

FREQUENTLY ASKED QUESTIONS

July 2020

GENERAL Q & A

Q: What is an “Independent Film”?

A: An Independent Film means a production of a film with a running time of at least 75 minutes intended for commercial distribution to a motion picture theater, home video, television or via the internet. It must have a minimum budget of \$1 million and be produced by a company that is not publicly traded and a publicly traded company does not own directly or indirectly more than 25% of the producing company. Only independent films can sell their tax credits.

Q: If I had a project in the old program, shot one day, but didn't finish the project (making it ineligible for the old program), would it be eligible for the new program?

A: Since the 3.0 program is a completely different program, you are eligible to submit an application for the project in the new 3.0 program.

Q: If principal photography cannot begin prior to receiving a Credit Allocation Letter (CAL) approval, what about pre-production spending?

A: Pre-production spending before the CAL approval would not qualify for tax credits but is certainly allowed. When submissions are analyzed during Phase II of the application process, all budgeted prep time that will be incurred prior to the Credit Allocation date should be excluded.

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

A: A production may begin filming outside of California prior to receiving a CAL. Principal photography in California before the CAL date would disqualify the project from the program.

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

A: No, there is no penalty if your budget decreases, but you may be penalized if your Jobs Ratio is reduced after an audit of all your expenditures. Please refer to the [Program Guidelines](#) for more information.

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

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

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** Does 2nd unit or VFX work count as a principal photography day?
- A:** “Principal photography days” means the number of days shot by the principal unit with the director and lead actors 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.
- Q:** Can you define “Estimated Total CA 2ND Unit/Stunt/VFX Days”? For example, if we have \$45k per episode for 2nd unit, I was counting this as one day per episode, correct? However, this is a 2nd unit day and not a separate full shoot day.
- A:** These days do not qualify for bonus points so an exact count is not crucial.
- Q:** Will the Narrative Statement on why we would like to shoot in California versus another location be used to make a decision as to whether a production will be granted approval for tax credits?
- A:** No; however, a Detailed Narrative Statement will be requested in Phase II of the application process – It is a written statement which describes the extent to which the credit is expected to influence the choice of filming locations with respect to financial considerations. The statement should include other locales which have or would be considered in the absence of a tax credit.
- Q:** If 50 projects apply and 10 are accepted, am I correct that these are the projects with the highest Jobs Ratio figures?
- A:** The projects are ranked by Jobs Ratios in their categories. The projects with the highest Jobs Ratios will receive a tax credit reservation. Recurring television series have priority within the television category.
- Q:** Regarding the insurance statement on proration of premiums for qualified dates, is there a specific way that dates are prorated? Is it based on calendar days of the policy or is it based on overall shoot days?
- A:** Insurance premiums are usually prorated 10% for pre-production, 70% for production and 20% for post-production. Alternatively, applicants may request a statement from their insurance brokers which would state the amount of premium proration.

FREQUENTLY ASKED QUESTIONS

July 2020

- A: The \$1 million minimum spend refers to Qualified and Non-Qualified expenditures in California. So ATL talent, although a non-qualified expenditure, would count toward your total production budget as long as their services are provided in California. Overhead costs do not count towards the \$1 million minimum spend requirement.
- Q: [Are half-hour TV series eligible to apply for the California tax credit? Once they are in the program, are they eligible to stay in the program each year until the show is cancelled?](#)
- A: Only half hour relocating shows with a minimum episode budget of \$1 million can apply for the California Tax Credit Program. Once in the program, the series will become a recurring series and receive a 20% tax credit as long as credits are available.
- Q: [Is a stop motion project eligible to apply to the Tax Credit Program?](#)
- A: Yes, stop motion projects are eligible for the Tax Credit Program as stop motion photography is not part of the animation exclusion. Note: Projects cannot begin principal photography prior to acceptance and production must be completed within 30 months from the date the credit allocation letter is issued.
- Q: [If a film project has come to a halt during preproduction/production as a result of the coronavirus pandemic, do Force Majeure conditions apply?](#)
- A: In general, yes. Please refer to the Force Majeure section in the [Program Guidelines](#).
- Q: [In Program 3.0, can we add the two-week Christmas and New Years Eve end-of-year holiday extension to the 180-days start date requirement?](#)
- A: No, there is no exclusion for the last 2 weeks of the year.

APPLICATION Q & A

- Q: [Regarding the 75% spend test: What if I am shooting a portion of the film in another state?](#)
- A: Wages, goods and services must be prorated proportionately to accurately estimate your California spend. Wages, rented or purchased items from California such as camera equipment, self-drive cars, production trucks, picture cars and the like must all be prorated if they will be used out of state for a portion of the schedule. Remember that the 75% spend test is based on total production spend – not just qualified expenditures.

FREQUENTLY ASKED QUESTIONS

July 2020

Q: Why do I need to provide proof of funding?

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

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

A: A foreign corporation will need to register to do business in the state and obtain a California ID number issued by the California Secretary of State. Here is the link to their website: <http://www.sos.ca.gov/business/be/fags.htm#form-question7>

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

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

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

A: Neither. Contingencies as well as bonds need to be set up as contractual charges on the top sheet of the qualified expenditure budget – not a line item.

PRODUCTION COMPANY FORMATION Q & A

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

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

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** The project we are budgeting is below \$10M. We are setting up a separate LLC for this project which will be a subsidiary of a publicly traded company. The LLC will not be publicly traded however. Would this project qualify for the 25% credit? Could we then “sell” or transfer the tax credits to the publicly traded company for their tax liability in California?
- A:** No. If the LLC is owned wholly or partially (over 25%) by the publicly traded company, the project will only qualify for a 20% credit and must apply and a Non-Independent project. In this case credits cannot be sold, but the LLC may assign its credits to an affiliate.

TELEVISION/INTERNET PROJECTS Q & A

- Q:** Can I submit an application for a pilot even if it's cast-contingent?
- A:** The regulations require that a pilot must have a pick-up order to qualify.
- Q:** The script supervisor's lined script is now a requirement that must be submitted with final documentation. For a TV series, how many episodes of the script supervisor's lined script are required?
- A:** When submitting final documentation, a copy of the lined scripts for episodes #2 and #5 must be included.
- Q:** Could a Movie of the Week or mini-series fall under an independent film even if it's TV?
- A:** Independent films require a running time of at least 75 minutes or more with a minimum budget of \$1 million dollars. The Movie of the Week category has been eliminated; projects with running times of at least 75 minutes may apply as either a non-independent feature or an Independent Film. A limited series falls under the TV category and is only open to Non-Independents.
- Q:** If we apply as a pilot and the pilot is selected, would we need to apply separately for the series, (assuming we get a pick-up order)?
- A:** Yes, you would need to apply for the series with a separate application during a TV allocation period. A series based on a pilot in the program will get priority over new applications in the selection process.
- Q:** If we shoot a pilot here in CA, can we apply for Season 1 as a “New TV” project even if that original pilot was not in the program?
- A:** Yes, the tax credit program considers a “pilot” as its own type of production, and therefore a series from a pilot may apply for the program regardless of having shot the pilot in the state.

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** How would a mid-season additional episode order be treated? Let's say there is a 10-episode order that qualifies for credit, then mid-season more episodes are ordered?
- A:** Television producers can apply for tax credits for additional episode orders in the TV allocation period prior to when the producers anticipate filming of the additional episodes. A Credit Allocation Letter will not be issued until a pick-up order is confirmed. As a recurring TV series, the additional episode order will have priority over new applicants.
- Q:** What about season to season? Does a TV production have to resubmit every year for consideration for continued tax credits or is there an incumbency provision?
- A:** There is an incumbency provision, but producers must confirm the project is returning prior to the TV allocation period and a new application submitted. Tax credits will be reserved but a Credit Allocation Letter will not be issued until a pick-up order has been received. 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.
- Q:** Are copyright forms required for each episode of a series?
- A:** Proof of copyright registration (Form PA) for at least one episode per season is required.
- Q:** What about back-end episodes? They have a separate credit allocation letter and Agreed Upon Procedures.
- A:** No, if you've submitted for an episode from the first batch, that will suffice for the entire elongated season. Given that the pickup order episodes are from the same season as the original series order, a submission of any episode within the same season will qualify for this requirement when submitting documentation for the pick-up order episodes
- Q:** Does the copyright have to be in the applicant's name, or can it be in anyone's name?
- A:** There is no stipulation in the statute that the applicant be the copyright owner. Proof of copyright registration for the project is all that is required.
- Q:** We have a straight-to-series show. We plan to shoot an enhanced first episode. Do the extra days for that episode qualify?
- A:** Yes, an enhanced episode 1 is allowed. The additional costs for the enhanced episode 1 should be specified as line items in the amortized budget.

FREQUENTLY ASKED QUESTIONS

July 2020

Q: Returning TV series and series based on a TV pilot that were accepted into the program have priority in subsequent seasons. How is that priority determined?

A: TV series approved and accepted into the program prior to January 2016 will be prioritized by the *year of original application* with the earliest allocation periods having priority. For example, a series that applied and was accepted during the May 2015 application period would have priority over a series that applied in November 2015. Both would have priority over a series that received a Credit Allocation Letter after January 1, 2016.

TV series approved and accepted into the program after January 1, 2016 will receive priority placement based on the *fiscal year of original credit allocation* (CAL).

When a company receives a CAL for a pilot, and that pilot is picked up, the series will have the same priority as a returning series according to the rule described above. Assuming other series have a similar priority, the Jobs Ratio ranking would be used (if necessary, when oversubscribed) to determine which series will receive credits.

TV series accepted into Programs 1.0 and 2.0 are grandfathered into Program 3.0 and have priority over series in Program 3.0.

RELOCATING TV Q & A

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

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

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

A: A TV series "season" is defined as a minimum of 6 episodes. However, the statutory requirements for Program 3.0 have this added provision: *The Applicant must state that at least 75 percent of principal photography days of its most recent season was filmed outside of California.* Therefore, you would need to have shot at least 75% of your season outside of CA before you could apply as a relocating TV series.

FREQUENTLY ASKED QUESTIONS

July 2020

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

A: To qualify as a television series that relocated to California, the television series must meet the following criteria:

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

A television season is defined as follows: “*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.

Therefore, a proposed series based on an out-of-state pilot would not qualify as a relocating series. It must be a series that has shot a minimum of 75% of its most recent season out of state.

JOBS RATIO & BONUS POINTS Q & A

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

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

Q: I need clarity on the Jobs Ratio penalty.

A: If the CFC determines that the Jobs Ratio has been reduced by more than 10%, the credit will be reduced by an equal percentage, unless the qualified applicant demonstrates reasonable cause exists for the reduction.

If the Jobs Ratio has been reduced by more than 20%, the CFC shall not accept an application from that company's entire combined reporting group for one year from the date of determination.

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

A: The Budget Tagging and Tracking Tips 2.0 defines what can be considered wage and non-wage. Of the items you listed, all are considered a qualified wage. This applies to qualified labor only.

FREQUENTLY ASKED QUESTIONS

July 2020

Please note that in Program 3.0, Housing and Living Allowance should be split. Housing allowance is QE; Living allowance is QW up to guild or state per diem rates.

- Q:** Do pension and health payments and California state income tax withholding count as qualified wages in the Jobs Ratio calculations?
- A:** Pension and Health payments qualify. FICA, FUI, Medicare FUTA and California solvency tax do not.
- Q:** When calculating the Jobs Ratio (on both the initial and final application), would we ignore the \$100 million cap and calculate the Jobs Ratio based on the entire \$130 million?
- A:** The Jobs Ratio calculator is programmed to limit the amount of tax credits allowed based on the qualified expenditure caps for indies and non-indies. Tax credits for independent productions will cap out at \$10 million qualified spend and non-independents at \$100 million qualified spend (excluding uplift tax credits).

UPLIFTS Q & A

- Q:** Does a camera package which will be rented in Los Angeles, but brought to San Francisco for our production, qualify for the 5% uplift?
- A:** No. Tangible personal property used outside the Los Angeles zone must be purchased, rented or leased from a vendor through an office or other place of business outside the Los Angeles zone to qualify for an uplift.

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

- Q:** Independent films already eligible for a 25% tax credit are not going to get 30% with the uplift, correct?
- A:** Independent films and relocating TV series do qualify for a 5% Local Hire Labor uplift.

FREQUENTLY ASKED QUESTIONS

July 2020

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

A: The visual effects (VFX) accounts which qualify for the uplift are mainly those concerning third party vendors providing CG asset creation.

VFX Digital Artists and VFX upper management staff (as indicated on the Qualified Expenditure Chart) who are hired directly by the production company do qualify and would be tagged as QW (qualified wage) and VU (VFX uplift).

Vendor payments may be split 70% Wages (QW) and 30% Non-wages (WE). The qualified expenditure charts indicate those VFX expenditures that qualify for the VFX uplift and for VFX bonus points (they are the same accounts).

There is a minimum spend provision for VFX uplifts of \$10 million (for all qualified VFX expenditures) OR 75% of all worldwide VFX are performed in California.

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

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

Q: Is motion capture work considered VFX?

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

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

A: The statute allows an aggregate amount not to exceed 5% of the qualified expenditures with respect to tax credits above the \$20 million-dollar cap, which means a non-indie could receive up to \$25 million in tax credits.

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

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

FREQUENTLY ASKED QUESTIONS

July 2020

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

A: Principal photography days involve the principal director and usually the lead actors, so a miniature shoot carried out by a vendor would not qualify as principal photography. If you contract with an out of zone vendor to perform services out of the zone, payments to that vendor would qualify for the uplift. Since the miniatures would not be considered a consumable, the tagging would be ZE.

OUT OF ZONE Q & A

Q: Our crew is building a set outside of the zone that will be used inside the zone. Does the labor and set qualify for uplift? Are the meals we serve eligible for uplift?

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

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

A: Please utilize this link to view the studio zone: <http://film.ca.gov/locations/interactive-map/>. It also contains a secondary zone; however, for purposes of the uplift, the tax credit program only recognizes the studio zone – not the secondary studio zone. Please note the exceptions to the indicated zone.

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

A: It applies to qualified expenses purchased or rented and utilized in San Francisco related to the applicable period: prep, shoot and strike outside the Los Angeles zone.

Q: Do permit fees for outside the zone locations qualify for the uplift?

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

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** We are using an in-zone vendor to coordinate an outside-the-zone shoot. Do wages and service fees paid for the outside the zone work qualify for the uplift?
- A:** No. Since the vendor is within the Los Angeles zone all expenditures are considered inside the zone and are tagged QE.
- Q:** If we park the crew inside the zone and shuttle them out to the location every day, is that still considered outside the zone spend for those shooting days? I'm unsure because the website says that if a day is split between places in and outside the zone that you have to start outside the zone. In this instance, my first shooting location would be outside the zone, but their report to location would be inside the zone.
- A:** As long as the main unit's first scene of the day is filmed outside the zone, it will qualify as an out of zone principal photography day.
- Q:** Does 2nd unit work count as one day out-of-zone (OZ) or are OZ days only for 1st unit work that starts the day OZ?
- A:** Only 1st unit principal photography days count toward OZ bonus point days. OZ principal photography days must begin with filming the first scene of the day OZ to qualify.
- Q:** Do we need to shoot the full day out-of-zone to qualify for the uplift?
- A:** No, but the first scene of the day must be at the out of zone location.
- Q:** If we travel the crew to an out-of-zone location and shoot on the same day, would the day still count as an OZ day (even though some of the day was travel)?
- A:** Travel salaries out of the zone count toward the 5% uplift. You would need to shoot the first scene of the day the same day you travel to have that day count as an OZ principal photography day. Travel to an out of zone location without shooting still counts towards the 5% uplift – just not as a principal photography day OZ.
- Q:** If we purchase lumber out of zone, bring it into the zone to build the sets and then bring the sets out of the zone to shoot, can we qualify the lumber towards the 5% uplift?
- A:** The lumber would qualify for the uplift; the labor to build the sets in the zone would not.

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** Regarding tagging for out of zone expenditures, what is the difference between ZE and ZC?
- A:** Outside the L.A. zone consumables (ZC) are non-wage purchases or rentals outside the zone used or consumed only outside the zone. These may include fuel, security personnel hired through a security company, dry cleaning, food, hotel rooms, as well as equipment rented out of the zone and used solely out of the zone (please refer to Appendix A of the Guidelines for a list of zone consumables). Outside the zone expenditures (ZE) are items purchased or rented outside the zone and used both in the zone and outside the zone. For example: if you are shooting in San Francisco and rent your equipment in S.F. but also use it in Los Angeles, the equipment rental would be tagged ZE, as it will be prorated based on the number of principal photography days both in and out of the Los Angeles zone.
- Q:** Does the out-of-zone uplift apply to sales taxes on items purchased and used out of the zone?
- A:** Yes, for any expenditures eligible for the out of zone uplift. Totally consumed items, along with the sale tax, should be tagged QE/ZC; all other out of zone purchases with sales taxes should be tagged QE/ZE.
- Q:** Do car allowances for out-of-zone labor qualify for the uplift?
- A:** Car allowances paid to qualified out-of-zone labor does qualify and would be tagged QW/ZW. If it is for a car that is rented from an out-of-zone vendor and used both in- and out-of-the-zone, it would be tagged QE/ZE. If it is used only out of the zone, it would be tagged QE/ZC.
- Q:** If a location scout starts inside the zone, scouts outside the zone, and then returns inside the zone at the end of the day, do her wages qualify for the OZ uplift?
- A:** The time which the scout spends working out of the LA zone would qualify for the 5% uplift assuming it is related to filming outside the zone (during prep/shoot/or strike). The scout's wages for the hours spent out of the zone would garner the 5% uplift. Travel day salaries count toward the 5% uplift to and from the zone (when flying). When driving, the uplift begins out of the zone and ends upon return to the LA zone. It is not a principal photography day out of the zone unless the company has filmed the first scene of the day out of the zone.

FREQUENTLY ASKED QUESTIONS

July 2020

- Q: For an individual who is hired from out of state with a box rental, but works in San Francisco, is their box ZC (like outside the zone residents would be), QE (like LA residents who bring their boxes), or NQ because they're from out of state? (The boxes will be used solely outside the zone in San Francisco, and not in Los Angeles. When used out of state, they are XX.
- A: The statute says the item must be purchased or rented and used in California to be qualified. As this person is from out of state, unless s/he can prove that the contents of the box rental were purchased in the state, it would not qualify.

LABOR Q & A

- Q: Do productions have to be signatories to Unions, IA, Teamsters, SAG, DGA, WGA?
- A: No, there are no Union or Guild requirements.
- Q: Does the crew have to be California residents?
- A: No. There is no residency requirement.
- Q: How do we get the uplift for hiring local labor?
- A: Local Hire Labor should be tagged QW, LW to get the 10% uplift for Non-Independents and 5% for Independents and Relocating Television. A California Driver license or CA ID and a Utility Bill dated within 3 months prior to employment start date, indicating an outside the L.A. zone address will be required for the extra tax credits.
- Q: The line producer is also the UPM. Will her wages qualify?
- A: Producer hyphenates (ATL/BTL functions) are allowed a maximum of \$100,000 exclusive of fringes, box rental, etc. in the UPM category; the rest of her salary is not a qualified expenditure. With respect to ATL/BTL positions in other departments, the BTL salary and rentals must be commensurate with that of other department heads at the project's budget level. The BTL function must be credited for the BTL salary to qualify.
- Q: Is a box rental or car allowance eligible for producers?
- A: If qualified hyphenate, the rate equal to other department heads would be eligible. Otherwise, it would not qualify.

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** If we outsource set construction to a company that breaks out labor versus materials, does the labor qualify as labor or expenditure?
- A:** In order for an expenditure to be considered qualified wage, the wage must be paid directly by the production company or its payroll company. Wages paid by a vendor are qualified non-wage.
- Q:** Are dancers considered qualified labor?
- A:** Yes, if they are paid under a background actor contract; if they are paid under a SAG/AFTRA talent contract, they are considered performers and do not qualify.
- Q:** Are the payments to Extra Casting Agencies (a percentage of the moneys paid to the background players) properly included as fringes?
- A:** NO. This must be shown as a line item and tagged QE.
- Q:** One of the shows we are working on had to pay penalties related to late payroll for several SAG extras. Should this be tagged QW or NQ?
- A:** NQ. We liken it to union grievances, which are also NQ.
- Q:** When we were shooting in a water tank, we had our stunt riggers working in the water, helping to pull the on-camera stunt person through the water. They were never on-camera, however, they were paid stunt adjustments due to working in the water. Would I be able to count those stunt adjustments as qualified spend since they were provided to qualified labor?
- A:** Yes.

TRAVEL Q & A

- Q:** I understand that airfare outside of California does not qualify. What about travel day salary payments to qualified crew?
- A:** Travel day payments to crew flying out of or into California are not considered qualified expenditures.
- Q:** For intrastate airfare, for example Burbank to Sacramento, do we need to purchase tickets through a California travel agent for it to qualify, or can we simply purchase tickets from the airline, Southwest for example?
- A:** Airfare, ancillary charges, and agency fees qualify when purchased from a California travel agency for intrastate travel. Adversely, if you purchase a flight from an airline's website, this cost would not qualify.

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** For intrastate flights, if the airfare or luggage fee was purchased via a show purchasing card or a personal credit card, would that travel-related cost qualify based on the fact that the cost was absolutely a California expense?
- A:** As long as the airfare was purchased from a CA travel agency/agent for travel within California, ancillary fees would also qualify. The use of a company or personal credit card will require the CPA performing the audit to request multiple statements to make sure that the airfares were not refunded at some future date (unless there are boarding passes to provide proof that the airfare was utilized), or they may look for credits in the ledger.
- Q:** Do payments to Airbnb for accommodations qualify?
- A:** Yes. In Program 3.0 Airbnb costs qualify.

BUDGET/TAGGING/AUDIT Q & A

- Q:** The Application form says to submit a budget of “qualifying expenditures.” What’s that?
- A:** The budget of qualifying expenditures is a budget in industry-standard format which includes only those line items which the state of California considers qualified wages and expenditures (see the [Qualified Expenditure Chart](#).)
- Please also refer to the [Expenditure Tracking Tips 3.0](#) for a full explanation as to how to create a qualified budget.
- In addition, there is a tutorial on our website that will help guide you through the tagging process.
- Q:** Do I have to use the same Chart of Accounts (template) as the CFC qualified expenditure charts?
- A:** No, but please refer to the chart to be clear what are qualified expenditures.
- Q:** What if the director also performs a key BTL function, such as DP or editor? Would the salary qualify?
- A:** The BTL salary would be considered a qualified expenditure within the bounds of either industry standard rates or on par with other key crew members on your production, whichever is the lesser of the two.
- Q:** Do preview costs qualify?
- A:** No. Items such as preview travel, screening room rentals, projectionist, audience recruitment costs, focus group costs and any additional labor (outside of the normal picture and sound editorial crew) do not qualify.

FREQUENTLY ASKED QUESTIONS

July 2020

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

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

Q: Are internet purchases permitted?

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

Q: In regards to vendors that have a presence in California, like Staples, but their billing comes from another state, will they qualify for the California tax credits?

A: Yes. The definition of an in-state vendor "...is a vendor or supplier which has an office or other place of business in California and is registered or qualified with the California secretary of state or is required to file a return with the California Franchise Tax Board under Parts 10 or 11 of the Revenue and Taxation Code." To check if a company is registered with the Secretary of State, use this link: <http://kepler.sos.ca.gov/>. Here are the guidelines:

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

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

A: Yes. The sick days taken must be indicated on the timecard as well as listed on the daily production report to qualify. Sick day pay is not, however, allowed when applying for the tax credit (except recurring TV series) since it may not be paid. Please bear in mind that this requirement only goes into effect after the employee has worked at least 90 days on the production.

Q: Are Promo Dubs eligible?

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

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** Does the contingency have to be included in the budget or can we add 10% of the QW/QE to the application only?
- A:** Your submitted budget may include a contingency as a contractual charge on the top sheet of your budget (not a line item).
- Q:** We will be broadcasting our show live. How do we deal with the final element date and letter requirement?
- A:** Since your final element will be created at the time of the live broadcast, the date of airing will be the date used for final element creation. A letter from the producer stating that the final element was created during the broadcast will suffice; the letter must include the initial airdate.
- Q:** If we are using a church for a location does the fee qualify?
- A:** If a location fee is paid, and there is a location agreement, and the production is actually utilizing the location in CA, it would qualify. There is no restriction on paying non-profits. However, if the money is paid strictly as a donation, then it would not qualify.
- Q:** Are charitable donations qualified?
- A:** No, as there is no tangible personal property rented or purchased in the state.
- Q:** If a production donates an asset at the end, do they still get the 20% tax credit?
- A:** If an asset is donated so that it constitutes a charitable contribution, it would not qualify for a tax credit.
- Q:** When calculating the 75% test for the CA VFX uplift, are 3D Post-Production amounts included in the numerator?
- A:** As 3D is a type of distribution format, the only uplift for processes in your listing would be VFX vendor costs for 3D elements. (See next page for a sample list of 3D Post-Production account numbers and descriptions.)

FREQUENTLY ASKED QUESTIONS

July 2020

5000 - 3D POST PRODUCTION		
	Acct#	Account Description
1	5001	3D EDITORIAL LABOR
2	5002	OTHER LABOR
3	5003	STEREOGRAPHER
4	5005	CONVERSION VENDOR
5	5010	SCREENINGS
6	5015	EXPENDABLES (DRIVES & MISC EQ)
7	5016	SHIPPING & FORWARDING
8	5017	COORDINATORS
9	5018	EQUIPMENT AND OFFICE RENTALS
10	5020	REVIEW/CONFORM
11	5024	TITLES
12	5025	3D DIGITAL INTERNEGATIVES
13	5027	MASTERS & DELIVERABLES
14	5032	SCANNING
15	5044	VFX VENDOR COSTS FOR ELEMENTS
16	5099	Total Fringes
17		Total

Q: On live shows, do Technical Directors qualify?

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

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

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

Q: Do stage holding fees qualify for the incentive? If so, is there a cap on the qualifying amount?

Also, if the fees were incurred 30 days after the final element would they be a qualified expense for the following season assuming we received our CAL?

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

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

FREQUENTLY ASKED QUESTIONS

July 2020

The cost of the stage hold fees are all within the CAL amount, so if you have enough budgeted to cover those hold fees within the qualifying period, the hold fees will be covered.

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

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

CAREER READINESS Q & A

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

A: The CFC has a database to help match productions with nearby schools, teachers, and students. Producers can also call the CFC to inquire if we have a contact for schools or career-based learning programs that they wish to work with and/or are in the area in which the production is filming.

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

A: The production does not have to use our list, but we would need you to provide us the information for the California high school, community college (no 4-year colleges) or career-based learning program that you will be using so we can confirm it conforms with our program requirements. **Any interns employed on the production must be over 18 years old.**

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

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

FREQUENTLY ASKED QUESTIONS

July 2020

- Q:** We would like to hire interns for a craft position (grip/electric/sound/camera/etc.). Is it necessary to notify the unions?
- A:** Yes, when hiring interns in these categories, productions must contact the prevailing union to inform them of the names and dates when interns will be on set. Union crew members may not understand the situation and notify their unions that non-union workers are on set.
- Q:** If we hired paid interns for the Career Readiness requirement, is the salary qualified?
- A:** Yes. In Program 3.0 the salary of paid interns qualifies for a tax credit.
- Q:** Can we use an intern as a production intern? Can they make runs?
- A:** The intent of the Career Readiness Program is for the people involved to be exposed to jobs in the Industry and to *learn*. They should *not* be making deliveries and pickups. Such tasks are not considered learning experiences and *would not* satisfy the Career Readiness requirements.

Diversity Requirement Program Q & A

- Q:** Is every applicant required to submit a summary of its voluntary programs to increase representation of women and minorities?
- A:** Yes, unless the applicant is an Independent Film with qualified spend budget of \$10 million or less.

TAX CREDIT USAGE/TRANSFER Q & A

- Q:** Is there a list of available qualified California companies who can broker the tax credits?
- A:** A list of tax credit buyers and brokers is available upon request.
- Q:** Can the tax credit be used by a company with the same ownership as the production company?
- A:** Affiliated companies may utilize the tax credits.

FREQUENTLY ASKED QUESTIONS

July 2020

UTILIZATION OF TAX CREDITS FOR JAN. 1, 2020 THROUGH DEC 31, 2022

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

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

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

A: Yes, but only for Non-Indies, as Independent project credits cannot be used against sales and use tax liability.

Q: What else do I need to know?

A: For corporation and personal income taxes, the cap is for taxable years between Jan. 1, 2020 and Dec. 31, 2022.

For sales and use taxes, the cap is for any return filed between Jan. 1, 2020 and Dec. 31, 2022, with the exception that any elections made prior to the enactment of this proposal are not limited to the \$5million cap.

Non-Independent taxpayers may elect to utilize \$5million in tax credits against income tax liability and an additional \$5million against sales and use taxes in the same year.

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

A: The Program 2.0 carryover language reads:

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

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

FREQUENTLY ASKED QUESTIONS

July 2020

To be precise, the \$5million limitation allows for a carryover extension:

Program 2.0: Carryover may be extended from six to nine years.

Program 3.0: Carryover may be extended from nine to twelve years.

The extension of the carryover period is only for the number of years that the credit was limited. So, if a taxpayer has a Program 2.0 credit for \$15million that they are first eligible to use in 2022, they would be limited for only one year. As such, that credit would be allowed an additional year of carryover.

Q: [How does this affect credits for entities purchasing credits from Independent projects?](#)

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