget of one million dollars (\$1,000,000), and shall be the initial episode in a proposed television series.
- (e) An animated production is not considered a qualified motion picture and shall not be eligible for a tax credit. Animated production means content created that does not utilize or incorporate live action footage but creates a motion picture consisting principally of computer generated or hand painted images. An animated production does not engage in principal photography and therefore does not meet the conditions for eligibility set forth in sections 17053.98(b)(13) and 23698(b)(13) of the Revenue and Taxation Code.
- (f) Tax credits for a "feature film", "television series", "pilot" or "mini-series" shall be applied to a maximum of one hundred million dollars (\$100,000,000.00) of the qualified expenditure budget. There shall be no maximum on the production budget.

- (1) A one hundred million dollar (\$100,000,000.00) qualified expenditure maximum applies to the 5% augmentation as per Section 5524(e)(1-3).
- (2) A one hundred million dollar (\$100,000,000.00) qualified expenditure maximum applies to the 10% augmentation as per Section 5524 (f)(4).
- (3) A one hundred million dollar (\$100,000,000.00) qualified expenditure maximum applies to the 5% augmentation as per Section 5524(g) with respect to a relocating television series.
- (g) Tax credits for an independent film shall be applied to a maximum of ten million dollars (\$10,000,000.00) of the qualified expenditure budget. There shall be no maximum on the production budget.
- (1) A ten million dollar (\$10,000,000.00) qualified expenditure maximum applies to the 5% augmentation as per Section 5524(g).
- (h) Revocation of the tax credit allocation is final and shall not be subject to administrative appeal or review.

Authority Cited: Sections 17053.98(e) and 23698(e), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 17053.98 and 23698 Revenue and Taxation Code, Section 14998.1, Government Code.

Section 5523. Qualified Expenditures

- (a) The qualified expenditures shall be allowed as provided in sections 17053.98(b)(16) and 23698(b)(16) of the Revenue and Taxation Code.
- (1) Qualified Wages shall also include payments to a qualified entity to the extent its services are performed in California, including, but not limited to, Qualified Expenditures as defined in sections 17053.98(b)(15) and 23698(b)(15) of the Revenue and Taxation Code. Examples of Qualified Expenditures are set forth on the Qualified Expenditure Charts as identified on the CFC website. These charts are only provided as a reference for the applicant and should not be considered conclusive or limiting.
- (b) The non-qualifying expenditures are as provided in sections 17053.98(b)(21)(B) and 23698(b)(21)(B) of the Revenue and Taxation Code. The following expenses shall not be allowed as qualified expenditures:
- (1) State and federal income taxes.

(2) Certified public accountant expenses for the report required in Section 5526(a)(6).

(3) Expenditures for rentals or purchases outside the state regardless if used in the state, and services performed outside the state are not considered qualified expenditures including, but not limited to, digital visual effects work which is physically performed out-of-state.

(4) Expenditures for the exhibition of the qualified motion picture including, but not limited to, digital cinema distribution copies and release prints.

(5) Expenditures incurred thirty (30) days after the creation of the final elements, such as, but not limited to, composite answer print, air master, and digital cinema files. Creation of additional versions for foreign distribution and/or archival purposes are not considered final elements.

(6) Financial contribution expenditures related to the pilot career pathways training program.

Authority Cited: Sections 17053.98(b) and (e) and 23698 (b) and (e), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 17053.98 and 23698, Revenue and Taxation Code, Section 14998.1, Government Code.

Section 5524. Tax Credit Allocation

(a) The amount of tax credit allocated shall be based on the percentage of the qualified expenditures as provided in sections 17053.98(a) and 23698(a) of the Revenue and Taxation Code.

(b) Allocation of unused credits as provided in Revenue and Taxation Code 17053.85, 17053.95, 23685, and 23695 shall be as follows: 20% of unused credits each fiscal year through 2024-25. Credits shall be divided by percentage and project type as provided in sections 17053.98 (i)(E) and 23698 (i)(E) of the Revenue and Taxation Code.

(c) If all tax credits have been allocated for any application period, qualified motion pictures shall be placed in a prioritized waiting list according to their project type and in the order of their jobs ratio ranking until one of the following occurs: credits become available that allocation period, the production elects to be removed from the queue, or until the allocation period ends.

(d) If the applicant is producing a series of feature films that will be filmed concurrently and the series of films continues the narrative of the original work and financing is confirmed, then the CFC shall have the authority to divide the

allocation over multiple fiscal years if it is determined that the production schedule occurs over more than one fiscal year.

(e) For the purposes of this section, a five percent (5%) augmentation ("uplift") to the tax credit allocation for non-independent motion pictures (excluding relocating television series in its first season in California) shall be made by the CFC when any of the following conditions have been met:

(1) The production company pays or incurs qualified expenditures relating to qualified visual effects work totaling a minimum of ten million dollars (\$10,000,000) is incurred in California or at least seventy-five percent (75%) of total worldwide visual effects expenditures is incurred in California.

(2) The production company pays or incurs qualified wages for services performed outside the Los Angeles zone during the applicable period relating to original photography outside the Los Angeles zone by individuals who reside within the Los Angeles zone. The foregoing amounts shall be substantiated by documentation including, but not limited to, timesheets and payroll records as requested by the CFC and/or the CPA performing the Agreed Upon Procedures.

(3) The production company purchases or leases tangible personal property outside the Los Angeles zone during the applicable period and the personal property is used or consumed outside the Los Angeles zone. Tangible personal property must be purchased, rented or leased from an outside of Los Angeles vendor through an office or other place of business outside the Los Angeles zone. Rentals or purchases from a pass-through business do not qualify for the five percent (5%) augmentation.

(A) If the tangible personal property purchased or leased outside the Los Angeles zone was not completely used or consumed solely outside the Los Angeles zone, the production company shall apportion amounts paid or incurred for tangible personal property outside the Los Angeles zone during the applicable period by multiplying these non-wage outside the Los Angeles zone expenditures by the ratio of days of principal photography outside the Los Angeles zone to the total number of days of principal photography.

(B) If the tangible personal property purchased or leased outside the Los Angeles zone was completely used or consumed solely outside the Los Angeles zone, the production company may elect to substantiate that with its records. Tangible person property purchased or leased outside the Los Angeles zone shall be deemed to be completely used or 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 outside the Los Angeles zone. Examples of such property 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, government permit fees,

personnel services, printing, equipment rentals for the applicable period outside the Los Angeles Zone, transportation services, dry cleaning, and shipping and travel costs from within the state to and from the out of zone location.

(f) A ten percent (10%) augmentation ("uplift") for non-independent productions excluding relocating TV series, is available if the production company pays or incurs qualified wages for services performed by local hire labor outside the Los Angeles zone during the applicable period relating to original photography outside the Los Angeles zone. The foregoing amounts shall be substantiated by documentation including but not limited to timesheets and payroll records as requested by the CFC and/or the CPA performing the Agreed Upon Procedures.

(g) The maximum amount of tax credits allowed for independent films and/or relocating television series for their initial season in California is twenty-five percent (25%) and therefore the five percent (5%) uplift is not applicable to such productions except for an additional five percent (5%) uplift for local hire labor. As noted in section (f) above, documentation will be required to determine if applicant qualifies for this uplift.

Authority Cited: Sections 17053.98(a)(e) (i) and (j) and 23698(a)(e) (i) and (j), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 17053.98 and 23698, Revenue and Taxation Code, Section 14998.1, Government Code.

Section 5525. Approved Applicant Responsibility – Phase III

(a) An applicant issued a credit allocation letter shall be required to comply with the following during the production period:

(1) On the first day of principal photography and after a hiatus period, if applicable, submit by email to the CFC the daily call sheet, signed by the production manager or equivalent position, in PDF or equivalent format.

(2) Each week or as available, submit by email to the CFC the final production reports for each day of principal photography, signed by the Unit Production Manager or equivalent position, in PDF or equivalent format.

(3) If applicable, submit an email notification to the CFC indicating any significant changes to the project including anticipated changes in the estimated qualified expenditures, change of start date, shooting location, number of television episodes ordered, title change of project, financing, key personnel or any other factors that have significantly changed since issuance of the CAL.

(4) Participation in career-based learning and training programs and public service opportunities approved by the CFC in consultation with the California Department of Education (CDE) and/or California Community College Chancellor's Office (CCCCO) aimed at exposing high school and community college students to jobs in the entertainment industry. To meet the requirements of this section, the applicant may do any of the following:

(A) Provide to students enrolled in an accredited California high school or community college three (3) paid internship positions for a minimum of one hundred (100) hours each or a combination of internships or internship with a minimum of one hundred (100) hours per student and three hundred (300) hours in total. Interns must be 18 years of age or older. Internship experience must include working with professionals in the film industry and hands-on work assignments; or

(B) Provide to students enrolled in an accredited California high school or community college classroom workshops, panels or demonstrations on aspects of the film industry, which may include but is not limited to set operations, post-production and specific technical crafts conducted by entertainment industry professionals; or

(C) Provide to students enrolled in an accredited California high school or community college a minimum of eight (8) hours of professional skills tours, which may include visits to observe set operations, set construction, wardrobe department, art department and editorial department; or

(D) Provide a minimum of eight (8) hours of continuing education for educators and/or faculty to observe the set operations, post-production, and other specialized departments in the film industry; or

(E) Make a financial contribution to a specific local or state educational agency or higher education institution specializing in arts, media, and entertainment career oriented programs. The contribution shall be based on 0.25 percent of the estimated tax credit reservation with a minimum financial contribution of \$5,000 and a maximum required financial contribution of \$12,000. (Note: An applicant may contribute an amount in excess of the maximum); or

(F) Provide a learning opportunity or financial contribution of equal time or value through other arts, media, and entertainment programs, workforce programs, etc. which are not affiliated with CCCCCO or CDE and is approved by the CFC.

(5) Make a financial contribution to fund a pilot career pathways training program to a non-profit fiscal agent as determined by CFC.

(A) The contribution shall be based on 0.25 percent of the estimated tax credit reservation as stated on the CAL.

(B) The contribution shall be submitted to the CFC no later than ten (10) business days after the CAL date; failure to submit the contribution within this time frame may result in revocation of the CAL.

(C) The contribution is refundable if the project does not receive a tax credit certificate. A portion may also be refundable if the tax credit amount is significantly reduced due to reasonable cause as per Section 5520 (v).

Authority Cited: Sections 17053.98(e) and 23698(e), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 17053.98 and 23698, Revenue and Taxation Code, Section 14998.1, Government Code.

Section 5526. Credit Certificate Issuance Process- Phase IV

(a) The applicant shall be required to submit the following documents upon completion of the qualified motion picture, in an electronic format and /or hard copy, as directed by the CFC.

(1) Proof of copyright registration of the screenplay, teleplay, motion picture, television series or pilot.

(2) Documentation indicating the date of completion of post production. Documentation may include, but not be limited to, the facility invoice evidencing the date the final element was completed or other reasonable documentation as determined by the CFC.

(3) List of all Cast and Crew for the project.

(4) Copy of Script Supervisor's Lined Script or the continuity/spotting log of the project. TV series must submit episodes 2 and 5 of the series.

(5) Expenditure Summary Report as set forth on the CFC website. The applicant shall revise any contact information changes in the application portion of the CFC website including the CPA firm performing the Agreed Upon Procedures (AUP).

(A)Section 1. Applicant Information. The on-line application will automatically generate the applicant information. Input copyright registration number and seller's permit number, if applicable.

(B)Section 2. Contact Information. The on-line application will automatically generate the contact information for parent company and CPA firm.

(C)Section 3. Project Information. If television series, indicate number of completed episodes. Report start date of pre-production, principal photography, hiatus start date if applicable, hiatus return date if applicable, end of principal photography, end date of post-production (creation of final element), projected or actual release date (if known).

(D)Section 4. Production Shoot Days and Locations. Provide production shooting days inside and outside the Los Angeles zone, counties outside the LA zone, other states or countries; and provide Local Community Expenditure Report Form LE3. (Rev. Sept.12, 2019), incorporated by reference, for each county outside of Los Angeles county if applicable.

(E)Section 5A Production and Financial Statistics. Provide total number of cast, base crew, extras and stand-in man days, residents and non-residents, CA Vendors, number of outside zone local hires.

(F)Section 5B&C. Financial Statistics. Provide total worldwide expenditures; total California expenditures; qualified and non-qualified; total worldwide VFX expenditures; total CA expenditures, qualified and non-qualified; total qualified California VFX expenditures eligible for uplifts and/or bonus points (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less).

(G)Section 5D. Total California music scoring/recording wages eligible for bonus points (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less).

(H)Section 5H. Subject to self-reported voluntary information, include separate listings regarding the ethnicity and gender statistics of all individuals that received qualified wages (excluding background performers) and all individuals that received non-qualified wages.

(I)Section 6. Career Readiness and Pilot Skills Training Program. (i)Verification of fulfillment of career readiness requirement utilizing one of the required forms CR1, CR2, CR3, CR4, CR5 (New. June 25, 2019), incorporated by reference. If applicable, verify submission of career readiness payment. (ii) Verification of pilot skills training program contribution with date paid and amount.

(J)Section 7. Uplifts and Bonus Points (as per AUP findings)

(i) Out of zone Uplift. (Non-Independent productions only)

1. Enter total out of Los Angeles zone wages excluding Local Hire Labor (applicable period).

2. Enter total out of Los Angeles zone non-wages (applicable period) excluding the total consumables;

3. Enter total non-wage expenditures totally consumed outside Los Angeles Zone (applicable period).

4. Total out of Los Angeles zone uplift amount is calculated.

(ii) Local hire labor uplift: Total of out of zone local hire labor eligible for uplift.

(iii) Visual Effects (VFX) uplift and/or bonus points (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less).

Total dollar amount for California VFX eligible for additional 5% tax credit and/or additional bonus points.

(iv) Total music wages eligible for bonus points (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less).

(v) Total additional tax credit: The online application will automatically calculate the following: The total out of Los Angeles zone amount (non-independent productions only) and total California VFX amount and total local hire labor amount which is eligible for an additional tax credit.

1. Multiply total out of zone amounts by .05
2. Multiply total VFX amount by .05
3. Multiply total Local Hire Labor amount by .10 for Non-Independent productions and by .05 for Independent Films and Relocating Television Series.

4. (Total additional amount of 1 + 2 + 3 above calculated automatically)

(K) Section 8. Credit Amount. As per the findings of the CPA performing the AUP, provide the Total Qualified Wages; Total Qualified Non-Wages; and completion bond fee, if applicable. Total Qualified Expenditures, Tax Credit Amount, Uplifts tax credit amount, and Total Adjusted Credit Amount will be automatically calculated by the on-line application.

(L) Section 9. Jobs Ratio and Final Tax Credit. The online application automatically calculates the Jobs Ratio and the percentage change from the CAL jobs ratio amount. If there is an overstatement, the penalty will be indicated. The final credit amount indicated will be the least of the CAL amount, the adjusted credit amount or the Amount with Penalty.

(M) Section 10. Signature certification. Print the Expenditure Summary Report. By signing the Report, the applicant acknowledges, agrees and certifies that the applicant has read and reviewed the summary, and that the content provided is true and accurate to the best of his or her knowledge or at least the knowledge of what would be expected of a reasonable person in the same capacity. Submit to the CPA performing the AUP.

(6) An agreed upon procedures report in compliance with the Program 3.0 AUP dated June 25, 2019, hereby incorporated by reference. The agreed upon procedures report shall be prepared and certified by a certified public accountant (CPA) who meets the following criteria:

(A) Maintains an active license or has proof of a valid out-of-state accounting firm registration for the firm practicing attest services in California.

(B) The accounting firm performing the assurance services shall provide documentation from the California Society of Certified Public Accountants or other organization administering said review, indicating that a Peer Review Report was completed within the last three years and the rating was a Pass. If the firm performing attest services is newly formed, the firm must provide evidence it is registered for review by an organization administering the review in the state in which the firm resides.

(C) Successful completion of a California Film Commission Orientation Meeting for CPAs performing Agreed Upon Procedures for the California Film and Television Tax Credit Program 3.0. The frequency of training shall be offered on an as needed basis as determined by the CFC.

(7) The actual layout of the main and end titles produced by a title house or other postproduction facility.

(8) Documentation from each visual effects, title, digital effects and/or post sound company contracted by the production company, indicating the total dollar amount of work performed within the State of California shall be certified by managerial level personnel with knowledge of the project.

(9) Documentation from the designated representative of the California Community Colleges Chancellor's office and/or the California Department of Education or the CFC, verifying participation in the career-based learning and training program as required in Section 5525 (a)(4).

(10) A miniseries shall submit documentation verifying that its initial distribution consists of two or more episodes longer than forty (40) minutes each exclusive of commercials.

(11) A listing of other jurisdictions in which any member of the applicants combined reporting group has produced a qualified motion picture in the preceding year pursuant to Section 17053.98 (g)(3)(C)(i)(I) of the Revenue and Tax Code. Updated information as per Section 5521(k)(11) is also required.

(12) Documentation verifying that the applicable fee was paid by the qualified taxpayer to fund a pilot career pathways technical skills training program.

(b) The production shall be completed within 30 months from the issuance date of the CAL as required in sections 17053.98(b)(18)(B)(ii) and 23698(b)(18)(B)(ii) of the Revenue and Taxation Code.

(c) The Qualified Motion Picture shall be considered complete when the process of postproduction has been finished and a final composite answer print, delivery air master, or digital cinema files of the qualified motion picture is completed.

(d) The CFC shall review all the required materials submitted by the applicant to determine the sufficiency of the required documentation and that the applicant meets all the criteria for the program. During the review, the CFC may reject insufficient documentation not in compliance with the requirements found in this section or may request additional documentation to determine if the production is a qualified motion picture and to verify the qualified expenditures. The CFC shall approve or disapprove the request for the tax credit certificate.

(e) Upon rejection of insufficient documentation or disapproval of the request for a tax credit certificate, the CFC shall provide the applicant with a notice of disapproval stating the reasons for the disapproval. Disapproval is final and shall not be subject to administrative appeal or review.

(f) Upon approval, the tax credit certificate, CFC Form M3 (New. June 25, 2019), hereby incorporated by reference, shall be issued to the applicant beginning on July 1, 2020. If the entity that incurs the qualified expenditures is a partnership, limited liability company or subchapter S corporation (pass-through entity), that entity is the applicant for purposes of filing the tax credit application and receiving the final tax credit certificate.

Authority Cited: Section 17053.98(a)(d)(e) and (f) and 23698(a)(d)(e) and (f), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 17053.98 and 23698, Revenue and Taxation Code, Section 14998.1, Government Code.

5527. Jobs Ratio Ranking Process

(a) For the purposes of the jobs ratio calculation, qualified wages shall include:
(1) Qualified wages which are directly paid by the applicant or its payroll service; plus (2) thirty-five percent (35%) of all qualified non-wage expenditures, including contracted services in which the qualified wages are not directly paid by the applicant, but by the vendor. Qualified VFX expenditures may be apportioned as 70% qualified wage and 30% qualified non-wage for VFX work performed by third party California vendors.

(b) The jobs ratio as defined in Section 5520 (k) may be increased by up to twenty-five percent (25%) if the qualified motion picture demonstrates an increase in economic activity in the state. This activity is based on the following:

(1) One to seven bonus points based on the visual effects expenditures per project category, e.g., independent film, non-independent feature, television project. Excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less.

(2) One to ten bonus points based on the percentage of principal photography days outside the Los Angeles Zone in relation to the qualified motion picture's total principal photography days in the state. To qualify for bonus points, a principal photography day outside the Los Angeles Zone must include at minimum filming the first scene of the day outside the Los Angeles Zone.

(3) One to five bonus points based on the wages paid to scoring musicians, including the following positions: Instrumental musicians, vocalists,

music arrangers, orchestrators, Musical Instrument Digital Interface(MIDI) transcribers, music copyists, music librarians, conductors (unless also the composer), and musician and choral contractors employed solely for the purpose of recording music for the qualified motion picture. Excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less.

(c) The CFC shall establish the bonus point ranges as follows:

(1) Percentage points for principal photography days out of the Los Angeles zone as provided in subsection (b)(2) shall be determined by applying percentage points on a linear proportionate scale. Starting with 10% of principal photography days, the applicants will receive one point for every 10 percent increase of out of zone principal photography days (10% or more but less than 20% of the above days = 1 point, 20% or more but less than 30% of the above days = 2 points, etc.) until the maximum cap of points is received. The percentages are determined by dividing the out of zone principal photography days by the total principal photography days.

(A) If the maximum number of points is not achieved by any project in a given year's applicant pool, the CFC may decrease the step size (for example from 10% to 5% incremental steps) needed to gain an additional point in subsequent allocations but maintain the linear proportionate structure.

(2) Bonus points for VFX as provided in subsection (b)(1) shall be determined utilizing the following method: The CFC shall use the National Institute of Standards and Technology formula to create cut-off values that sort an equal number of projects into each point range as further described below.

Following the *National Institute of Standards and Technology (NIST)* "Engineering Statistics Handbook: Percentile" formula, the applicant pool is first ranked from lowest to highest value in each of the three categories, where 1 corresponds to the lowest rank. The formula then finds the rank n associated with each percentile cut-off as follows:

$$n = P/100 \times (N + 1)$$

P is the percentile of interest. If there are ten possible point ranges for example, then $P = 10$ would correspond to the 10th percentile, $P = 20$ th to the 20th percentile, and so forth, until the 100th percentile has been calculated. N is the total number of applicants in the current applicant pool.

The formula then uses a standard rounding and conversion procedure to turn the rank n into a monetary cut-off value. The Excel function *PERCENTILE* automatically does this calculation according to the same NIST formula (see citation: <http://www.itl.nist.gov/div898/handbook/prc/section2/prc262.htm>) The CFC shall use this Excel function to determine initial cut-offs, and

then choose final cut-offs within +/- 10 percent of what the formula produces, such that the ranges can be rounded. Ranges may be adjusted for future application periods based on the data collected from previous application periods.

(3) Bonus points for music wages as provided in section (b)(3) shall be determined by utilizing music wage data from submitted budgets in prior tax credit programs and from music contractors. After determining the highest to lowest qualified wage figures per type of production, ranges with percentage points by production type were calculated.

(d) Ranges to establish the points for the above criteria shall be posted on the CFC website prior to any application period.

(e) The jobs ratio calculation shall not include any increase to the tax credit from work outside the Los Angeles zone or qualified visual effects incurred in California as set forth in Section 5524 (e). It also shall not include any increase to the tax credit from expenditures relating to a contingency or completion bond.

(f) The jobs ratio multiplied by (total points [acquired in (b)(1)-(3), as applicable]) x 1/100) + 1 shall be the adjusted jobs ratio which shall be utilized to rank qualified motion pictures within each category during the application process, pursuant to Section 5521 (i).

(g) This process shall be automatically calculated on the online application, based on the information provided by the applicant.

(h) If information submitted by an applicant is overstated on the application, the applicant will be penalized as provided in Revenue and Taxation Code Sections 17053.98(d)(2) and 23698(d)(2).

Authority Cited: Sections 17053.98(e) and 23698(e), Revenue and Taxation Code, Section 11152, Government Code. Reference: Sections 17053.98 and 23698, Revenue and Taxation Code, Section 14998.1, Government Code

Section 5528. On Screen Credit and Promotional Requirements

(a) All productions that are issued a tax credit certificate shall be required to comply with the following provisions:

(1) Provide an on-screen acknowledgement to: THE STATE OF CALIFORNIA AND THE CALIFORNIA FILM COMMISSION and include the California Film Commission Logo, to be provided by the CFC to the applicant, except where that acknowledgement may be prohibited by the Children's Television Act or any other local, state, or federal government policy. Such acknowledgement and logo

shall appear on every episode of a television series except where prohibited as above.

(2) Provide five (5) production stills in digital file format cleared by the production company and with cast approvals to illustrate the diversity of California locations and/or job creation for promotional use by the CFC.

Authority Cited: Revenue and Taxation Code, Section 14998.1, Section 11152 Government Code. Section 17053.98(e) and 23698(e), Revenue and Taxation Code, Section 14998.1, Government Code.



California Film and Television Tax Credit Program 3.0

Credit Allocation Letter

Credit Allocation Letter _____

Date _____

Fiscal Year _____

Production Title _____

Production Type _____

☐

Independent Film

Production Period

Estimated Start Date of Principal Photography _____

Estimated End Date of Post-Production _____

Qualified Taxpayer

Applicant Entity: _____

Production Contact, Title: _____

Address: _____

City: _____

State: _____

Zip: _____

Phone: _____

Cell: _____

Email: _____

Taxpayer ID Number: _____

Type of Entity: _____

TAX CREDIT ALLOCATION RESERVED

The allocation of tax credits indicated in this letter are not guaranteed and are only an estimate. Final granting of tax credits is subject to examination and verification of the claimed Qualified Expenditures, pursuant to the laws and regulations of the California Film and Television Job Retention and Promotion Act.

Granted by: _____

California Film Commission

Date _____



California Film & Television Tax Credit Program 3.0

LOCAL COMMUNITY EXPENDITURE REPORT

In an effort to report the significant impact a production has on the local economy, the CFC requests an estimate of local expenditures and wages for each county (excluding L.A. county) where filming occurs. Please fill out one form for each county where your production filmed. ~~In counties where less than \$100,000 was spent, fill out only the local hire payroll section.~~

Instructions for Accountants: For all out of Los Angeles county purchases and/or rentals, the county where the vendor is located must be noted. Do not include items purchased and/or rented in L.A. county. For wages (local hire payroll only), note the county where the work is incurred during prep, shoot, and strike. Please create a free field code for each county, e.g., HC for Humboldt county, OC for Orange county, etc. so as to report the spend for each county. Exact spend is not crucial; estimates are acceptable.

Production Title _____ **Queue #** _____
County _____ **Total Shoot Days for Entire Project** _____
Shoot Dates _____ **Total # of Shoot Days in County** _____
_____ **Total # of Hotel Rooms** _____

| LOCAL HIRE PAYROLL | | LOCAL VENDORS | |
|------------------------------|-------------------|-------------------------------------|-------|
| Local Hired Cast | \$ _____ | Hotel Cost | _____ |
| | # of Cast _____ | | |
| Local Hired Extras | | | |
| <u>Background</u> | | | |
| <u>Performers</u> | \$ _____ | Location Fees and Permits | _____ |
| | # of Extras _____ | | |
| Local Hired Crew | \$ _____ | All Other Local Rentals & Purchases | _____ |
| | # of Crew _____ | | |
| Total Local Payroll | \$ _____ | Total Local Vendor Spend | _____ |
| Total Spend in County | | \$ _____ | |

List any community support, events, and sponsorships which the production company provided in the county, if applicable.

This report was prepared by:

Print Name: _____ Title: _____
Email: _____ Phone: _____ Date: _____



Career Readiness Requirement

Verification Form: PAID INTERNSHIP

PRODUCTION COMPANY VERIFICATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

PRODUCTION COMPANY VERIFICATION

Start Date _____ End Date _____

Department _____ Total # of Hours _____

Internship Duties Description: _____

☐ Reviewed timecards and payroll records. ☐ Verified intern is at least 18 years of age.

Submitted images of intern at work. ☐ Yes ☐ No

☐ Verified intern is from CA High School, Community College, or approved career-based learning program.

Signature _____ Date _____

CAREER READINESS ORGANIZATION & INTERNSHIP ACKNOWLEDGEMENT

School OR Career Based Learning Program _____

Program Type / Degrees Offered ☐ Associate ☐ Certificate ☐ H.S. Diploma ☐ Other _____ ☐ N/A

INTERN INFORMATION & ACKNOWLEDGEMENT

Name _____ Email _____

Area of Interest _____ Cell Phone _____

☐ Reviewed stated hours worked. ☐ Survey completed. Video testimonial submitted. ☐ Yes ☐ No

Signature _____ Date _____



Career Readiness Requirement

Verification Form: **PROFESSIONAL SKILLS TOUR**

PRODUCTION COMPANY VERIFICATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

Professional Skills Tour Verification

Tour Date(s) _____

Location of Tour / Department _____ Total # of Hours _____

Brief description of tour activities and focus: _____

Submitted images of professional skills tour. ☐ Yes ☐ No

Signature _____ Date _____

CAREER READINESS ORGANIZATION & ACKNOWLEDGEMENT

School OR Career Based Learning Program _____

Program Type / Degrees Offered ☐ Associate ☐ Certificate ☐ H.S. Diploma ☐ Other _____ ☐ N/A

Classes Participating _____ # of Students Participating _____

Organizer's Name _____ Position _____

Email _____ Phone _____

Signature _____ Date _____



Career Readiness Requirement

Verification Form: FACULTY EXTERNSHIP / CONTINUING EDUCATION

PRODUCTION COMPANY VERIFICATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

PRODUCTION COMPANY VERIFICATION

Externship Date(s) _____

Location of Externship / Department _____ Total # of Hours _____

Brief description of externship activities: _____

Submitted images of extern. ☐ Yes ☐ No

Signature _____ Date _____

EDUCATOR / EXTERN ACKNOWLEDGEMENT

School _____

Program Type / Degrees Offered ☐ Associate ☐ Certificate ☐ H.S. Diploma ☐ Other _____ ☐ N/A

Name _____ Title _____

Email _____ Phone _____

Courses Taught _____

☐ Verified hours worked. ☐ Survey completed. Video testimonial submitted. ☐ Yes ☐ No

Signature _____ Date _____



Career Readiness Requirement

Verification Form: **CLASSROOM WORKSHOPS / PANELS**

PRODUCTION COMPANY VERIFICATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

PRESENTATION, WORKSHOP, OR PANEL PRESENTERS

Name _____ Title _____

Name _____ Title _____

Name _____ Title _____

Name _____ Title _____

Name _____ Title _____

Presentation Date _____ Total # of Hours _____

Primary Contact Signature _____ Date _____

CAREER READINESS ORGANIZATION & ACKNOWLEDGEMENT

School OR Career Based Learning Program _____

Program Type / Degrees Offered ☐ Associate ☐ Certificate ☐ H.S. Diploma ☐ Other _____ ☐ N/A

Workshop / Event Topics: _____

Classes Participating _____ # of Students Participating _____

Organizer's Name _____ Position _____

Email _____ Phone _____

Organizer's Signature _____ Date _____



Career Readiness Requirement

Verification Form: **FINANCIAL CONTRIBUTION**

PRODUCTION COMPANY VERIFICATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

☐ Donation receipt from organization attached.

Signature _____ Date _____

FINANCIAL CONTRIBUTION RECIPIENT

Organization / Fund _____

Amount of Contribution _____

USE OF FUNDS: High Schools

- ☐ Teacher Professional Development & Externships
- ☐ Curriculum Development
- ☐ Equipment, Materials, Facilities
- ☐ Program Promotion
- ☐ Convening Industry Partners
- ☐ Student Leadership
- ☐ Other _____
- ☐ No Preference

NOTE: Write the check to "Californians Dedicated to Education Foundation"; write on the check "Career Readiness Program" in the memo line. Please request a receipt and submit it, along with the form, to the CFC for verification of the contribution when submitting final documentation for a tax credit certificate.

USE OF FUNDS: Community Colleges

- ☐ Non-Profit Internship Fund

NOTE: Write the check to "Foundation for California Community Colleges;" write on the check "Non-Profit Internship Fund" in the memo line. Please request a receipt and submit this form to the CFC for verification of the contribution when submitting final documentation for a tax credit certificate.



California Film and Television Tax Credit Program 3.0

Tax Credit Certificate

Tax Credit Certificate _____ Date _____
Credit Allocation Letter _____ Fiscal Year _____
Production Title _____
Production Type _____ ☐ Independent Film
Production Period Start Date of Pre-Production _____
End Date of Post-Production _____
Qualified Taxpayer _____

Applicant Entity: _____
Production Contact, Title: _____
Address: _____
City: _____
State: _____ Zip: _____
Phone: _____
Cell: _____
Email: _____
Taxpayer ID Number: _____
Seller's Permit Number: _____
Type of Entity: _____
Copyright Registration Number: _____

FINAL TAX CREDIT AMOUNT

Pursuant to Revenue and Taxation Code sections 17053.98 and 23698, this document certifies that the above identified qualified taxpayer has been granted the amount of Film and Television Tax Credit described as tax credit allocation.

This certificate does not guarantee any tax benefits. Credits may only be claimed on or after July 1, 2020, and only in accordance with the Revenue and Taxation Code. Purchased credits attributable to an independent film may not be used to offset or obtain a refund of sales and use taxes.

Granted by: _____

California Film Commission

Date _____

CFC Form M3 June 25, 2019

California Film & Television Tax Credit Program 3.0 AGREED UPON PROCEDURES

For Projects with Credit Allocation Letters issued on or after July 1, 2020

I. Introduction

Program 3.0 provides tax credits for qualified expenditures incurred when producing qualified motion pictures. The tax credits can be used to offset either California personal or corporate income taxes or sales and use taxes. A production company requesting a tax credit must submit an Independent Certified Public Accountant's Report on Applying Agreed-Upon Procedures (the 'Report') to demonstrate compliance with the program's requirements.

II. Statutory References

California Revenue and Taxation Code Sections:

1. 6902.5 (sales and use tax)
2. 17053.98 (personal income tax)
3. 23698 (corporate income tax)
4. California Code of Regulations, Title 10, Chapter 7.75, Sections 5520 - 5528

III. General

The following Agreed Upon Procedures (AUP) are to be performed by a certified public accountant (CPA) with an active California license to perform attest services. The CPA cannot provide production accounting services and agreed upon procedures services to the same production company as per Rule 101 of the American Institute of Certified Public Accountants Code of Professional Conduct and its interpretations and rulings. The CPA shall have successfully completed a California Film & Television Tax Credit Program 3.0 Orientation Meeting for CPAs. The accounting firm performing attest services must provide a letter from the board of review in the state in which the firm resides, evidencing the firm has actively participated in a peer review program for CPA firms performing Agreed Upon Procedures within the past 3 years from date services are rendered and has received a "pass" on said review. If the firm performing attest services is newly formed, the firm must provide evidence it is registered with the board of review in the state in which the firm resides for a peer review in the future.

The selected CPA must have sufficient knowledge of accounting principles and practices generally recognized in the film and television production industry. The CPA shall read the statute, regulations, guidelines, Qualified Expenditure Charts, Budget Tagging and Tracking Tips, and other Program 3.0 materials posted on the California Film Commission website. The appendices and/or exhibit numbers noted in red are included with this Report.

The following codes for expenses which are used to "tag" expenses by the production company are as follows: **ZC** – Out of Zone Consumables, **ZE** – Out of Zone Non-Wage Expenditures; **QW** – Qualified Wages, **QE** – Qualified Non-Wage Expenditures, **MW** – Music Wage Expenditures, **VU** – Visual Effects Expenditures, **OZ** – Out of Los Angeles Zone, **ZW** – Out of Los Angeles Zone Qualified Wages, **LW** – Local Hire Labor Qualified Wages, **NQ** – Non-Qualified Expenditures, **XX** – Non-qualified expenditures purchased/rented outside of CA.

1. The Report shall be prepared for the use of the following specified parties:
 - a. The production company (Company); and
 - b. The California Film Commission (CFC)
2. The Report should include the California CPA license number or proof of a valid out-of-state accounting firm registration for the firm practicing attest services.
3. The name of the production, the category (Feature Film, Independent Film \$10 Million and under, Independent Film over \$10 million, Miniseries, Television Series, Relocating Television Series, Pilot), Queue number and its Credit Allocation Number must also appear on the Report.
4. The Report must be dated as of the last day of the performance of all procedures.
5. The Company's cost report must be presented in U.S. dollars.
6. The Company must provide documentation of all funds expended on the production both within and outside of California including pre-production, production and post-production periods.
7. Please include CPA name and contact information for the CPA responsible for the review and final sign off of the Report.
8. If, in connection with the application of the agreed upon procedures, matters come to the CPA's attention by other means that significantly contradict the subject matter or assertion, the CPA should contact the CFC.

AGREED UPON PROCEDURES

The CPA shall perform the following procedures. Any exceptions are to be listed as a finding in the CPA's report on applying agreed-upon procedures.

IV. Eligibility

1. Obtain the detailed cost ledger (e.g., Bible) of California Qualified Expenditures and Total Production Expenditures.
2. Obtain access to Applicant's on-line Application and submitted materials from the Company, including the CFC-approved Qualified Expenditure Budget and Adjusted Jobs Ratio Comparison Calculator, Exhibit 2

3. Obtain and read the Company's Credit Allocation Letter (CAL). Indicate in the Report the CFC Approved Jobs Ratio as stated by the CFC on the Credit Allocation Letter. Note in the Report the amount of tax credits reserved.
4. Obtain and inspect post-production documents (e.g., facility invoices) evidencing the date the final elements (e.g., final composite answer print, domestic air master, or digital cinema files) were created (foreign language or archival element creation does not apply). Determine and document in the Report the Qualified Period of the production, which begins as of the date of the CAL and ends 30 days after creation of the final element. Verify that the Qualified Production Period does not exceed 30 months after the date on which the CFC issued the CAL. Include Final Element Creation Letter as attachment **Exhibit A**.
5. Obtain and inspect documentation (e.g., call sheets and/or production reports, shooting schedules) for all principal photography days for the production in order to determine the following:
 - a. Based upon the inspection of the documentation, state the percentage of total California principal photography days as a percentage of the total principal photography days. (The total principal photography days in California ratio can be obtained by dividing the number of days of principal photography in California by the total number of principal photography days).
 - b. State the number of principal photography days outside the Los Angeles zone (OZ). As per Revenue and Taxation Code Section 17053.98(a)(4)(D)(i)(II)(ib) and Section 23698(a)(4)(D)(i)(II)(ib); only include in the day count OZ principal photography days in which the first scene of the day was photographed outside the Los Angeles zone. Note amount of OZ days in the Report and state the percentage of principal photography days outside the Los Angeles zone.
6. If the production did not meet or exceed 75% per the procedure in Section 5(a) above, perform the following procedures:
 - a. Obtain a detailed cost ledger of Total California Expenditures (including qualified and non-qualified expenditures) and the Total Production Expenditures. State the ratio of Total California Expenditures to the Total Production Expenditures.
 - b. Select a sample of expenditures from the Total California Expenditure population (including qualified and non-qualified expenditures) according to the sampling methodology noted in Appendix A2.
 - c. For each expenditure item selected, obtain and inspect invoices, proof of payment (e.g., bank statements, check images, credit card statement and reimbursement checks, if applicable) or other equivalent documentation. Verify that the expenditure amount agrees with the invoice and was incurred and paid for services and goods in California. The full value of all assets may be taken when determining eligibility if assets were rented or purchased and used in California. Adjust for known errors and recalculate Total California Expenditures and determine if 75% of Total Production Expenditures were spent in California.

7. Inspect the detailed cost ledger of Total Production Expenditures to determine that the Total Production Expenditures meet the minimum thresholds for Feature Films, Independent Films, Miniseries, Pilots, Relocating Television Series and Television Series per the statute.
8. Career Readiness requirement: Obtain appropriate verification form (CR1-CR5) from the Company issued by the designated representative of a California high school, community college, or career-based learning and training program approved by the CFC which states that the Company has satisfied all the Career Readiness requirements. This form is a requirement to be eligible for the issuance of the tax credit certificate. If the Company made a financial contribution, verify contribution of .25% of estimated tax credit (minimum contribution of \$5,000, maximum contribution of \$12,000) and include proof of payment and a copy of the Career Readiness Verification form with the Report, **Exhibit B.**
9. Pilot Skills Training Program: Obtain verification and copy of the receipt from the Company issued by the Pilot Skills Training program fiscal agent that a contribution of no less than 0.25% of the estimated tax credit (per the CAL) was paid. A portion may be refundable if the tax credit amount is significantly reduced due to reasonable cause (contact the CFC if reasonable cause may be a factor). Include proof as attachment **Exhibit C.**
10. If Company has not met eligibility standards as noted above, there is no need to continue with the AUP. Notify the Company's management to inform the CFC that they are ineligible for the tax credit program.

V. Qualified Non-Wage Expenditures (QE) - Inside and Outside the Los Angeles Zone

1. Inspect the detailed cost ledger and verify that all QE are qualified as defined in California Revenue and Taxation Code 17053.98(b)(16) and 23698(b)(16) and do not include Non-Qualified Expenditures (NQ) as defined in 17053.98(b)(21)(B)(i)-(iv) or 23698(b)(21)(B)(i)-(iv). Adjust QE for any NQ noted. Remove any findings from the population to be sampled below.
2. Select the non-payroll samples from the detailed cost ledger according to the sampling methodology noted in Appendix A2. For Television Series, the CPA must sample items from each episode, including amortization costs. For each expenditure item selected in the samples perform the following procedures:
 - a. Inspect invoices, proof of payment (e.g., bank statements, check images, credit card statement and reimbursement checks, if applicable) or other equivalent documentation. Verify that expenditure amount is correct, incurred and paid for services incurred and goods purchased or rented and used in QE must be purchased or rented from a California In-State Vendor as per Section 5520(d) in the Regulations. If purchased from an internet source, verify item was purchased from entity registered to do business in California and shipped from a California location to a California location.
 - b. Verify that the expenditure was not associated with activities specifically excluded by the statute.

- c. Verify that the expenditure was allowable as defined by sections 17053.98(b)(16) and (b)(18)(B)(i)-(iv) and sections 23698(b)(16) and (b)(18)(B)(i)-(iv) of the statute. In particular, inspect travel costs.
- d. Verify that the expenditure was not for in-kind services.
- e. Verify that the expenditure was recorded net of any refunds, insurance claims, credit notes received for discounts, rebates, invoicing errors, and purchase returns, as recorded in the cost report.
- f. Verify that the expenditure was recorded net of proceeds from any sale of the production assets.
- g. Verify that the expenditures purchased and/or rented in California are prorated to reflect any usage out of the state.
- h. If applicable, and expenditure is determined to be an electronic asset with a purchase price of \$250 or more or an asset with a purchase price of \$10,000 or more, verify the asset is included in the correct asset listing. If it is not included, include in asset listing, **Exhibit D**.
- i. Verify that the expenditure (regardless of when paid) was not incurred prior to the date on which the CAL was issued. For insurance premiums, stage rentals, completion bond, or office rent payments made prior to the issuance of the CAL, confirm that these costs are prorated by the number of pre-production, production and post-production weeks and that only the prorated costs after the CAL date are included in QE. With the exception of insurance premiums, stage rentals, completion bond and/or office rental, prorations are not allowed; if a proration has been made in error, make adjustment and include in the Report.
- j. Verify that the expenditure (regardless of when paid) was not incurred more than 30 days after creation of the final element.

3. For exceptions noted in the QE testing in procedure 2 above:

- a. For the sample identified in the Top Stratum of Appendix A2 (Non-Payroll), adjust QE for known errors noted during your testing.
- b. For the samples identified in Appendix A2 (Non-Payroll) as Stratum 1 and Stratum 2, adjust QE for known errors noted during your testing and project the misstatement results of the samples to all items from which the samples were selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total expenditure population from which the Stratum 1 and Stratum 2 samples were selected (refer to Appendix B for a misstatement example). Perform the following procedures based upon the results of the calculation of the projected misstatement:

- 1) If the projected misstatement does not exceed 2% of Qualified California Production Expenditures (non-payroll), document the projected misstatement in **Exhibit E**, the list of noted non-payroll exceptions. Do not make any adjustment to QE for a projected misstatement.
 - 2) If the projected misstatement exceeds 2% of Qualified California non-payroll Production Expenditures, select a second additional sample according to the sampling methodology noted in Appendix A2 (Non-Payroll) for Stratum 1 and Stratum 2. Recalculate the projected misstatement for the second additional samples. If the projected misstatement for the second additional samples does not exceed 2%, document the projected misstatement in the Report. Do not make an adjustment to QE for a projected misstatement; however, do adjust QE for noted known errors in the second samples. If the projected misstatement from the second samples exceeds 2% of QE, adjust QE for the average of the two projected misstatements to QE population not sampled.
- c. Attach a listing of any known exceptions noted in the QE tests in procedures 2 and 3(b) above in **Exhibit E**. The listing should include amount, vendor/person, and nature of discrepancy.
4. Obtain from the Company a statement, either separately or within the representation letter, that all outstanding purchase orders and all invoices for qualified expenditures have been paid and attach as **Exhibit F**. If applicable, for any invoices or purchases orders that have not been paid, deduct expenditures from total QE.
 5. Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which are prior to the Qualified Period and 14 days after issuance of the CAL. After final element creation, inspect the detailed cost ledger 14 days after element creation and thereafter. Based on this description determine if expenditures were incurred within the Qualified Period. Summarize and inquire with client those expenditures which appear to be outside the Qualified Period. Based on your inspection and the inquiries with Company, adjust QE for any amounts outside the Qualified Period.
 6. For the qualified items listed which required full or partial payment, such as insurance premiums, stage rentals, completion bond, or office rent (if not reviewed in procedure (V)(2)(i), made prior to the issuance of the CAL, confirm that these costs are prorated by the number of pre-production, production and post-production weeks or obtain a statement of allocation from the California based broker and/or completion bond company. Confirm only the prorated costs after the CAL date and no more than 30 days after creation of the final element are included in QE.
 7. Obtain fixed asset listings from the Company of all assets used in the production as follows: (1) all electronic equipment with a purchase price equal to or greater than \$250; and (2) all other assets not considered electronic equipment with an original purchase price equal or over \$10,000. The listings should indicate the status of the assets (e.g., destroyed, sold, donated, being held for future productions, given to cast or crew, etc.). Attach a copy of both asset listings as **Exhibit D**. For all assets on the listings perform the following procedures:

- a. For all electronic assets (Include electronic assets purchased for set dressing and/or prop purposes) including but not limited to computers, hardware and relevant components, printers, copiers, etc. with a purchase price equal to or greater than \$250, verify that the QE is the lesser of the net costs of the asset after sales proceeds (if assets sold) or 20% of the original cost.-If asset was given to a non-qualifying cast or crew member or sold to a non-qualifying cast or crew member for less than 20% of original purchase price, verify that the cost of such asset is not included in the QE.
 - b. For all assets equal or over \$10,000 not including electronic equipment, verify the following: (1) If the asset is sold, verify that the QE is the lesser of the net costs of the asset after sales proceeds or 50% of the original cost of such asset; (2) If the asset is retained, verify that the QE is 50% of the original cost of such asset; (3) If the asset is destroyed during the process of production, verify that the production company maintains documentation to support the destruction of the asset (e.g., call sheets, production reports, still photographs, video footage, etc.) and allow 100% of that asset; and (4) If the asset is given to a non-qualifying cast or crew member or sold to a non-qualifying cast or crew member for less than 50% of original purchase price, verify that the cost of such asset is not included in the QE.
 - c. Based on description in the detailed cost ledger, search the detailed cost ledger for primary electronic assets by description name, including cameras, copiers, printers, computers, televisions and monitors. Inspect QE found for any purchased electronic assets equal or over \$250.00 not included on electronic asset list and include in electronic asset listing.
 - d. For exceptions noted in procedures (a), (b), and (c) above, adjust QE for known errors noted and include the listing of those errors in **Exhibit D**.
8. Obtain a listing of customized leased or rented items which are manufactured, assembled, or fabricated to specification with lease payments aggregating \$10,000 or more. Verify that these items are included on the asset listing noted above (Expenditures, procedure 7) if they meet any one of the following four conditions:
- a. If the term of the lease exceeds 75% of the life of the asset;*
 - b. If there is a transfer of ownership to the lessee at the end of the lease term;
 - c. If there is an option to purchase the asset for substantially less than fair market value ("Bargain price") at the end of the lease term;*
 - d. If the present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

Any such rental or lease agreement that meets the above standards for a capital lease will be considered a purchase and subject to the 50% limitation for purposes of determining QE as per above expenditure procedure 7(b).

*If the asset value or asset life is not explicit, please contact the CFC to discuss.

9. Verify with the Company the names of any and all visual effects, digital effects, post production sound and/or title companies which worked on the production whose costs are being claimed as QE. Verify that all listed parties have provided the Company with documentation (e.g., letter on letterhead signed by managerial level personnel with knowledge of the project, with contact information including address and phone number) indicating the dollar amount of work which was performed in the state. If applicable, the letter must state the names of any subcontractors and indicate the dollar amount of work that was performed in the state through those subcontracted vendors. Verify that only the amount of work performed within the state of California is included in the total QE. Adjust QE for any work which was not performed in California. Applicant must include vendor letters and list of such vendors in **Exhibit G**, the verification letters.
10. Verify with the Company that any insurance claims related to QE have been properly credited in the cost report and obtain a signed letter from a Company representative (or as part of the representation letter) stating that the applicant (indicated in the CAL) has properly disclosed all insurance claims whose costs are being claimed as QE. Verify that completion bond expenditures, if applicable, are reported net after rebate and include in **Exhibit F**.

VI. Qualified Wage Expenditures (QW) – Inside and Outside the Los Angeles Zone

1. Obtain documentation (e.g., email or letter on letterhead signed by authorized representative) from the payroll service verifying that there are no outstanding invoices pending for work incurred up to 30 days after the creation of the final element. Adjust QW (and QE if applicable) for any non-paid invoices. Applicant must include a payroll representative letter or email with documentation submitted as **Exhibit H**.
2. Inspect the detailed cost ledger and verify that it only contains account codes entered for qualified individuals as defined in California Revenue and Taxation Code Section 17053.98(b)(17)(A) and (B)(i-ii) or 23698(b)(17)(A) and (B)(i-ii), and that all wages are qualified as defined in 17053.98(b)(21)(A)(i)-(iv) or 23698(b)(21)(A)(i)-(iv). Adjust QW for any non-qualified individuals or misclassified wages. Remove findings from population in the next procedure.
3. Select a sample of employees from the Qualified Wages in the detailed cost ledger according to the sampling methodology noted in Appendix A2 (Payroll). For a Television Series, the CPA must sample from each episode, including amortization costs. For each employee selected in the sample perform the following procedures:
 - a. Compare the amount of the QW in the detailed cost ledger for the individual with the payroll register from payroll company which incorporates payroll with week ending dates within the Qualified Period. For any variances determine if the cause is due to vacation pay, holiday pay or equivalent reconciling items. Disqualify all salaries, wages, and fees included in the detailed cost ledger that are not included in the payroll register or unknown variances.
 - b. Inspect time cards, production reports, call sheets or other equivalent documentation. Verify that wage amount is incurred for services performed in California.

- c. Inspect invoices from "qualified entities". Verify the date the expenditure was incurred, and that the loan out company name and the amount of the expenditure agrees with supporting payroll records. Verify that the expenditure was incurred in California.
 - d. Verify that the QW only include those expenses listed in Revenue and Taxation Code Section 17053.98(b)(21)(A)(i)-(iv) or Section 23698(b)(21)(A)(i)-(iv) and do not include any of the expenses listed in Section 17053.98(b)(21)(B)(i)-(iv) or Section 23698(b)(21)(B)(i)-(iv).
 - e. Determine that only "qualified individuals" as defined in Revenue and Taxation Code Section 17053.98(b)(17) or 23698(b)(17), received QW.
 - f. Verify that all QW do not include compensation for any work incurred out of the state.
 - g. Verify that the QW (regardless of when paid) was not incurred prior to the date on which the CAL was issued.
 - h. Verify that QW (regardless of when paid) was not incurred more than 30 days after creation of the final elements.
 - i. Verify that the QW are paid by the Company or its payroll service and only include those items indicated as QW on the Qualified Expenditure Charts. If payroll entity has a different federal ID for signatory purposes, contact CFC.
4. For exceptions noted in the QW test in procedure 3 above:
- a. For the sample identified in the Top Stratum of Appendix A2 (Payroll), adjust QW for known errors noted during your testing.
 - b. For exceptions noted in the QW test in procedure 3(a) through (i) above, for the sample identified in Stratum 1 in Appendix A2 (Payroll), adjust QW for known errors noted during your testing and project the misstatement results of the sample to all items from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total QW population from which the Stratum 1 sample was selected. Perform the following procedures based upon the results of the calculation of the projected misstatement:
 - 1. If the projected misstatement does not exceed 2% of QW, document the projected misstatement in the Report. Do not make adjustments to QW for the projected misstatement.
 - 2. If the projected misstatement exceeds 2% of QW, select a second additional sample according to the sampling methodology noted in Appendix A2 (Payroll) for Stratum 1. Recalculate the projected misstatement for the second sample. If the projected misstatement for the second sample does not exceed 2%, document the projected misstatement in the Report. Do not

make adjustments to QW for a projected misstatement; however, do adjust QW for noted known errors in this second sample. If the projected misstatement from the second sample selection exceeds 2% of QW, adjust QW for the average of the two projected misstatements to the QW population not sampled.

- c. Attach a listing in **Exhibit J** of any payroll exceptions noted in the QW tests in procedures 3 and 4(b) above. The listing should include amount, person or entity, and nature of discrepancy.
5. Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which are prior to the Qualified Period and 14 days after issuance of the CAL. After the final element creation, inspect the detailed cost ledger 14 days after element creation and thereafter. Based on this description, determine if QW including qualified fringes were incurred within the Qualified Period. Summarize and inquire with client those QW which appear to be outside the Qualified Period. Based on your inspection and the inquiries with Company, adjust the QW for any amounts outside the Qualified Period.
6. Obtain the final "galley" or "checker" or electronic version of the main (if applicable) and end title credits for the production.
 - a. For those individuals receiving both above the line (ATL) and below the line (BTL) credits (Dual Role Employees), please note the names, qualified compensation, and end title credits received and attach in **Exhibit K**.
 - b. For any Dual Role Employee whose BTL wages are not within industry standards or equivalent with other crew in similar positions, adjust QW. Additionally, verify that QW for DGA Unit Production Managers and/or Assistant Directors with ATL credits have no more than \$100,000 in wages (exclusive of guild or union or other qualified taxes, fees, or fringes, if applicable). If determination cannot be reached, contact the CFC to discuss.
 - c. Inspect the main and end title credits for all individuals working in non-qualified positions (e.g., performers, producers, directors, composer, etc.). Perform a search in QW to ensure their individual wages are not included. Verify that all non-qualified individuals receiving only an ATL credit have no qualified wages included in QW. Adjust the QW for known errors and note such findings in **Exhibit K**.
 - d. Inspect end credits and note in the Report if CFC acknowledgement and logo are included or not included. For a television series or mini-series, the acknowledgement and logo are required on each episode.
7. Verify with the Company that any insurance claims related to QW have been properly credited in the cost report and obtain a signed letter from a Company representative stating that the applicant (indicated in the CAL) has properly disclosed all insurance claims whose costs are being claimed as QW. The information in this letter can be incorporated into the representation letter, **Exhibit F**.

8. Out of Los Angeles Zone Qualified Wages Excluding Local Hire Labor (ZW) (Excluding Independent Productions and Relocating TV Series)
 - a. Select the top 15 highest paid employees from the detailed cost ledger indicated as ZW. If the percentage of principal photography days outside the Los Angeles zone is over 50% per Eligibility procedure 5(b) above, select the top 30 ZW employees.
 - b. Inspect time cards and/or individual weekly payroll summary reports and note the dates in which OZ location is indicated. Time cards may designate "bus-to" for a nearby location outside the Los Angeles Zone and should include county.
 - c. Confirm OZ location is defined as an OZ location as per Revenue and Taxation Code Section 17053.98(a)(4)(II)(ib) or Section 23698(a)(4)(II)(ib).
 - d. Inspect shooting schedule, call sheets and production reports to determine that ZW was incurred at the OZ location during the Applicable Period (as defined in Section 5520(a) of the Regulations).
 - e. Obtain daily payroll report by individual or other relevant payroll report and reconcile the OZ wages identified in the ledger with the OZ wages in the daily payroll reports by individual.
9. For exceptions noted in ZW testing in procedure 8 above:
 - a. Adjust ZW for known errors noted during your testing.
 - b. Project the misstatement results of the sample to the ZW from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total ZW population from which the sample was selected. If the known errors noted during testing result in an adjustment to NQ, rather than an adjustment to QW, do not include these errors when calculating the rate of misstatement.
 - c. If the projected misstatement does not exceed 2% of ZW, document the projected misstatement in the Report. Do not make adjustments to ZW for the projected misstatement.
 - d. If the projected misstatement exceeds 2%, adjust ZW for the projected misstatement amount to the ZW population that was not sampled and reclassify errors to QW.
 - e. Attach known errors and projected misstatement (if applicable) from the above ZW procedures 8 and 9 as **Exhibit L**, the summary of wage exceptions related to uplift and bonus points.

10. Local Hire Labor Qualified Wages (LW)

- a. Select the top 15 highest paid employees from the detailed cost ledger indicated as LW. If the percentage of principal photography days outside the Los Angeles zone is over 50% per Eligibility procedure 5(b) above, select the top 30 LW employees.
- b. Inspect documentation provided by production accountant and/or payroll service and verify employee address is outside the Los Angeles zone. Payroll reports should indicate employees by zip code to help identify individuals residing outside the Los Angeles zone (as per section (d) below). If address is not outside the Los Angeles zone, reclassify as QW or ZW, as applicable. If required documents are not readily available and completed, the wages will not qualify for the LW uplift.
- c. Inspect time cards and/or individual weekly payroll summary reports and note the dates in which OZ location is indicated. Time cards may designate "bus-to" for a nearby location outside the Los Angeles Zone and should include county.
- d. Confirm OZ location is defined as an OZ location as per Revenue and Taxation Code Section 17053.98(a)(4)(11)(ib) or Section 23698(a)(4)(11)(ib).
- e. Inspect shooting schedule, call sheets and production reports to determine that the qualified Local Hire Wages were incurred outside the Los Angeles zone during the applicable period (as defined in Section 5520(a) of the Regulations).
- f. Obtain daily payroll report by individual or other relevant payroll report and reconcile LW identified in the ledger with the qualified Local Hire wages in the daily payroll reports by individual.

11. For exceptions noted in the LW testing in procedure 10 above:

- a. Adjust LW for known errors noted during your testing.
- b. Project the misstatement results of the sample to the LW from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total LW population from which the sample was selected. If the known errors noted during testing result in an adjustment to NQ, rather than an adjustment to QW or ZW, do not include these errors when calculating the rate of misstatement.
- c. If the projected misstatement does not exceed 2% of LW, document the projected misstatement in **Exhibit L**. Do not make adjustments to LW for the projected misstatement.
- d. If the projected misstatement exceeds 2%, adjust LW for the projected misstatement amount to the LW population that was not sampled. Reclassify the projected misstatement amount proportionally to QW and ZW, as applicable.

VII. Music Wage Expenditures (MW) (does not apply to Independent Films with budgets of \$10 Million Dollars and under)

1. Identify MW wages in the detailed cost ledger paid to individuals with the following job classifications: instrumental musicians, vocalists, music arrangers, orchestrators, Musical Instrument Digital Interface (MIDI) transcribers, music copyists, music librarians, conductors (unless also composer), musician and choral contractors.
2. If wages were paid by the Company or its payroll service, select a sample of the top 10 wage earners and verify through payroll ledger that the individuals had MW qualified job titles per the listing in procedure (VII)(1).
3. If wages were paid by a third-party music payroll service, select a sample of the top 5 transactions (by dollar value), examine backup documentation (such as invoices and check copies) and verify that all tested amounts represent MW qualified job titles per the listing in procedure (VII)(1).
4. Adjust total MW wages for any errors noted and attach findings to **Exhibit L**.

VIII. Non-Qualified Expenditure Testing (non-payroll)

1. Select a sample of NQ (other than payroll) from the detailed cost ledger which includes all items \$25,000 or over and haphazardly select an additional 15 items.
2. For each expenditure item, inspect invoices, proof of payment or other equivalent documentation. Verify that the expenditure was not qualified as per Revenue & Tax code 17053.98(b)(21)(B)(i-iv) or 23698(b)(21)(B)(i-iv) and was not purchased or rented and used in California during the applicable period.
3. For exceptions noted in the prior procedure, adjust for known errors and as per findings, reclassify as QE or QW. Utilize these additional findings, if applicable, when calculating Jobs Ratio and tax credit amount. Attach findings and state error rate in **Exhibit M**, the list of noted NQ reclassifications.

IX. Related Parties & Other Affiliations

1. Obtain from the Company a schedule listing of all related party transactions (including parties with a 5% or greater ownership in or affiliation with the Company) for which the Company is including the transactions in the California Qualified Expenditures. The listing should note the type of relationship between the related party and the Company and the nature and amount of the transactions.
2. Obtain a signed letter from a Company representative stating that the applicant (indicated in the CAL) has properly disclosed all related parties and related party transactions and that the schedules produced in accordance with item number 1 above are complete and accurate. This statement may be included in the applicant representation letter, **Exhibit F**.

3. From the schedule obtained in item number 1, select a sample of related party transactions for testing. Select all transactions greater than \$25,000; if related party issues were addressed, it is not necessary to retest items tested in QE procedure V(2) and/or procedure QW procedure VI(3). For the transactions less than \$25,000, haphazardly select 15 transactions for testing. Perform the following procedures for each related party transaction selection:

a. For selected QE paid to related parties:

- (1) Inspect studio rate cards or comparison bids obtained by the Company to determine that related party transactions did not exceed the highest rate/bid. In addition, inspect pass-through vendor invoices to determine no markup was added. Any expenditures above the highest rate/bid and/or which were marked up when passed through the related party must be noted and explained on the related party transaction listing attachment, see procedure #4.

- (2) Verify that the expenditure is allowable as per QE procedure V(2).

b. For selected QW paid to related parties:

- (1) Verify that any amounts paid to individuals as defined in Revenue and Taxation Code Sections 17053.98 (b)(17)(B)(i-ii) and 23698(b)(17)(B)(i-ii) are not included in QW.

- (2) Verify that the wage is allowable as per QW procedure VI(3).

- (3) Compare rate of pay with applicable union rate or industry standard for position. If industry standard wages for type of position in relation to production type and budget levels are not explicit, contact the CFC.

- (4) For any qualified wages paid by a related party, verify that the wages paid by the related party are by the same entity (same federal ID #) in which the Applicant is paying wages. If not, expenditure must be considered non-wage. (If paying entity has a different federal ID for signatory purposes, contact the CFC.)

- a. Request documentation from related party to verify that employee of related party worked on the production (e.g., time card, crew list, production report, screen credit).

- b. For studio personnel whose wages are prorated based on work on other studio productions, request documentation to verify proration is accurate, based on comparing salary with payments on other studio productions.

- (5) Attach an electronic listing as **Exhibit N** of all related party transactions obtained in procedure 1 above. Note and explain any sampled transactions that did not have comparison bids, were above the higher rate/bid, and/or were marked up when passed through the related party.

X. Non-Independent Productions: Additional tax credit calculation (Uplifts)

Note: This procedure is not applicable to Relocating Series in their first season in California.

1. Visual Effects

- a. Obtain from the Company a detailed listing of all worldwide visual effects (VFX) expenditures from the detailed cost ledger and cross reference amounts from VFX vendor letters in QE procedure V(9) with inspection of invoices, ledgers, etc. **(Exhibit G)**. Determine if the production spent either a minimum of \$10 million dollars or 75% of their total worldwide VFX expenditures on qualified VFX in California. If so, note percentages and amount in the Report.
- b. Obtain a signed letter from a Company representative stating that the applicant (indicated in the CAL) has properly disclosed all visual effects expenditures worldwide. Include as part of the representation letter **Exhibit F**.
Note: If VFX spend does not qualify for uplift but the Company has qualified VFX expenditures, perform procedure below to determine amount of qualified VFX in order to complete Jobs Ratio bonus points procedure in Section XII (1)(a).
- c. Select a sample from the detailed cost ledger items identified as qualified for the visual effects uplift (VU) containing the top 5 highest costs and 5 additional haphazardly selected costs.
- d. Verify the sampled costs were incurred in California and qualify for the additional 5% tax credit (VU Uplift) as per section 5520(aa) of the Regulations by reviewing VFX categories indicated in green on the applicable Qualified Expenditure Chart (QEC). Adjust VU for expenditures which do not qualify for VU Uplift (or bonus points) and include in attachment **Exhibit O**, visual effects adjustment and reclassification. If the sampled VU costs represent Outside Contract Bids / VFX Vendor costs, verify that the costs are prorated 70% QW and 30% QE as per Revenue and Tax Code Sections 17053.98(b)(7) and 23698(b)(7). Reclassify between QW and QE as necessary, based upon the errors noted. **(Exhibit O)**
- e. Note findings in **Exhibit Q**, uplifts and bonus points.

2. Out of Zone Expenditures:

a. Non-wages – Out of Zone Consumables Expenditures (ZC)

- (1) Select top 15 ZC expenditures and haphazardly select an additional 10 items labeled ZC and verify that the expenditures were purchased or rented from an out of the zone vendor and meet the definition of a consumable as defined in Section 5524(e)(3)(B) in the Regulations. In particular, scrutinize equipment and/or box rentals from non-local personnel, as they do not qualify as ZC.
- (2) Perform procedures in QE Section V(2) unless previously tested .

- (3) For exceptions noted above, adjust ZC for known errors and project the misstatement results of the sample to all items from which the sample was selected.
- (4) If the projected misstatement does not exceed 2% of ZC, document the projected misstatement in attachment **Exhibit P**, summary of OZ nonwages. Do not make adjustments to ZC for the projected misstatement.
- (5) If the projected misstatement exceeds 2%, adjust ZC for the projected misstatement amount to the ZC population that was not sampled and include findings in **Exhibit P**.
- (6) Utilizing findings from above procedures and calculate total amount of ZC eligible for additional 5% tax credit. Note in attachment **Exhibit Q** and in **Exhibit 1A**.

b. Non-wages – Out of Zone Non-Wage Expenditures (ZE)

- (1) Select top 15 ZE expenditures and haphazardly select an additional 10 items labeled ZE and verify that the expenditures were purchased or rented from an out of zone vendor.
- (2) Perform procedures in QE Section V(2) unless previously tested.
- (3) For exceptions, adjust ZE for known errors and project the misstatement results of the sample to all items from which the sample was selected. If the projected misstatement does not exceed 2% of ZE, document the projected misstatement in the Report. Do not make adjustments to ZE for the projected misstatement. If the projected misstatement exceeds 2%, adjust ZE for the projected misstatement to the out of zone ZE population that was not sampled and attach findings in **Exhibit P**.
- (4) Utilize findings in Eligibility Section IV (5)(b) to prorate the sum from procedure above by utilizing the percentage of principal photography OZ days in relation to total California principal photography days to calculate total amount of ZE eligible for additional 5% tax credit. Note in attachment **Exhibit Q** and **Exhibit 1A**.

c. Out of Zone Wages

- (1) Utilize population in the ledger tagged as ZW incorporating findings in QW procedures VI(8) and (9) to determine amount of ZW eligible for additional 5% tax credit during the Applicable Period. Include findings in **Exhibit Q**.
- (2) Utilize population in the ledger tagged as LW incorporating findings in QW procedures VI(10) and (111) to determine amount of LW eligible for additional 10% tax credit during the Applicable Period. Include findings in **Exhibit Q**.

XI: Independent Films and Relocating TV Series: Additional tax credit calculation (Uplifts)

1. Local Hire Labor Qualified Wages (LW)

- a. Utilize findings from Section VI(10) and (11) to calculate LW uplift (5%) for Independent Films and Relocating TV Series, if applicable, and note findings in **Exhibit Q** and in **Exhibit 1B**.

2. Visual Effects

- a. For Independent Films with qualified expenditures \$10 million or under, and Relocating TV Series, utilize findings in QE procedure V(8) and if applicable, verify that top 5 highest cost and 5 haphazardly chosen expenditures tagged VU were incurred in California and qualify for bonus points as per section 5527(b)(1) of the Regulations by comparing to the VFX categories indicated in green on the applicable QEC. Adjust VFX expenditures for costs which do not qualify for bonus points. Verify that sampled Outside Contract Bids / VFX Vendor costs are prorated 70% QW and 30% QE as per Revenue and Taxation Sections 17053.98(b)(7) and 23698(b)(7) and reclassify between QW and QE as necessary, based upon the errors noted. Include findings in attachment **Exhibit O**.

XII. Re-computation of Jobs Ratio

1. Qualified Visual Effects

- a. Utilizing findings from procedure 1 in Section X and procedure 2 in Section XI, state the amount of qualified visual effects performed in California eligible for additional bonus points (no minimum VFX spend requirements for additional bonus points) in attachment **Exhibit Q**.

2. Out of Los Angeles Zone Days

- a. Utilizing findings from Eligibility Section IV (5)(b), state the number of principal photography days outside the Los Angeles zone as defined in Revenue and Taxation Code Section 17053.98(a)(4)(D)(i)(II)(ib) and Section 23698(a)(4)(D)(i)(II)(ib); state the percentage of principal photography days outside the Los Angeles zone as a percentage of the total principal photography days in California.

3. Musician Scoring/Track Recording Wages (excludes Independent Films with qualified expenditures of \$10 Million Dollars and under)

- a. Utilizing findings from Section VII, state the amount of wages eligible for bonus points. (**Exhibit Q**)

4. Obtain Adjusted Jobs Ratio Comparison Calculator (Exhibit 2) from the CFC website portal. Input findings related to schedule from Section IV (Eligibility) and verified QW and QE excluding completion bond fees or any "uplifts". Note maximum tax credit

amount in re-computation is capped at CAL amount. Include the completed form Exhibit 2 in Excel format.

Note final jobs ratio in Exhibit 1A or 1B as applicable.

5. Compare original CFC approved Adjusted Jobs Ratio from Eligibility procedure IV(3) to the re-computed Adjusted Jobs Ratio. If the new Adjusted Jobs Ratio is significantly lower than the original Jobs Ratio, a penalty may apply. If the Jobs Ratio has been reduced by more than 10 percent, the credit will be reduced by the total percentage, (e.g., if 9%, no reduction; if 12% reduction, then the penalty percentage is 12%). If the penalty percentage is over 20%, reduce by total percentage and state in the Report.
6. If the Company states there is reasonable cause as defined in the Regulations, Section 5520 (v) to justify the reduction in the Jobs Ratio, please inform a representative of the Company to contact the CFC. Once the CFC has made a determination, obtain verification from the CFC and recalculate the Jobs Ratio if necessary.

XIII. Wrap-up Procedures

1. As applicable, verify and note that the Independent Film did not exceed a maximum of \$2.5 million dollars in tax credits (the \$10 million-dollar qualified expenditure threshold exclusive of uplifts) or the non-independent project did not exceed \$20 million dollars in tax credits (the \$100 million qualified expenditure threshold exclusive of uplifts). Verify that uplift amounts do not exceed the maximum allowable as per Section 5522 (f) and (g) of the Regulations.
2. If applicable (if the production does not meet the 75% principal photography threshold in Section IV Eligibility procedure 5), recalculate the 75% spend test (e.g., Eligibility procedure 6) after accounting records are revised for findings in QE and QW procedures. Confirm that 75% of Total Production Expenditures were spent for California Expenditures.
3. If completion bond costs are included in qualified spend, obtain total completion bond costs and recalculate as a percentage of qualified expenditures not to exceed 2%. If cost exceeds 2%, reduce completion bond fee to no more than 2% of qualified spend.
4. Complete and attach Exhibit 1A or 1B as applicable, based on findings in Exhibit 2.

AUP Appendix B
2% calculation

Test #1

| | | |
|---|-----------|-----------|
| Total Non-Payroll Population | 1,500,000 | A |
| Less Top Stratum Tested | (100,000) | B |
| Population for Stratum 1 and 2 | 1,400,000 | C = A+B |
| Sample for Stratum 1 and 2 | 500,000 | D |
| Test #1 Findings | 15,000 | E |
| Rate of Misstatement in Sample | 3.00% | F = E/D |
| Projected Misstatement of Sampled Population | 42,000 | G = F x C |
| Projected Misstatement % in Total Population (if below 2% no additional test needed) | 2.80% | H = G / A |

Test #2

| | | |
|--|-----------|-----------|
| Total Non-Payroll Population | 1,500,000 | A |
| Less Top Stratum Tested | (100,000) | B |
| Population for Stratum 1 and 2 | 1,600,000 | C = A+B |
| Less Stratum 1 and 2 from Test #1 | (500,000) | D |
| Population for Stratum 1 and 2 Test #2 | 1,100,000 | I = C+D |
| Sample for Stratum 1 and 2 Test #2 | 250,000 | J |
| Test #2 Findings | 6,000 | K |
| Rate of Misstatement in Sample | 2.40% | L = J / K |
| Projected Misstatement of Sampled Population | 38400 | M = C x L |
| Projected Misstatement % in Total Population | 2.56% | N = M / A |

Average of Two Projected Misstatements (if both over 2%) 2.68% P = Average (H,N)

| | | |
|---|-----------|-------------|
| Total Non-Payroll Population | 1,500,000 | A |
| Less Top Stratum Tested | (100,000) | B |
| Less Tested in Sample for Test #1 | (500,000) | D |
| Less Tested in Sample for Test #2 | (250,000) | J |
| Total Population Not Tested | 650,000 | Q = A+B+D+J |
| Projected Misstatement in Population Not Tested | 17,420 | R = P x Q |

| | | |
|--|-----------|---------------|
| Total Non-Payroll Population Unadjusted | 1,500,000 | A |
| Less Actual Findings Top Stratum | - | |
| Less Actual Findings Test #1 | (15,000) | E |
| Less Actual Findings Test #2 | (6,000) | K |
| Less Projected Findings Avg of Tests | (17,420) | R |
| Total Adjusted Non-Payroll Qualified Costs | 1,461,580 | S = A+B+F+L+R |

Appendix A2

California Film & Television Tax Credit Program 3.0 Sampling Chart Feature Films/Independent Films/Miniseries/Pilots/Television Series*

| Total Qualified Expenditures | Payroll | | Non-Payroll* | | Local Hire Labor Payroll** | |
|------------------------------|---|---|-------------------------|-------------------------------------|---|---|
| | Top Stratum | Stratum 1 | Top | Stratum 1 | Top Stratum | Stratum 1 |
| | Employees with top 10 total qualified wages | Employees with qualified wages under top 10 | Items \$25,000 and over | Items over \$500 and under \$25,000 | Employees with top 10 total qualified wages | Employees with qualified wages under top 10 |
| 0 - \$500,000 | All Items | 10 | All Items | 50 | All Items | 5 |
| \$500,001 - \$1,000,000 | All Items | 20 | All Items | 50 | All Items | 10 |
| \$1,000,001 - \$5,000,000 | All Items | 25 | All Items | 50 | All Items | 15 |
| \$5,000,001 - \$10,000,000 | All Items | 25 | All Items | 60 | All Items | 15 |
| \$10,000,001 - \$25,000,000 | All Items | 25 | All Items | 75 | All Items | 20 |
| \$25,000,001 - 50,000,000 | All Items | 25 | All Items | 100 | All Items | 20 |
| \$50,000,001 + | All Items | 25 | All Items | 100 | All Items | 25 |

*For a Television Series, excluding payroll, the sampling should be based upon aggregating all episode and amortization costs together from a series for purposes of determining the total qualified expenditures above. Once a sample size is determined, the CPA must sample items from each episode, including amortization costs.

**Local Hire Labor refers to qualified individuals who reside in California but outside the Los Angeles zone and who are in the Los Angeles zone.

Exhibit 1A
Non-Independent Features or TV Projects

Title

Cal #

Section 1: PRODUCTION SHOOT DAYS AND LOCATION

A. PRINCIPAL PHOTOGRAPHY DAYS

| | | | |
|--------------------------------------|---------|------------------------------------|---------|
| a. Total PP days in Los Angeles Zone | | e. Total non-CA PP days | |
| b. Total PP days outside LA Zone | | f. Total PP days | |
| c. Total CA PP days | | g. Total % CA PP days | #DIV/0! |
| d. Total % PP outside LA Zone | #DIV/0! | h. Total CA 2nd unit, Stunts & VFX | |

Section 2: VERIFIED PRODUCTION SPEND

| | |
|--|-----------|
| A. Qualified Wages | |
| B. Qualified Non-Wages | |
| C. Completion Bond Fee (if applicable) | Max: \$ - |
| D. Total Qualified Expenditures | \$ - |

Section 3: UPLIFTS

A. OUT OF ZONE (OZ) CALCULATIONS

| | |
|---|----------------|
| a. Total verified OZ Wages during the Applicable Period (ZW) (Exclude LW) | |
| b. Total verified OZ Non-Wage Expenditures (ZE) x % of PP Days | #DIV/0! |
| c. Total verified OZ Consumables (ZC) | |
| d. Total verified OZ Expenditures eligible for Uplift (a+b+c) | #DIV/0! |
| TOTAL OZ UPLIFT (5%) | #DIV/0! |

C. Visual Effects (Min of \$10 mil or 75% of total worldwide VFX spend on qualified VFX in CA)

| | |
|---|-------------|
| Total CA verified VFX eligible for uplift | |
| TOTAL CA VFX UPLIFT (5%) | \$ - |

D. Total Credit Uplifts

| | |
|-----------------------------|----------------|
| Local Hires | \$ - |
| Out of Zone, Visual Effects | #DIV/0! |
| TOTAL UPLIFT | #DIV/0! |

B. OZ Local Hire Labor

| | |
|---|-------------|
| Total verified OZ Local Hire Labor eligible for uplift (LW) | |
| TOTAL LOCAL HIRE LABOR UPLIFT (10%) | \$ - |

Section 4: VERIFIED TAX CREDIT AMOUNT

| | |
|-----------------------------------|----------------|
| Total Qualified Expenditures | \$ - |
| x 20% | \$ - |
| + Uplift | #DIV/0! |
| Verified Tax Credit Amount | #DIV/0! |

Section 5: JOBS RATIO

Please input original Jobs Ratio from the Credit Allocation Letter and verified spend Jobs Ratio as per the CPA performing the Agreed Upon Procedures.

Jobs Ratio from
CAL

Jobs Ratio from
Verified Spend

Jobs Ratio
Decrease
#DIV/0!

Differential

Jobs Ratio Increase
#DIV/0!

Section 6: FINAL CREDIT ALLOCATION

Note: Credit allocation applies only to the first \$100 million of qualified expenditures for non-independents.

Credit Allocation Letter Amount:

Verified Tax Credit Amount:

#DIV/0!

Adjusted Credit Due to Overstatement:
(If Applicable)

FINAL CREDIT AMOUNT:

#DIV/0!

Exhibit 1B

Independent Projects or Relocating TV

| Title | | Cal # |
|--|------------------------------------|-----------------------------------|
| Section 1: PRODUCTION SHOOT DAYS AND LOCATION | | |
| A. PRINCIPAL PHOTOGRAPHY DAYS | | |
| a. Total PP days in Los Angeles Zone | e. Total non-CA PP days | |
| b. Total PP days outside LA Zone | f. Total PP days | |
| c. Total CA PP days | g. Total % CA PP days | #DIV/0! |
| d. Total % PP outside LA Zone | h. Total CA 2nd unit, Stunts & VFX | #DIV/0! |
| Section 2: VERIFIED PRODUCTION SPEND | | |
| A. Qualified Wages | | |
| B. Qualified Non-Wages | | |
| C. Completion Bond Fee (if applicable) | Max: | \$ - |
| D. Total Qualified Expenditures | | \$ - |
| Section 3: UPLIFTS | | |
| OZ Local Hire Labor | | |
| Total verified OZ Local Hire Labor eligible for uplift (LW) | | |
| TOTAL LOCAL HIRE LABOR UPLIFT (5%) | | \$ - |
| Section 4: JOBS RATIO | | |
| Please Input original Jobs Ratio from the Credit Allocation Letter and verified spend Jobs Ratio as per the CPA performing the Agreed Upon Procedures. | | |
| Jobs Ratio from CAL | Jobs Ratio from Verified Spend | Jobs Ratio Decrease #DIV/0! |
| | | Differential |
| | | Jobs Ratio Increase #DIV/0! |
| Section 5: Verified Tax Credit Amount | | |
| Total Qualified Expenditures | | \$ - |
| x 25% | | \$ - |
| + Uplift | | \$ - |
| Verified Tax Credit Amount | | \$ - |
| Section 5: FINAL CREDIT ALLOCATION | | |
| Note: Credit allocation applies only to the first \$10 million of qualified expenditures for non-independents. | | |
| Credit Allocation Letter Amount | | |
| Verified Tax Credit Amount | \$ - | |
| Adjusted Credit Due to Overstatement (If Applicable) | \$ - | |
| FINAL CREDIT AMOUNT: \$ - | | |

California Film Commission - Film & TV Tax Credit Program 3.0

EXHIBIT 2

Adjusted Jobs Ratio Comparison

For Projects with CALs on or after July 1, 2020

Exclude Completion Bond and Uplifts

Instructions: Enter the information for the project into the Green highlighted boxes only.
The chart will calculate the remaining information.

| TITLE | CAL Jobs Ratio | Final Jobs Ratio |
|---|----------------|------------------|
| Production Type (click in the field to choose from drop-down menu) | Feature | |
| Total Qualified CA Wages | | |
| Total Qualified Non-Wages | | |

| Base Job Ratio | #DIV/0! | #DIV/0! |
|--|---------|---------|
| Total CA Principal Photography Days | | |
| Out of Zone Principal Photo Days | | |
| CA VFX eligible for Bonus Points (VU) | | |
| CA Music Scoring Labor (MU) | | |
| Tax Credit Amount | \$ - | \$ - |
| % Out of Zone Days | #DIV/0! | #DIV/0! |
| Total Qualified Wages and 35% of Non-Wages | \$ - | \$ - |

Capped at
CAL Amount

| Bonus Points: | | |
|------------------------------|---------|---------|
| CA VFX Spending Points (1-7) | 0 | 0 |
| Music Scoring Labor (1-5) | 0 | 0 |
| % Out of Zone Points (1-10) | #DIV/0! | #DIV/0! |
| Final Adjusted Jobs Ratio | #DIV/0! | #DIV/0! |

| Jobs Ratio from CAL | Jobs Ratio from Verified Spend | Jobs Ratio Decrease |
|---------------------|--------------------------------|---------------------|
| #DIV/0! | #DIV/0! | #DIV/0! |

Differential

| Jobs Ratio Increase |
|---------------------|
| #DIV/0! |