

December 16, 2022

NOTICE OF PROPOSED EMERGENCY ACTION

CALIFORNIA SOUNDSTAGE FILMING TAX CREDIT PROGRAM

SUBMISSION OF COMMENTS

Government Code section 11346(a)(2) requires that at least five working days prior to submission of the proposed emergency action to the Office of Administrative Law (OAL), the adopting agency provide a Notice of the Proposed Emergency Action to every person who has filed a request for notice of regulatory action with the agency. After submission of the proposed emergency to the OAL, the OAL shall allow interested persons five calendar days to submit comments on the proposed emergency as set forth in Government Code section 11349.6.

Any interested person may present comments, in writing, on the Finding of Emergency or on the proposed regulations. Written comments must be received at the OAL within five days after CFC submits the emergency regulations to the OAL for review.

Comments should be sent simultaneously to:

California Film Commission
7080 Hollywood Boulevard, Suite 900
Hollywood, CA 90028
soundstageincentive@film.ca.gov

Office of Administrative Law
300 Capitol Mall
Sacramento, CA 95814
staff@oal.ca.gov

For the status of the CFC submittal to the OAL for review and the end of the five-day written submittal period, please consult the website of the OAL at www.oal.ca.gov under the heading "Emergency Regulations."



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Deputy Director/Tax Credit Program
California Film Commission

FINDING OF EMERGENCY

CALIFORNIA SOUNDSTAGE FILMING TAX CREDIT PROGRAM

Government Code section 11346.1(a)(2) requires that, at least five working days prior to submission of the proposed emergency action to the Office of Administrative Law, the adopting agency provide a notice of the proposed emergency action to every person who has filed a request for notice of regulatory action with the agency. After submission of the proposed emergency to the Office of Administrative Law, the Office of Administrative Law shall allow interested persons five calendar days to submit comments on the proposed emergency regulations as set forth in Government Code section 11349.6.

1. ORIGINAL STATEMENT OF EMERGENCY

Deemed Emergency: As per Revenue and Taxation Code section 17053.98, subdivision (k)(10)(C) and section 23698, subdivision (k)(10)(C), the Legislature deemed implementation of section 17053.98, subdivision (k) and section 23698, subdivision (k) an emergency:

- (i) Implementation of this subdivision for the 2021-22 fiscal year is deemed an emergency and necessary for the immediate preservation of the public peace, health, and safety, or general welfare and, therefore, the California Film Commission is hereby authorized to adopt emergency regulations to implement this subdivision during the 2021-22 fiscal year in accordance with the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).*
- (ii) The California Film Commission shall adopt regulations in order to implement this paragraph.*

The deemed emergency above applied to the original adoption of emergency regulations (OAL file number 2022-0330-03E) and, as required by Government Code Section 11346.1(b), the following statement was included for the readoption of those emergency regulations (OAL file number 2022-0921-01EE) to reflect circumstances that had changed since the initial adoption:

The deemed emergency affecting the California Soundstage Filming Tax Credit Program, as referenced above, was set to be updated through Senate Bill (SB) 485 to include fiscal year 2022-2023. The CFC moved forward in the regulatory process toward readoption of the emergency regulations and making the regulations permanent. [SB 485](#) included a provision (k)(10)(C)(i) of sections 17053.98 and 23698 of the Revenue and Taxation Code, which extended the emergency provision for fiscal year 2022/23:

(k)(10)(C)(i) Implementation of this subdivision for the ~~2021-22~~ 2022-23 fiscal year is deemed an emergency and necessary for the immediate preservation of the public peace, health, and safety, or general welfare and, therefore, the California Film Commission is hereby authorized to adopt emergency regulations to implement this subdivision during the ~~2021-22~~ 2022-23 fiscal year in accordance with the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

However, on August 25, 2022, SB 485 was ordered to the inactive file. When it became clear that the bill would not move forward in the current legislative cycle, despite assurances to the contrary, there was not enough time for the CFC to complete the certificate of compliance before the expiration of the original emergency regulations (there are 46 calendar days between August 25 and October 11, 2022).

What has not changed since the initial adoption of the emergency regulations is the underlying cause for emergency in the implementation of the California Soundstage Filming Tax Credit Program. The purpose of the program is two-fold; on the one hand to create and promote diversity in film and television production by including diversity goal requirements and educational programs to give underserved communities access to motion picture industry jobs, and on the other to enable safe motion picture industry infrastructure growth within the state of California in order to create and keep jobs in-state in both the motion picture industry and the construction industry, and to ensure that the infrastructure growth that does occur does so with skilled and trained workforces, project labor agreements, and similar standards.

Without the California Soundstage Filming Tax Credit Program, those entities that do pursue infrastructure growth within the state are not bound to the labor and workforce requirements that ensure safe workplaces by requiring skilled and trained labor, and fair wages for the work performed within the program; this could lead to unsafe working conditions, injury, and death.

Data from the CFC tax credit programs shows clearly that productions actively leave the state of California in pursuit of other tax credit incentives if incentives are not available to them in-state; this does not only cause great economic harm to the state by loss of in-state spending and jobs, more importantly it causes harm to Californians who must follow production to other states and countries where they are subject to local laws, many of which lack the civil rights and protections afforded in the state of California, such as reproductive healthcare, gender affirming healthcare, and other protections for equity. In addition, migration of productions to other states removes educational and job-training opportunities for youth from underserved communities mandated through the Program.

Productions will not wait for lengthy rulemaking processes, they make business decisions and act quickly, which makes the implementation of this Program an emergency to preserve the health, safety, and welfare of Californians. Originally

delaying the implementation of the California Soundstage Filming Tax Credit Program would have caused irreparable harm to Californians in the motion picture industry, in the construction industry, and to disadvantaged California youth aiming to learn a trade in the motion picture industry, as well as the California economy.

With the California Soundstage Filming Program currently in operation, further irreparable harm would be caused by halting or delaying the implementation at this time. These are the facts demonstrating the existence of an emergency for purposes of readopting these emergency regulations:

- The California Soundstage Filming Tax Credit Program is already operational and while statute sets the foundational requirements for the Program, all processes of application, evaluation, allocation, and certification are contained within the regulations; this emergency action would avoid the serious harm to the wellbeing of Californians and the state's economy of effectively suspending the Soundstage Filming Tax Credit Program mid-operation, as it is not operational without the use of these regulations.
- If the readoption of these emergency regulations is not approved, the suspension of the California Soundstage Filming Tax Credit Program would seriously harm the progress and prospects of participants in the Career Readiness and Career Pathways components of the Program, in which youth from underserved and disadvantaged communities are given access to training and internships in the motion picture industry.
- If the readoption of these emergency regulations is not approved, the suspension of the California Soundstage Filming Tax Credit Program would harm intentionally diverse motion picture production by suspending a project's tax incentive mid-production, which would affect the economic well-being of both the stage owners, the production companies and the cast and crews involved.
- If the readoption of these emergency regulations is not approved, the suspension of the California Soundstage Filming Tax Credit Program would affect the certification of thirteen (13) soundstages, encompassing nearly 220,000 sq.ft. of production space and representing more than \$124 million in construction and renovation investment for purposes of qualifying for the Program. In addition, it would remove the requirement that operation, maintenance and repairs of these soundstages be carried out by a qualified and fairly compensated workforce, which could lead to unsafe working conditions and injuries.
- If the readoption of these emergency regulations is not approved, the suspension of the California Soundstage Filming Tax Credit Program would affect the tax credit allocation and certification of participating qualified motion picture project representing over 4,300 members of cast, base crew, and background/stand-in man days, and over \$62 million in qualified, in-state expenditures.
- In addition, if the readoption of these emergency regulations is not approved, the suspension of the California Soundstage Filming Tax Credit Program mid-operation would cause irreparable damage to the motion picture industry's confidence in the Program and in the CFC, which would impact future application to and utilization of the Program. This would mean migration of projects to other states and countries, which, as addressed above, would remove opportunities

from youth from underserved communities, cause harm to the wellbeing of Californians, and to the state's economy.

2. UPDATE TO FINDING OF EMERGENCY

The emergency circumstances are unchanged since the prior readoption of these emergency regulations on October 11, 2022.

Since the readopted emergency regulations became operative on October 11, 2022, the California Film Commission (CFC) has proceeded with diligence toward the further development of these regulations and has made substantial progress toward making the regulations permanent in accordance with section 11346.1(e) of the Government Code; on October 21, 2022, the notice of proposed regulatory action was published in the California Notice Register and public comment on the proposed permanent regulations were accepted up to and including December 6, 2022 (OAL reference number Z2022-1011-03). During the public comment period, the CFC received no comments from the public and will proceed by submitting the certificate of compliance to OAL as soon as possible. The CFC seeks a second readoption of the emergency regulations to ensure that the Soundstage Filming Tax Credit Program can continue to operate while the permanent regulations are being reviewed for approval, and to ensure there is time to accommodate a period of re-notice, should edits be required following OAL review.

The CFC hereby incorporates by reference the following parts of the rulemaking record previously submitted for the readoption of emergency regulations with OAL file number 2022-0921-01EE:

- The Electronic File including
 - Express terms of the regulations
 - Forms incorporated by reference
- STD 399
- Board Meeting Minutes 09-09-22

3. INFORMATIVE DIGEST

In 2021, the Legislature and Administration approved Senate Bill 144 (Statutes of 2021, Chapter 114), as modified by Assembly Bill 176 (Statutes of 2021, Chapter 256), which among other things, created a new tax credit incentive program associated with the construction of soundstages in California. Specifically, the Legislature added a new subdivision (k) to sections 17053.98 and 23698 of the Revenue and Taxation Code, containing direction to the California Film Commission (CFC) to adopt emergency regulations to implement the new California Soundstage Filming Tax Credit Program, applicable to taxable years beginning on or after January 1, 2022, and before January 1, 2032. The California Soundstage Filming Tax Credit Program, as required by Senate Bill 144 and as implemented via these proposed emergency regulations, establishes a new tax credit for qualified motion pictures produced on a certified studio construction project. To receive the tax credit, a qualified taxpayer is required to film their qualified

motion picture on a soundstage or soundstages constructed or renovated as part of a studio construction project certified by the CFC. The qualified taxpayer may also be eligible for additional credit percentage points if they meet, or make a good-faith effort to meet, the diversity goals stated in their application for above and below-the-line workers.

The California Soundstage Filming Tax Credit Program will help create jobs and benefit the economy by building on the success of California's film and television tax credit programs which have generated billions in production spending for the state. Construction of soundstages in California has not kept pace with growth in film production, so this Program will incentivize the building and renovation of soundstages in California. The Program also seeks to increase diversity within the film and television production workforce via required submission of a diversity workplan and report for the production, which includes a statement of diversity goals and strategies.

4. NECESSITY FOR EACH NEW REGULATION

The CFC proposes to adopt a new Article 4 containing sections 5530 through 5541 to implement the California Soundstage Filming Tax Credit Program ("Soundstage Program"), within the California Code of Regulations, Title 10, Chapter 7.75. The following paragraphs explain the necessity and purpose for each new proposed regulation section, which together comprise full regulatory implementation of the Soundstage Program as required by subdivision (k) of Revenue and Taxation Code sections 17053.98 and 23698 ("the statute").

Generally

In some instances, the proposed regulations duplicate California statute in part where the statute is cited as "authority" or "reference" for the proposed regulation and the duplication or overlap is necessary to satisfy the "clarity" standard of Government Code section 11349.1(a)(3). This ensures that California Soundstage Filming Tax Credit Program applicants are able to understand eligibility requirements, and submission and documentation requirements to apply for and receive tax credits, and all other applicable limitations and requirements of the Program without needing to navigate multiple complex sources and keep track of an undue amount of cross-references. The statute contains Program requirements, including eligibility, and also requires the CFC to establish procedures and develop regulations to implement, interpret, and make specific overall Program requirements; these regulations combine the Program components into one comprehensive article to aid tax credit applicants under the California Soundstage Filming Tax Credit Program in understanding how the Program functions and applies to them.

Two amendments without regulatory effect were made for the initial readoption of the emergency regulations: consistently changing the "s" in "section" from uppercase to lowercase for consistency with the CCR; and, changing "in PDF or equivalent format" to "in PDF or equivalent non-proprietary document format" to clarify document

requirements for application submissions without appearing to prescribe one specific file type.

In a few instances “Commission” were changed to “CFC” for clarity and consistency, as CFC is the term most commonly used to signify the California Film Commission. These were changes without regulatory effect.

In a few instances, clauses and sub-clauses were renumbered for consistency with CCR conventions. These were changes without regulatory effect.

Section 5530. Definitions

The statute includes new and modified definitions for implementation of the Soundstage Program. As proposed, section 5530 incorporates the relevant definitions of existing section 5520, which contains the definitions for California Film and Television Tax Credit Program 3.0 (“Program 3.0”), because the statute incorporates many of the same terms, definitions, and procedures that exist in Program 3.0. However, section 5530 includes altered and added definitions as required by the statute for the Soundstage Program, such as revised definitions of “applicant,” as the term applies to Phase A and Phase B of the Soundstage Filming Tax Credit Program, and new definitions for “soundstage,” “certified soundstage,” “non-proprietary document format,” and “stage shooting day.” The definition of “television series that relocated to California” is also clarified. This section is necessary to clarify, alter, and add new definitions for terms used within the Soundstage Program.

Section 5531. Eligibility Determination

The statute outlines requirements for the CFC to certify a soundstage or soundstages as a certified studio construction project, as well as other requirements and eligibility criteria for a taxpayer to successfully apply for and receive a tax credit under the Soundstage Program. The requirements for eligibility are found both within subdivision (k) of the statute, and other subdivisions of the statute that subdivision (k) incorporates by reference. Section 5531 further clarifies and pulls together these eligibility requirements into one comprehensive list for ease of understanding. Section 5531 is necessary to ensure potential applicants understand how to be eligible for a tax credit under the Soundstage Program.

Section 5531 was amended for the initial readoption of the emergency regulations; subdivisions (a) and (b) from section 5532 were moved to section 5531 as they pertain to the program overall and not specifically to Phase A. This is one of several changes necessary to clarify the role of the applicant in those cases where the Phase A and Phase B applicant are one and the same entity, and in those cases when they are separate entities. Minor amendments in the text clarify that ancillary buildings, or groups thereof, will also receive a Soundstage Certification Letter; that Phase A applicants are required to submit a Certified Studio Construction Project Verification Report; and the ways in which “first come, first served” applies to Phase A and Phase B respectively.

Section 5532. Studio Construction Project Certification – Phase A

To implement the Soundstage Program, the CFC needs clear procedures in place to

certify a soundstage or soundstages as a certified studio construction project, as the statute stipulates that the tax credit is for a qualified motion picture produced in California at a certified studio construction project. Section 5532 delineates the procedures and process to apply for this certification of a soundstage or soundstages. Because the statute does not include specifics regarding, for example, how an applicant should apply for certification, section 5532 includes these clarifying details to achieve implementation of the statutory objectives. Applicant information, eligibility attestation, and the studio construction project certification procedures are included to allow the CFC to review and determine whether the applicant is eligible for this phase of the Soundstage Program and whether their soundstage or soundstages qualify pursuant to the requirements of the statute.

Section 5532 is necessary to institute the process by which applicants will apply for soundstage certification.

Section 5532 was amended for the initial readoption of the emergency regulations. Subdivisions (a) and (b) were moved to section 5531, as they pertain to the Program overall and not specifically to Phase A.

The applicant attestation regarding ownership or long-term lease of a soundstage or soundstages, previously in subdivision (c)(3)(A), is required by the Phase B entity in statute; it was therefore necessary to move the attestation to section 5533 for clarity in those cases where the Phase A and Phase B applicants are separate entities and for consistency with statute.

Formerly (c), now (a)(4)(A)2. was added to section 5532 to incorporate optional Phase A agreed upon procedures (AUP) by reference.

Formerly (c), now (a)(4)(C) was added to section 5532 to clarify that a CPA firm may not provide Phase B services to a qualified motion picture project in the Program filming on a soundstage or soundstages for which the CPA firm has previously provided Phase A services. This is necessary to prevent a CPA firm from verifying a project for which the eligibility depends on their own prior certification.

Formerly (c), now (a)(5) was added to mandate submission of specified supporting documentation for a Phase A application. This is necessary to ensure that the CFC is able to appropriately track all certified stages and buildings as well as any approved applicant responsibilities, especially in those cases when the Phase A and Phase B applicants are separate entities.

Section 5533. Proposed Motion Picture Production Application – Phase B

Once a Phase A applicant has applied for and received certification of its studio construction project, the next phase of the emergency regulations involves the Phase B application for the proposed motion picture. The statute allows for a tax credit for a qualified motion picture, so section 5533 includes the process by which an applicant applies for eligibility and approval for its planned motion picture. This regulatory section

clarifies the information the CFC must receive to verify whether the motion picture qualifies for the Soundstage Program as specified by the statute, including applicant and production details, production shoot days on and off the certified studio construction project, production statistics, and additional tax credit increases (“uplifts”). In addition to determining eligibility via this information, the CFC will also determine the estimated credit allocation for each qualifying applicant, which allows the CFC to ensure it budgets the allocation for the Soundstage Program appropriately. Section 5533 is necessary to determine whether a proposed motion picture qualifies for the Soundstage Program and necessary for the CFC to determine the amount of estimated tax credits that will be allocated to applicants.

Section 5533 was amended for the initial readoption of the emergency regulations. Subdivision (b) was broken out into paragraph (1) and (2) which is necessary to clarify how the process differs between a Phase B applicant which is the same entity as a Phase A applicant and a Phase B applicant which is a separate entity. Paragraph (2) further brought over requirements from section 5532, which is necessary to ensure that all relevant information is captured from a Phase B applicant which has not provided any information in Phase A. Submitting the relevant SCL identifier/s was added in clause 1. of subparagraph (E) of paragraph (2) as this tracking becomes necessary in those cases where Phase A and Phase B applicants are separate entities, or in those cases where multiple, individual Phase B projects film on soundstages that are certified as part of the same Phase A certified studio construction project.

In subdivision (d), subparagraph (1)(A) was moved from section 5532. This is necessary to clarify that the attestation is required from Phase B applicants only.

Previous subparagraph (d)(1)(A) was renumbered to (B) and subparagraph (d)(4)(C) was rearranged for clarity; these are changes without regulatory effect. Subparagraph (d)(4)(C) had added edits clarifying that the requirement to film 50% of stage shooting days on certified stages applies in each taxable year, consistent with sections 17053.98(k)(2)(B) and 23698(k)(2)(B) of the Revenue and Taxation Code.

Section 5533(d)(6)(D) explains that an applicant may achieve up to a four-percentage point increase in its credit percentage if it meets or makes a good faith effort to meet the diversity goals in its diversity workplan. Clause 1. was added to clarify that the California Film Commission will determine whether an applicant made a good faith effort to meet its diversity goals on a case-by-case basis. The credit allocation assumption has been broken out from (6)(D) to (6)(D)2. to conform with appropriate structure after the amendment; this is a change without regulatory effect.

Previous paragraph (d)(8) was renumbered (d)(9). Former subdivision (f) was added as new paragraph (d)(8); this is necessary to reflect the appropriate process if current subdivision (e) is repealed, as recommended. Both new paragraph (d)(8) and new paragraph (d)(9) consist of existing language; these are changes without regulatory effect.

Section 5533(e) states that the Commission shall notify the applicant if their submission is approved. Initially, the subdivision gave approved applicants a timeframe after approval to provide additional materials and supporting documentation as requested by the CFC; this language was repealed as it is based on practices relevant to Program 3.0 that do not apply to the Soundstage Filming Tax Credit Program. There are no application windows and there is no ranking for the Soundstage Program; applicants may therefore gather all necessary materials prior to applying and submit all supporting documentation at the time of application. This has been the practice so far and keeping the application separated into unnecessary steps is impractical for this Program.

A new subdivision (e) was moved into section 5533 from section 5534; the language pertains to the Phase B application overall rather than the diversity workplan addressed in section 5534. This is a change without regulatory effect.

Section 5534. Diversity Workplan

In addition to the above-mentioned Phase B application regarding the proposed motion picture, the statute requires every Phase B applicant to submit a diversity workplan approved by the CFC. The statute requires the diversity workplan to include a statement of diversity goals for the motion picture for above and below-the-line workers and the strategies to achieve the stated goals. Section 5534 provides additional clarifications and examples, consistent with federal and state equal protection and lawful employment practices jurisprudence, to help applicants understand what should be submitted for compliance with this portion of the statute and to aid the CFC in evaluating applicants' diversity workplans. Section 5534 is necessary to clarify what should be included in the diversity workplans and to specify the CFC's review, approval, and rejection process.

Subdivision (k)(3)(E) of sections 17053.98 and 23698 of the Revenue and Taxation Code states that the "California Film Commission, in consultation with the Governor's Office of Business and Economic Development, shall establish guidelines to evaluate diversity workplans as described in this paragraph." The Commission consulted and coordinated with the Governor's Office of Business and Economic Development in drafting the regulations in Article 4 having to do with the diversity workplan requirements and the Commission's evaluation of such workplans, as well as the diversity report requirements and the Commission's evaluation of the diversity reports as well. Subdivision 5534(c) of the regulations, for purposes of statutory compliance, are the "guidelines to evaluate diversity workplans." The statute also requires that the guidelines be posted on the Commission's website. These draft regulations are posted on the Commission's website and the final regulations will likewise be posted and accessible via the Commission's website.

Original subdivision 5534(d) was moved to section 5533 in the initial readoption as it pertains to the Phase B application process overall and is not specific to the diversity workplan. This is a change without regulatory effect.

Section 5535. Qualified Expenditures

The statute, both in the primary Soundstage Program subdivision (k) and in other subdivisions incorporated into (k) by reference, specifies which applicant expenditures are eligible for calculating an applicant's tax credit. Section 5535 pulls these qualifying and non-qualifying expenditures together and provides further clarification to applicants about such expenditures. Section 5535 also includes details about tax credit augmentations, known as uplifts, as related to expenditures, and specifies the application of such uplifts to certain types of productions consistent with the statute. Section 5535 is necessary to specify and clarify the types of expenditures and tax credit uplifts that apply to qualifying applicants and their motion pictures.

Section 5536. Approved Applicant Responsibilities – Phase B

After a Phase A applicant receives certification for its studio construction project and a Phase B applicant receives its Credit Allocation Letter following approval of its Phase B application submissions for the motion picture and diversity workplan, the Phase B applicant may begin its motion picture project. During the period of production of the qualifying motion picture, the applicant must comply with certain procedures to remain eligible to receive a tax credit under the Soundstage Program. Section 5536 details the procedures with which the applicant must comply, including when principal photography must begin, that the production accountant, along with key personnel, are required to attend a CFC orientation meeting, and the process by which daily call sheets and specified reports and updates must be submitted to the CFC. Section 5536 also clarifies statutory requirements regarding participation in career-based learning and training programs and the required contribution to the Career Pathways Training Program. Section 5536 is necessary to apprise applicants of their obligations during the production period and further clarify such obligations.

Section 5536(a)(7)(F) allows for an applicant, in complying with its mandatory approved applicant responsibilities, to provide a learning opportunity or financial contribution to arts, media, and entertainment programs, and workforce programs, which are not affiliated with the California Department of Education or California Community College Chancellor's Office, but are approved by the Commission. Approval of these learning opportunities and financial contributions shall be on a case-by-case basis.

Section 5536 was amended for the initial readoption of the emergency regulations. "Phase B" was added to the section title as well as subdivision (a), once again to clarify the separation of the Phase A and Phase B applicant entity responsibilities.

Paragraph (a)(1) originally said that the CFC "may" grant a force majeure extension with submission of documentation verifying the event; this was changed from permissive language to "shall" as the regulations already stipulate the submission of verifying documentation.

Prior paragraph (a)(6) was moved to section 5538; this requirement is the responsibility of the Phase A applicant and the distinction is necessary for those cases when the Phase A and Phase B applicants are separate entities. Prior paragraphs (a)(7) and (8)

were renumbered (a)(6) and (7), respectively.

Section 5537. Diversity Reporting and Audit, Credit Percentage Increase

After the qualified motion picture has been produced and the final element has been created, the applicant will then submit its documentation to begin the tax credit issuance process. As part of this process, the applicant must submit the statutorily required diversity report. The statute states that the CFC cannot certify any tax credit until it has received a final diversity report from the applicant. Section 5537 clarifies what the final diversity report shall include and how it shall be submitted. The section also explains the CFC's process for reviewing, approving or rejecting, and auditing the diversity report if necessary. Should the CFC approve the diversity report and find that the applicant has met or has made a good faith effort to meet the goals in its diversity workplan, section 5537 notifies the applicant that its tax credit percentage shall be increased by up to four percentage points as specified in the statute. Section 5537 is necessary to clarify the process for applicant creation and submission of the diversity report, CFC review of the diversity report, and what happens should the CFC approve, reject, or seek an audit of the report.

Section 5537 was amended for the initial readoption of the emergency regulations. The last sentence and a half of subdivision (a) was moved to section 5540 as it pertains to overall credit allocation and not specifically to the diversity report. This is a change without regulatory effect.

Section 5538. Approved Applicant Responsibilities – Phase A

In addition to the documentation required to begin the tax credit issuance process for the motion picture, the Phase A applicant is also required by the statute to certify that every soundstage that is part of its certified studio construction project, upon which the motion picture was filmed, meets specified workforce requirements. Section 5538 specified the process by which an applicant will show that it has met these requirements. Specifically, section 5538 requires the applicant to annually provide a third-party Soundstage Workforce Report performed by an approved CPA firm documenting compliance with the statute's workforce requirements. Section 5538 also includes how a public accounting firm, performing the Soundstage Workforce Report for an applicant, shall prove that it is qualified to perform the Report. Section 5538 is necessary to ensure public accounting firms performing the Soundstage Workforce Report are qualified to undertake this type of report; is necessary to notify applicants of their obligation to provide such reports; and is necessary to ensure the workforce requirements of the statute are being met.

Section 5538 was amended for the initial readoption of the emergency regulations. The section title was changed from "Soundstage Workforce Certification" to "Approved Applicant Responsibilities – Phase A." This change is necessary to accurately reflect the amended contents of this section.

A new subdivision (a) was added, incorporating the language which was previously in

section 5536 but which is the responsibility of the Phase A applicant in those cases when the Phase A and Phase B applicants are separate entities. This is a change without regulatory effect.

Former subdivision (a) was renumbered (b) to accommodate the addition of new subdivision (a). Former subdivision (b) was added to new subdivision (b) as paragraph (2) for consistency with CCR conventions now that the section includes several separate requirements and is not entirely dedicated to the soundstage workforce report. The same CPA firm prohibition that was added in other sections was also added to new subparagraph (b)(2)(A), formerly (b)(1).

A new subdivision (c) was added to include the monthly compliance report requirement that applies to those studio construction projects where not all contractors and subcontractors are subject to a project labor agreement, pursuant to section 17053.99(b)(2)(E) of the Revenue and Taxation Code. Paragraph (1) of this subdivision clarifies that the monthly reports are to be furnished to an applicant's CPA firm, not to the CFC.

A new subdivision (d) was added to mandate that, in those cases where the Phase A and Phase B applicants are separate entities, relevant Phase A information is furnished to the Phase B applicant during the process of application, production, and tax credit certification. This is necessary as the Phase A applicant has responsibilities which may impact the outcome of the Phase B applicant's tax credit certification.

Section 5539. Tax Credit Allocation

The statute contains numerous specifications regarding allocation of tax credits under the Soundstage Program, including the amount of funding for the Program, the maximum tax credit per motion picture, how tax credits shall be administered for various types of productions, whether excess credit may be carried over to subsequent tax years, and the relationship between the Soundstage Program and Program 3.0 (namely the transition for a motion picture from the Soundstage Program to Program 3.0). Section 5539 clarifies these allocation rules and what should happen if/as Soundstage Program funding diminishes. Section 5539 is necessary to ensure appropriate implementation of the Soundstage Program within its funding constraints and clarify statutory credit allocation requirements. As mentioned in the explanation paragraph above for section 5537, after the qualified motion picture has been produced and the final element has been created, the applicant will then submit its documentation to begin the tax credit issuance process. In addition to the diversity report specified in section 5537, the applicant must also submit all of its final documentation regarding production of the motion picture.

Section 5539 was amended for the initial readoption of the emergency regulations. A reference in subdivision (e) has been corrected from (c) to (d).

In subdivision (h), subparagraph (A) was added to former paragraph (2), now paragraph (1). Former paragraph (1) was repealed. Subdivision (h) governs the relationship

between Program 3.0 and the Soundstage Filming Program by outlining the conditions under which Phase B applicants may have their projects transferred to, or considered for, Program 3.0. Paragraph (1) addresses a scenario where the certification period of a certified studio construction project on which a Phase B applicant is set to film their project has expired but also reiterates the requirement for an applicant in these circumstances to fulfill the “qualified motion picture” requirements in Revenue and Taxation Code sections 17053.98(k)(2)(B)(iii) and 23698(k)(2)(B)(iii), which includes being owned more than 50% by, or signing a 10-year lease with, the owner of a certified studio construction project. Subparagraph A of paragraph (1) is necessary to clarify that an applicant’s relationship with a studio construction project which was *previously* certified, will serve to fulfill this requirement in those cases where the Soundstage Filming Program ineligibility, which is the cause for the project to transfer to Program 3.0, is based on expiration of that certification.

Section 5540. Credit Certificate Issuance Process – Phase C

Section 5540 lists the information that must be submitted to the CFC so that the CFC may determine whether the motion picture qualifies for a tax credit and the amount of the credit. This section also references the Agreed Upon Procedures (“AUP”) report, incorporated by reference, which must be submitted by a certified public accountant who meets the criteria specified, to ensure that the applicant has complied with its statutory obligations regarding production of the motion picture.

Section 5540 includes details about the CFC’s review process and what happens upon the CFC’s determination to approve or reject an applicant’s documentation. If all final submissions are approved, the tax credit certificate, a form incorporated by reference, will be issued to the applicant. Section 5540 is necessary to delineate the process by which an applicant submits its documentation to begin tax credit issuance; the process by which the CFC will approve or reject an applicant’s submissions; and what happens should the submissions be approved or rejected.

Section 5540(a)(2) describes the documentation that an applicant must submit upon completion of the qualified motion picture, including documentation indicating the date of completion of post-production. Acceptable documentation may include, but is not limited to, the facility invoice evidencing the date the final element was completed or other reasonable documentation as determined by the Commission. “Other reasonable documentation as determined by the Commission” shall be determined on a case-by-case basis.

Section 5540 was amended for the initial readoption of the emergency regulations. A new subdivision (a) was added, containing language previously found in section 5537 which was moved to 5540 as it pertains to overall credit allocation and not specifically to the diversity report. This is a change without regulatory effect. Former subdivision (a) was renumbered (b), and so forth.

Line breaks were added to subparagraph (b)(5)(H), formerly (a)(5)(H), to distinguish clauses (i) and (ii), which were also renumbered to 1. and 2. for consistency with the

CCR.

A new subparagraph (C) was added to paragraph (b)(6), formerly (a)(6), to include the same CPA firm prohibition that has been added in other sections, for consistency.

Former subdivision (e), now subdivision (f), was rearranged for clarity, incorporating the last sentence of former subdivision (d), now subdivision (e), and breaking out the existing text in paragraph (1), as well as adding former subdivision (f) as paragraph (2) and subparagraph (2)(A). This is a change without regulatory effect.

Section 5541. On Screen Credit and Promotional Requirements

The last section of the new Soundstage Program clarifies that all productions issued a tax credit certificate under this Program are required to provide an on-screen acknowledgement to the State of California and the CFC, and production stills to illustrate the diversity of California locations and job creation for promotional use by the CFC. This section achieves awareness that the motion picture received this incentive and is necessary to ensure the applicant understands its obligation to provide such acknowledgment and production stills.

5. AUTHORITY AND REFERENCE

The primary authority to adopt these regulations implementing the California Soundstage Filming Tax Credit Program is found in Revenue and Taxation Code sections 17053.98(k)(10) and 23698(k)(10). The proposed emergency regulations implement, interpret, and make specific Revenue and Taxation Code sections 17053.98, 17053.99 and 23698. More specific references to the subdivisions that are being implemented are included below each proposed regulatory section.

6. DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the proposed regulations:

- Soundstage Certification Letter (SCL), Form SCL (August 12, 2022)
- Soundstage Credit Allocation Letter (CAL), Form SD (August 12, 2022)
- Soundstage Tax Credit Certificate, Form SM (August 12, 2022)
- California Soundstage Filming Tax Credit Program Phase A AUP (Phase A AUP), August 12, 2022
- California Soundstage Filming Tax Credit Program AUP (Soundstage AUP), (August 12, 2022)
- Soundstage Local Community Expenditure Report Form (March 11, 2022)
- Soundstage Career Readiness (Forms SCR1, SCR2, SCR3, SCR4, SCR5 (March 11, 2022)

7. DOCUMENTS RELIED UPON

No documents, other than those incorporated by reference and listed above in item 6, were relied upon.

8. COST ESTIMATE

Costs to any local agency requiring reimbursement pursuant to 17500 et seq: None.

Cost or savings to any state agency: None.

Other non-discretionary cost or savings imposed upon local agencies: None.

Costs or savings in federal funding to the state: None.

9. REGULATORY COMPATIBILITY

During the process of developing these regulations and amendments, the CFC has conducted a search of any similar regulations on this topic and has concluded that these regulations are neither inconsistent nor incompatible with existing state regulations. The CFC has endeavored to ensure that these regulatory amendments comply with the non-duplication standard found in Title 1, California Code of Regulations. In some instances, the amended regulations duplicate California statute in part where the statute is cited as “authority” or “reference” for the proposed regulation and the duplication or overlap is necessary to satisfy the “clarity” standard of Government Code section 11349.1(a)(3).

10. LOCAL MANDATE DETERMINATION

Mandate on local agencies or school districts: None.

PROPOSED SECTIONS TO BE ADDED TO THE CALIFORNIA CODE OF REGULATIONS

Title 10

Chapter 7.75

CALIFORNIA FILM COMMISSION

Article 4.

California Soundstage Filming Tax Credit Program

§ 5530. Definitions

- (a) For purposes of this Article, the definitions in Article 3, section 5520 shall apply except as otherwise provided in this section and as provided in sections 17053.98(k) and 23698(k) of the Revenue and Taxation Code.
- (b) "Applicant" means any person, corporation, partnership, limited partnership, limited liability company (LLC) or other entity that is:
 - (1) For Phase A, principally engaged in the construction or renovation of one or more soundstages located in the state.
 - (2) For Phase B, principally engaged in the production of a "qualified motion picture," as that term is defined in sections 17053.98(k)(2)(B) and 23698(k)(2)(B) of the Revenue and Taxation Code, and that controls the film or television program during pre-production, production, and post-production.
 - (A) The Phase B applicant is the qualified taxpayer that meets the criteria specified in sections 17053.98(k)(2)(B)(iii) and 23698(k)(2)(B)(iii) of the Revenue and Taxation Code and upon final approval will receive the tax credit certificate, Form SM (August 12, 2022), hereby incorporated by reference.
- (c) A "soundstage," as included in the definition of "certified studio construction project" in sections 17053.98(k)(2)(A) and 23698(k)(2)(A) of the Revenue and Taxation Code, means a building that is purpose-built, renovated, or converted for film, television and/or media production in California and has a minimum of 10,000 square feet of floor space, incorporates a permanent grid, and is column-free with a clear height of at least 20 feet under the permanent grid. Ancillary buildings purpose-built, renovated, or converted including, but not limited to, accompanying production office space, mill space, workshops, and property or wardrobe storage, will be deemed part of the soundstage as long as at least one soundstage, as defined above, is also built, renovated, or converted, the space is production-related, and the ancillary buildings are on contiguous property to the soundstage.
 - (1) Construction on renovated and converted soundstages must be for capital improvements to the property, not repairs or maintenance.
 - (2) Minimum expenditures for capital improvement costs must be no less than \$750,000 for a soundstage or if renovating more than one soundstage, average no less than \$500,000 per soundstage.
 - (3) Actual construction or renovation expenditures for soundstages, not including ancillary buildings, shall be at least 70% of the total spend for the certified studio construction project.

- (d) "Certified soundstage" means a soundstage that has been certified by the California Film Commission (CFC) as having met the conditions specified in section 5532 as part of a certified studio construction project and meets the conditions in section 5538, as applicable, through the end of production of any approved Phase B qualified motion picture project that films on the soundstage during the period of certification.
- (e) "Non-proprietary document format" means a document format which the CFC can access and open without specialized software requiring purchase, without subscriptions, or other access keys.
- (f) "Stage shooting day" or "stage filming day" means a principal photography day, as defined in section 5520(s) of this chapter, during which an applicant utilizes its certified studio construction project soundstage(s), or other soundstage(s) for six hours or more.
 - (1) For purposes of qualifying as a stage shooting day or stage filming day, time spent filming on the backlot or similar contiguous area immediately adjacent to the soundstage shall qualify.
 - (A) When the stage shooting day takes place on a certified studio construction project soundstage or soundstages, or backlot or similar contiguous area immediately adjacent to the soundstage, as specified in paragraph (1) of this subdivision, qualified wages shall apply with respect to the soundstage wages required by section 5531(d)(2), pursuant to sections 17053.98(k)(2)(B)(ii) and 23698(k)(2)(B)(ii) of the Revenue and Taxation Code.
 - (2) "Filming" and "shooting" shall be understood to have the same meaning when used in reference to the California Soundstage Filming Tax Credit Program and may be used interchangeably.
- (g) "Television series that relocated to California" has the same definition as in sections 17053.98(b)(25) and 23698(b)(25) of the Revenue and Taxation Code; also known as a Relocating TV series.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(2), 23698(k)(2), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5531. Eligibility Determination

- (a) The application process for the California Soundstage Filming Tax Credit Program has two phases:
 - (1) Phase A requires the applicant to complete and submit the online application set forth on the CFC website regarding certification of a studio construction project and to submit the Certified Studio Construction Project Verification report required pursuant to section 5532. A Phase B application shall not be submitted until the Phase A studio construction project has been certified and a Soundstage Certification Letter (SCL), Form SCL (August 12, 2022), hereby incorporated by reference, has been issued for each soundstage and ancillary building, or group of buildings, approved as part of the certified studio construction project.
 - (2) Phase B requires the applicant to complete and submit the online application set forth on the CFC website regarding the proposed motion picture production, as described

in section 5533, and to submit the diversity workplan described in section 5534 for the motion picture production. An applicant shall not begin principal photography until it receives approval from the CFC for its Phase B-submission and receives a Credit Allocation Letter (CAL), Form SD (August 12, 2022), hereby incorporated by reference.

(b) Application Acceptance and Eligibility:

- (1) Phase A applications will be accepted on a first come, first served basis until thirty (30) days after issuance of the production alert, required pursuant to section 5539(c), announcing that 75% of all funds have been allocated.
 - (2) Phase B applications will be accepted on a first come, first served basis until all funds have been allocated.
 - (A) A motion picture may still be eligible for a tax credit under the California Film and Television Tax Credit Program 3.0 once all California Soundstage Filming Tax Credit Program funds have been allocated or if the motion picture is no longer eligible for the Soundstage Filming Tax Credit Program, if the motion picture meets the criteria specified in section 5539(h).
- (c) The soundstage or soundstages certified by the CFC as a certified studio construction project must meet the requirements of sections 17053.98(k)(2)(A), (k)(12)-(13) and 23698(k)(2)(A), (k)(12)-(13) of the Revenue and Taxation Code, as implemented in sections 5532 and 5538 of the California Code of Regulations, Title 10.
- (d) If an applicant is planning to produce a qualified motion picture, then the applicant shall ensure that the qualified motion picture complies with the provisions of sections 17053.98(k)(2)(B) and 23698(k)(2)(B) of the Revenue and Taxation Code.
- (1) Qualified wages for purposes of satisfying the criteria in sections 17053.98(k)(2)(B)(ii) and 23698(k)(2)(B)(ii) include wages for production services performed within the production period, as defined in sections 17053.98(b)(14) and 23698(b)(14) of the Revenue and Taxation Code, on soundstages and ancillary buildings certified as part of a certified studio construction project, as defined under section 5530, subdivisions (c) and (d).
 - (A) Wages related to maintenance of the soundstages and ancillary buildings certified as part of a certified studio construction project shall not be included for the purpose of satisfying the criteria in sections 17053.98(k)(2)(B)(ii) and 23698(k)(2)(B)(ii).
 - (B) Wages incurred for services performed at locations or facilities not included in the certified studio construction project shall not be included for the purpose of satisfying the criteria in sections 17053.98(k)(2)(B)(ii) and 23698(k)(2)(B)(ii).
- (e) The qualified motion picture must be produced by an applicant, as defined in section 5530(b), who is also a qualified taxpayer that meets the requirements in sections 17053.98(k)(2)(B)(iii) and 23698(k)(2)(B)(iii) of the Revenue and Taxation Code.
- (f) Motion pictures that have previously received a tax credit allocation under Revenue and Taxation Code sections 17053.98(a)-(j) and 23698(a)-(j), for the fiscal year, are not eligible to receive an allocation under this Program.
- (g) The applicant must provide and receive approval from the CFC for both a diversity workplan and diversity report, as described in sections 5534 and 5537, respectively.

- (h) 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.
- (i) 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.
- (j) 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.
- (k) 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(k)(2)(B) and 23698(k)(2)(B) of the Revenue and Taxation Code.
- (l) A feature film or a season of a series may not be allocated more than twelve million dollars (\$12,000,000) under this Program. Recurring television series that previously received an allocation under this Program for a season shall not be allocated more than twelve million dollars (\$12,000,000) for subsequent seasons that qualify for this Program.
- (m) Tax credits under this Program for an independent film, as defined in sections 17053.98(b)(6) and 23698(b)(6) of the Revenue and Taxation Code, 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.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(2)(B), 17053.98(k)(4), 17053.98(k)(8), 17053.98(k)(9), 17053.98(a), 17053.98(b), 23698(k)(2)(B), 23698(k)(4), 23698(k)(8), 23698(k)(9), 23698(a), 23698(b), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5532. Studio Construction Project Certification – Phase A

- (a) For Phase A, the application shall include the information set forth below:
 - (1) Section 1: Applicant information.
 - (A) Applicant entity and taxpayer ID number.
 - (B) Identify if the applicant is a corporation, limited liability company, individual proprietorship, subchapter S corporation, partnership, or other.
 - (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, and contact information for the Certified Public Accountant (CPA) firm which will provide the required report for the soundstage(s).

(3) Section 3: Applicant eligibility attestation.

- (A) The applicant must attest that it has not received a California Competes Grant under section 12096.6 of the Government Code for wages or investment related to construction of the studio construction project.

(4) Section 4: Studio construction project certification.

- (A) To enable the CFC to certify that a studio construction project met the requirements of sections 17053.98(k), 23698(k), and 17053.99 of the Revenue and Taxation Code, the applicant must provide a third-party Certified Studio Construction Project Verification Report performed by a CPA firm, which meets the requirements specified in subdivision (a)(4)(B) of this section, documenting compliance with the requirements of the California Soundstage Filming Tax Credit Program.

1. A studio construction project may include the construction or renovation of more than one soundstage located in the state. Applicants may provide separate reports for each soundstage construction or renovation project or a comprehensive report for all soundstage construction or renovation projects that make up each studio construction project. Regardless of whether the applicant submits one or multiple reports for the soundstage construction or renovation projects, the comprehensive studio construction project must, in aggregate, meet the definition and criteria in Revenue and Taxation Code sections 17053.98(k)(2)(A) and 23698(k)(2)(A) to be eligible as a certified studio construction project.
2. The public accounting firm performing the Certified Studio Construction Project Verification Report may, but is not required to, use the optional California Soundstage Filming Tax Credit Program Phase A Agreed Upon Procedures, Phase A AUP (August 12, 2022), hereby incorporated by reference.

- (B) The public accounting firm performing the Certified Studio Construction Project Verification Report for an applicant shall provide documentation that a peer review was administered by the American Institute of Certified Public Accountants ("AICPA") National Peer Review Committee ("NPRC") within the last three years and that the peer review resulted in a rating of "Pass." This documentation shall include the firm's most recent peer review report and the acceptance of that report by the NPRC.

- (C) The public accounting firm performing the Certified Studio Construction Project Verification Report for an applicant may also perform the annual soundstage workforce certification required pursuant to section 5538 for that applicant. However, the same public accounting firm is not permitted to perform the report based on the California Soundstage Filming Tax Credit Program Agreed Upon Procedures, Soundstage AUP, (August 12, 2022), hereby incorporated by reference, required pursuant to section 5540 for a Phase B applicant filming on a soundstage or soundstages approved as part of a certified studio

construction project for which the public accounting firm is providing or has provided services related to Phase A.

(5) Section 5: Supporting documentation.

(A) Project labor agreement, if applicable.

(B) A description of the studio construction project for which certification is sought, including a map with each soundstage identified by name or number as well as identification of any ancillary buildings.

(C) Copies of any and all foundation permits or structural building permits for the studio construction project, including the dates they were issued.

(b) Within thirty (30) business days of receipt of the completed application and all supporting documents required pursuant to subdivision (a) above, the Director of the CFC, or their designee, will notify the applicant whether its Phase A submission is approved or rejected. Upon approval, the CFC will issue the applicant an SCL, Form SCL (March 11, 2022), hereby incorporated by reference, for each certified soundstage and ancillary building or group of buildings. The SCL will include a unique identifier for every soundstage certified as part of the applicant's certified studio construction project. Upon issuance of an SCL, the producer of a qualified motion picture may submit a Phase B application. If rejected for application deficiencies that may be remedied, a Phase A applicant may remedy any deficiencies noted by the CFC in its submission and re-apply. The date of receipt of additional information to remedy any deficiencies will be considered the new submission date of the Phase A application. If the applicant is rejected due to noncompliance with statutory or regulatory requirements, the applicant may not reapply for the same studio construction project.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(2), 17053.98(k)(10), 17053.98(k)(12), 17053.99, 23698(k)(2), 23698(k)(10), 23698(k)(12), Revenue and Taxation Code; and Sections 12096.6, 14998.1, Government Code.

§ 5533. Proposed Motion Picture Production Application – Phase B

(a) After a Phase A applicant receives approval from the CFC for its studio construction project and has received a Soundstage Certification Letter or Letters, Form SCL (August 12, 2022), hereby incorporated by reference, the Phase B applicant may proceed to submit the following described application.

(b) (1) If the Phase A applicant and the Phase B applicant are the same entity, the applicant shall initiate the online application process for Phase B by signing into their application portal from Phase A, which will auto-populate the applicant's information provided during the Phase A application process into the Phase B application process. An applicant may adjust the auto-populated information for the applicant information and contact information if necessary, such as if a contact has changed. The applicant will be able to input the unique identifier for the soundstage or soundstages, certified as part of the applicant's certified studio construction project, upon which the motion picture will be filmed.

(2) If the Phase A applicant and the Phase B applicant are different entities, the Phase B application must also include the information set forth below:

(A) Applicant entity and taxpayer ID number.

- (B) Identify if the applicant is a corporation, limited liability company, individual proprietorship, subchapter S corporation, partnership, or other.
- (C) 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, and parent company contact.
- (E) Input the identifier listed on the SCL for each soundstage or ancillary building upon which the Phase B qualified motion picture project will be filmed.
 - 1. Each soundstage or ancillary building, or group of buildings, approved as part of a Phase A certified studio construction project is assigned a unique identifier. This identifier must be provided for each soundstage, ancillary building, or group of buildings that the Phase B applicant will utilize in production of their qualified motion picture project.
- (c) Following initiation of the online application for Phase B and review of the applicant and contact information, the applicant shall select the appropriate production category from the following: feature film, independent film, new television series, recurring television series, pilot, miniseries, relocating television series.
- (d) Next, the application shall include, and the applicant shall fill in, the following requested information set forth below regarding the motion picture being filmed on the studio construction project facility certified by the CFC in Phase A:
 - (1) Section 1: Additional applicant information.
 - (A) The applicant must attest that it is the qualified taxpayer that meets the criteria specified in sections 17053.98(k)(2)(B)(iii) and 23698(k)(2)(B)(iii) of the Revenue and Taxation Code.
 - (B) The applicant must provide the production title, date submitted, production category, principal photography start date, post-production end date, soundstage identifiers, estimated tax credit. Estimated tax credit must be based on qualified expenditure estimates, regardless of the \$12,000,000 cap.
 - (2) Section 2: 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 for all motion picture categories.
 - (B) For independent films: In addition, 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.
 - (3) Section 3: 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 miniseries, 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, if available.
 - (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.
- (4) Section 4: Production shoot days.
- (A) Principal photography (PP) Days. Note that to qualify for this Program, a motion picture must be produced by the qualified taxpayer and at least 50 percent of the qualified motion picture's principal photography stage shooting days must be on the soundstage or soundstages certified as a certified studio construction project, for which certification was issued by the CFC within the prior 36 months. An applicant shall utilize the certified studio construction project soundstage(s) for six hours or more for the day to be considered a principal photography stage shooting day.
 - 1. Enter the requested data for PP Days. The online application will automatically calculate the totals.
 - (i) Enter total PP days in Los Angeles (LA) zone.
 - (ii) Enter total PP days outside LA zone, but in California.
 - (iii) Total California PP days equals (i) plus (ii)
 - (iv) Total percentage of PP days outside LA zone equals (ii) divided by (iii) x 100.
 - (v) Enter total non-California PP days.
 - (vi) Total PP days equals (iii) plus (v)
 - (vii) Total percentage of California PP days equals (iii) divided by (vi) x 100.
 - (B) If shooting outside of Los Angeles zone, indicate the California counties where filming will occur.
 - (C) Enter the data for PP days on soundstages.
 - 1. Indicate the overall total number of PP stage shooting days, separated into taxable years for which a tax credit will be claimed. This number must include PP stage shooting days on certified soundstages as well as PP stage shooting days on non-certified soundstages.
 - 2. Indicate the total number of PP stage shooting days on a certified soundstage or soundstages, per taxable year for which a tax credit will be claimed. Input the unique identifier for each certified soundstage used.
 - 3. Percentage of PP stage shooting days on the soundstage or soundstages certified as the certified studio construction project equals (4)(C)2. divided by (4)(C)1. and multiplied by 100. The online application will automatically calculate the percentage of stage shooting days on certified stages per taxable year; a qualified motion picture must film 50% of stage shooting days on certified stages in each taxable year for which a tax credit will be claimed.
- (5) Section 5: 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, Form SM (August 12, 2022), hereby incorporated by reference: Subject to self-reported voluntary information, include separate listings regarding the ethnicity and gender statistics of all individuals who received qualified wages (excluding stand-ins and 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, and total California VFX budget amount. 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).
- (6) Section 6: Additional tax credit calculation: Uplifts and diversity goals increase. A list of eligible expenditures and wages are provided as stated in section 5535(a)(1) and 5539(i) and (j), as applicable.
- (A) Out of zone Uplift. (Non-independent films 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 (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.
- (D) Total Diversity Goals Potential Increase: The applicant may achieve up to a four-percentage point increase in its credit percentage if it meets or makes a good faith effort to meet the diversity goals in its diversity workplan, as described in sections 17053.98(k)(3) and 23698(k)(3) of the Revenue and Taxation Code
1. The CFC will review the Phase B applicant's diversity workplan, required pursuant to section 5534, and the applicant's subsequent

- diversity report, required pursuant to section 5537, to make a case-by-case determination at the time of Phase C tax credit certification.
2. For purposes of the Phase B tax credit allocation, credits shall be calculated based on the assumption that the applicant's qualified motion picture project will meet its diversity goals and qualify for the four-percentage point increase.
- (E) Total Additional Tax Credit: The online application will automatically calculate the following: The total out of zone amount (non-independent films only) and total California VFX amount and total local hire labor amount (includes independent films 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 films and by .05 for independent films and relocating television series.
 4. (Total additional amount of 1 + 2 + 3 above)
- (7) Section 7: Estimated Credit Allocation.
- (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 films and the first one hundred million (\$100,000,000) of qualified expenditures eligible for uplifts.)
 - (G) Total tax credit uplift amount.
 - (H) Additional four percentage point increase in credit percentage for planned achievement of diversity goals.
 - (I) Total tax credit amount including uplifts and diversity goals potential increase.
- (8) Section 8. Supporting Documentation. The applicant shall submit the following:
- (A) 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:
 1. 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.
 2. For non-independent films (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.

3. 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 clauses (8)(A)1. And 2. Of this subdivision.
 4. 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.
 5. No motion picture may be allocated more than twelve million dollars (\$12,000,000) under this Program, regardless of additional tax credit allowances achieved through uplifts or any other mechanism.
- (B) 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.
- (C) One-Line Schedule ("production board"). Applicant shall submit in PDF or equivalent non-proprietary document 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.
1. A television series may submit in PDF or equivalent non-proprietary document 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.
- (D) Applicant shall submit in PDF or equivalent non-proprietary document 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.
- (E) 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 non-proprietary document 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.

- (F) Pick-up order. A pilot, new television series, recurring television series, or relocating television series shall submit evidence, in PDF or equivalent non-proprietary document format, that the pilot or series is scheduled for photography, e.g., a pick-up order, when applying for a credit allocation.
 - (G) Narrative statement pursuant to sections 17053.98(g)(2)(A)(x) and 23698(g)(2)(A)(x). Recurring television series in their second or subsequent seasons are not required to submit a narrative statement if the statement is already in the applicant's online submission portal.
 - (H) 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. The submitted budgets must be no less than one million dollars (\$1,000,000) per episode. If submitting a relocating statement, the detailed narrative statement as per Revenue and Taxation 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 non-proprietary document format.
 - (I) Unlawful harassment policy. Applicant shall submit company's written policy against unlawful harassment as set forth in sections 17053.98(g)(2)(A)(xi) and 23698(g)(2)(A)(xi) of the Revenue and Taxation Code.
 - (J) 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).
 - (K) 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) A diversity workplan as described in section 5534.
- (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 their 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.
- (e) Upon approval of an applicant's Phase B submission, a CAL, Form SD (August 12, 2022), hereby incorporated by reference, shall be issued to the applicant indicating the amount of tax credits allocated. The amount of tax credits allocated may be reduced prior to issuance of the final tax credit certificate based on the Soundstage AUP (August 12, 2022), hereby incorporated by reference, and the applicant's submissions following completion of the qualified motion picture and CFC verification of such submissions as compared to the criteria for the Program. The applicant may never receive more tax credits than as provided on the CAL and in no event more than the \$12,000,000 cap.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(2)-(5), 17053.98(k)(8), 17053.98(k)(10), 23698(k)(2)-(5), 23698(k)(8), 23698(k)(10), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5534. Diversity Workplan

- (a) The applicant shall submit its diversity workplan in PDF or equivalent non-proprietary document format to the CFC via the online user portal, which will be accessible once the applicant signs into its online portal for the Program and after the applicant has received approval for its Phase A submission.
- (b) The diversity workplan required by Revenue and Taxation Code sections 17053.98(k)(3) and 23698(k)(3) shall include:
 - (1) A description of the goals the motion picture will seek to achieve for individuals whose wages are included within qualified wages. Such goals may include, but are not limited to:
 - (A) Goals to ensure qualified wage parity among all races, ethnicities, and genders, considering factors such as level of experience and competency.
 - (B) Goals to achieve broader awareness of available positions.
 - (C) Goals to interview a broader pool of job candidates or more candidates who have not previously worked on a motion picture for the applicant.
 - (D) Goals to enhance industry access and career development for a broader pool of Californians and employees.
 - (2) A description of the goals the motion picture will seek to achieve for individuals whose wages are excluded from qualified wages as set forth in sections 17053.98(b)(21)(B)(iv) and 23698(b)(21)(B)(iv) of the Revenue and Taxation Code. Such goals may include, but are not limited to:
 - (A) Goals to ensure qualified wage parity among all races, ethnicities, and genders considering factors such as level of experience and competency.
 - (B) Goals to achieve broader awareness of available positions.
 - (C) Goals to interview a broader pool of job candidates or more candidates who have not previously worked on a motion picture for the applicant.
 - (D) Goals to enhance industry access and career development for a broader pool of Californians and employees.
 - (3) A description of the goals the motion picture will seek to achieve, with respect to diversity in the creative aspects of the motion picture. Such goals may include, but are not limited to:
 - (A) Goals relating to the themes, narratives, and storytelling of the motion picture.
 - (B) Goals relating to on-screen representation.
 - (4) For subdivisions (b)(1)-(3), a description of the plan and strategies the motion picture will employ to achieve and measure the stated goals in the workplan.
 - (5) For subdivisions (b)(1)-(3), a description of how goals stated in the workplan may help achieve outcomes that are broadly reflective of California's population, in terms of factors such as race, ethnicity, and gender.

- (6) In reviewing the diversity workplan of an applicant for approval or rejection, the CFC will consider, to the extent allowed by federal and state law, whether:
 - (A) The applicant has included goals responsive to subdivisions (b)(1)-(3).
 - (B) The applicant has included adequate detail responsive to subdivisions (b)(4)-(5).
- (7) Nothing in this section shall be construed to require or encourage the diversity workplan to include quotas or other numeric goals regarding protected classifications, including race, ethnicity, and gender.
- (c) Within thirty (30) business days of receipt of all the Phase B documents specified in section 5533, including the completed diversity workplan, the Director of the CFC, or their designee, will notify the applicant whether the diversity workplan is approved or rejected. If rejected, the CFC will provide feedback and an applicant may revise and re-submit its workplan.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(3)-(4), 23698(k)(3)-(4), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5535. 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)(16) and 23698(b)(16) of the Revenue and Taxation Code.
- (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 and public accounting firm expenses for the CPA reports required pursuant to sections 5532, 5538, and 5540, or for the CPA report which may be required pursuant to section 5537.
 - (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.

- (c) For the purposes of this section, a five percent (5%) uplift to the tax credit allocation for non-independent films (excluding a 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) incurred in California or at least seventy-five percent (75%) of total worldwide visual effects expenditures are 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 Soundstage AUP (August 12, 2022), hereby incorporated by reference, required pursuant to section 5540.
 - (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 personal 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.
- (d) A ten percent (10%) uplift for non-independent films 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 Soundstage AUP required pursuant to section 5540.

- (e) 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. Production may also qualify for an increase in its tax credit percentage up to four percent (4%) for meeting diversity goals stated in the diversity workplan required pursuant to section 5534 and documented in the diversity report required pursuant to section 5537.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(1)-(2), 17053.98(k)(4), 17053.98(k)(8), 23698(k)(1)-(2), 23698(k)(4), 23698(k)(8), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5536. Approved Applicant Responsibilities – Phase B

- (a) A Phase B applicant issued a CAL, Form SD (August 12, 2022), hereby incorporated by reference, following approval for Phases A and B by the CFC shall be required to comply with the following during the production period:
 - (1) Principal photography in California shall commence no later than one hundred eighty (180) calendar days after the CAL 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, as described in sections 17053.98(a)(18)(B)(iv) and 23698(a)(18)(B)(iv) of the Revenue and Taxation Code. With submission of documentation verifying such event, the CFC shall grant an extension. If a production implements a hiatus during the principal photography period, any hiatus period(s) may be no longer than one hundred twenty (120) calendar days in aggregate for the entire duration of the production.
 - (2) 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 their 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.
 - (3) 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 non-proprietary document format.

- (4) 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 non-proprietary document format.
- (5) 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.
- (6) 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 careers 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.
- (7) A qualified motion picture shall make a contribution to the Career Pathways Training Program as specified in Revenue and Taxation Code sections 17053.98(e), 17053.98(k)(10)(B), 23698(e), and 23698(k)(10)(B).

- (A) The contribution shall be based on 0.5 percent of the estimated tax credit reservation as stated on the CAL.
- (B) The contribution shall be submitted to the CFC no later than thirty (30) 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, Form SM (August 12, 2022), hereby incorporated by reference. A portion may also be refundable if the tax credit amount is significantly reduced due to reasonable cause, as defined in section 5520(v).

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(4), 17053.98(k)(10), (23698(k)(4), 23698(k)(10), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5537. Diversity Reporting and Audit, Credit Percentage Increase

- (a) After an applicant's Phase A and B submissions are approved by the CFC, and the qualified motion picture has been produced and the final element has been created, the applicant may proceed to submit the following described diversity report along with the documentation described in section 5540.
- (b) The final diversity report required by Revenue and Taxation Code sections 17053.98(k)(3) and 23698(k)(3) shall include:
 - (1) A description, including evidence, of whether the applicant achieved the goals included in its approved diversity workplan.
 - (2) If a goal was not achieved, a description and evidence of the good faith efforts the applicant undertook to achieve the goal.
 - (3) If the applicant is unable to report on whether a goal was achieved, due to a lack of information from its employees or for any other reason, a description and evidence of the methods the applicant undertook to measure such goal and why it could not be determined.
 - (4) Nothing in this section shall be construed to require or encourage the final diversity report to include numeric reporting regarding protected classifications, including race, ethnicity, and gender, as evidence of whether goals were met.
- (c) Within approximately forty-five (45) business days of receipt of the final diversity report and all documentation required pursuant to section 5540, the Director of the CFC, or their designee, will notify the applicant whether the report is approved or rejected, or if the CFC decides an audit of the final diversity report is necessary. If rejected, the CFC will provide feedback and an applicant may revise and re-submit its final diversity report.
- (d) Should the CFC decide an audit of the applicant's final diversity report is necessary to determine if the diversity goals set forth in the applicant's diversity workplan for the motion picture were achieved, the applicant must provide requested documentation to the CFC. The CFC may direct the applicant to work with the CPA performing the Soundstage AUP (August 12, 2022), hereby incorporated by reference, described in section 5540, to verify the content of the final diversity report. Documentation or other information requested may include redactions, be aggregated, or otherwise protected to ensure confidentiality of

sensitive personal or other information. The applicant is responsible for all costs associated with this additional requirement. Within thirty (30) business days of receipt of the requested documentation from the applicant or the CPA's report, the Director of the CFC, or their designee, will notify the applicant whether the report is approved or rejected.

- (e) If the CFC determines that the applicant has met or has made a good faith effort to meet the goals in its diversity workplan, as described and evidenced through its approved final diversity report, the applicant's tax credit percentage shall be increased by up to four percentage points as specified in Revenue and Taxation Code sections 17053.98(k)(3)(D)(iv) and 23698(k)(3)(D)(iv).

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(3), 23698(k)(3), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5538. Approved Applicant Responsibilities – Phase A

- (a) Upon completion of construction or renovation of the soundstage or soundstages that comprise the certified studio construction project, the soundstage or soundstages shall be continuously operated, maintained, and repaired in accordance with and by a workforce as specified in sections 17053.98(k)(13) and 23698(k)(13) of the Revenue and Taxation Code
 - (1) The workforce must fulfill the requirements of either paragraph (A) or paragraph (B) below, as applicable:
 - (A) If the workforce is employed, directly or through a motion picture payroll services company, by the owner of the soundstage or its affiliates or by the Phase B applicant leasing the soundstage, the workforce must be paid at least the general prevailing rate of per diem wages for the type of work and geographic area, as referenced in sections 17053.98(k)(13)(A)(i) or 23698(k)(13)(A)(i) of the Revenue and Taxation Code.
 - (B) If the workforce is employed by, and services are provided through a third-party vendor, the workforce must be a skilled and trained workforce as defined in Chapter 2.9 (commencing with Section 2600) of Part 1 of Division 2 of the Public Contract Code.
- (b)(1) To certify that every soundstage that is part of a certified studio construction project meets the requirements set forth in Revenue and Taxation Code sections 17053.98(k)(13) and 23698(k)(13), the applicant must annually provide a third-party Soundstage Workforce Report performed by an approved CPA firm, which meets the requirements specified in subparagraph (A) of paragraph (1) of this subdivision, documenting compliance with the requirements of the California Soundstage Filming Tax Credit Program.
 - (A) The public accounting firm performing the Soundstage Workforce Report for an applicant shall provide documentation that a peer review was administered by the American Institute of Certified Public Accountants ("AICPA") National Peer Review Committee ("NPRC") within the last three years and that the peer review resulted in a rating of "Pass." This documentation shall include the firm's most recent peer review report and the acceptance of that report by the NPRC.
 - 1. An applicant may use the same accounting firm and the same certified public accountant for the Soundstage Workforce Report as the applicant used for the

Certified Studio Construction Project Verification Report specified in section 5532. However, the same public accounting firm is not permitted to perform the Agreed Upon Procedures report required pursuant to section 5540 for a Phase B applicant filming on a soundstage or soundstages approved as part of a Certified Studio Construction Project for which the public accounting firm is providing or has provided services related to Phase A.

- (2) Each annual report must evidence that the applicant met its statutory obligations through the date for which the Phase B applicant applies for their final tax credit certificate, Form SM (August 12, 2022), hereby incorporated by reference, including the percentages as stipulated in sections 17053.98(k)(13)(C) and 23698(k)(13)(C) of the Revenue and Taxation Code.
 - (A) The report shall include:
 - 1. The total amount of payments to third-party vendors or qualified wages for operation, maintenance, and repair of the certified soundstage.
 - 2. The amount, and percentage of the total amount, of payments to third-party vendors or qualified wages for operation, maintenance, and repair of the certified soundstage performed by each workforce described in subparagraph (a) of this section.
 - (B) If the percentage paid to workers employed directly or through a motion picture payroll services company, as described in 5538(a)(1)(A), is certified to be 90 percent or more of the total amount listed pursuant to 5538(b)(2)(A), the Phase B applicant shall be entitled to 100 percent of the applicable credit issued for the period.
 - (C) If the percentage paid to workers employed directly or through a motion picture payroll services company, as described in 5538(a)(1)(A), is certified to be less than 90 percent of the total amount listed pursuant to 5538(b)(2)(A) but greater than or equal to 75 percent of that amount, the Phase B applicant shall be entitled to 50 percent of the applicable credit issued for the period.
 - (D) If the percentage paid to workers employed directly or through a motion picture payroll services company, as described in 5538(a)(1)(A), is certified to be less than 75 percent of the total amount listed pursuant to 5538(b)(2)(A), the Phase B applicant shall not be entitled to any credit issued for the period.
- (3) A studio construction project may include the construction or renovation of more than one soundstage located in the state. Applicants may provide separate reports for each soundstage construction or renovation project or a comprehensive report for all soundstage construction or renovation projects that make up one studio construction project for which soundstage workforce certification is sought.
- (c) Pursuant to subdivision 17053.99(b)(2)(E) of the Revenue and Taxation Code, if not all contractors and subcontractors performing work on the Phase A Certified Studio Construction Project are subject to a project labor agreement that requires compliance with the skilled and trained workforce requirement, monthly compliance reports are required while the project or contract is being performed.
 - (1) An applicant required to submit monthly compliance reports in accordance with this subdivision shall submit them to the CPA firm engaged by the applicant to verify compliance with the Soundstage Filming Tax Credit Program.
- (d) If the Phase A applicant and the Phase B applicant are separate entities, the Phase A applicant is required to fulfill approved applicant responsibilities for a soundstage or soundstages on which a Phase B applicant films its qualified motion picture project and shall furnish the Phase B applicant with any certified studio construction project information that

may impact the application process or the tax credit certification process for the Phase B applicant or that is necessary for the Phase B applicant to fulfill its requirements and responsibilities.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(13), 17053.99(b), 23698(k)(13), Revenue and Taxation Code; Section 2600, Public Contract Code; and Section 14998.1, Government Code.

§ 5539. Tax Credit Allocation

- (a) The California Soundstage Filming Tax Credit Program allows for a qualified taxpayer that meets all eligibility criteria and submission requirements under this Program to receive a credit against the “net tax,” as defined in Revenue and Taxation Code section 17039, or the “tax,” as defined in Revenue and Taxation Code section 23036.
- (b) The tax credit awarded under this Program is allowed for taxable years beginning on or after January 1, 2022, and before January 1, 2032, and the total amount of credits that may be allocated under this Program is one hundred fifty million dollars (\$150,000,000).
- (c) Once approximately seventy-five percent (75%) of the Program’s available credit funding has been reserved, the CFC will issue a production alert and post on its website that the Program is nearing reservation of its full funding and will cease to accept applications for Phase A on the date that is 30 business days after issuance of the production alert and website post (the “designated date”). Phase A applications will only be accepted after the designated date for soundstage construction or renovation projects that were issued a foundation permit or a structural building permit as per Revenue and Taxation Code sections 17053.98(k)(2)(A)(iv) and 23698(k)(2)(A)(iv) and through the designated date. No other Phase A applications will be accepted unless and until the Program receives additional funding.
- (d) The tax credit awarded under this Program, subject to allocation by the CFC, will be in an amount equal to 20 percent or 25 percent, whichever is the applicable credit percentage described in Revenue and Taxation Code sections 17053.98(a)(4) and 23698(a)(4) of the qualified expenditures paid or incurred during the taxable year by a qualified motion picture produced in the state at a certified studio construction project. The tax credit may also be increased by Revenue and Taxation Code sections 17053.98(k)(3) and 23698(k)(3), regarding the credit percentage increase for diversity goals achievement.
- (e) Notwithstanding subdivision (d), no certified motion picture will be allocated more than twelve million dollars (\$12,000,000) under this Program. Recurring television series that previously received an allocation under this Program for a season shall not be allocated more than twelve million dollars (\$12,000,000) for subsequent seasons that qualify for this Program.
- (f) Motion pictures that have previously received a tax credit allocation under Revenue and Taxation Code sections 17053.98(a)-(j) and 23698(a)-(j), for the fiscal year, are not eligible to receive an allocation under this Program.
- (g) If a tax credit allowed by this Program exceeds the taxpayer’s computed tax liability, the excess credit may be carried over to reduce the “net tax” in the following taxable year, and succeeding eight taxable years, if necessary, until the credit has been exhausted.

- (h) The relationship between the California Soundstage Filming Tax Credit Program and the California Film and Television Tax Credit Program 3.0 and the transition for a motion picture from the Soundstage Program to Program 3.0 is defined and shall occur as follows:
- (1) If the first year of production of a qualified motion picture, or if production of a subsequent season of a qualified motion picture which is a recurring television series occurs in the fourth year after the studio construction project is certified by the CFC or if the total amount of credits authorized under Revenue and Taxation Code sections 17053.98(k) and 23698(k) has been allocated by the CFC, the qualified motion picture shall submit an application subject to the annual cap and the allocated credit amounts based on categories described in sections 17053.98(i) and 23698(i) of the Revenue and Taxation Code, subject to a jobs ratio calculated pursuant to sections 17053.98(b)(7) and 23698(b)(7) of the Revenue and Taxation Code and multiplied by 133 percent, as applicable and in accordance with sections 17053.98(k)(9)(B)(ii) and 23698(k)(9)(B)(ii) of the Revenue and Taxation Code. Notwithstanding the foregoing, a qualified motion picture must meet the requirements of a “qualified motion picture” under Revenue and Taxation Code sections 17053.98(k)(2)(B) and 23698(k)(2)(B) in order to receive an allocation of credits under Revenue and Taxation Code sections 17053.98(a)-(j) and 23698(a)-(j), inclusive, and will be limited to an allocation of no more than twelve million dollars.
- (A) A Phase B applicant may fulfill the ownership or tenant requirement of sections 17053.98(k)(2)(B)(iii) or 23698(k)(2)(B)(iii) of the Revenue and Taxation Code with a certified studio construction project for which more than three years have elapsed since certification for purposes of being eligible to apply for an allocation of tax credits for a qualified motion picture under Program 3.0, or its successor programs, as described in 5539(h)(1) above, when the reason for ineligibility under the Soundstage Filming Tax Credit Program is that the certified studio construction project has reached the fourth year after being certified by the CFC.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. Reference: Sections 17039, 17053.98(i)(4), 17053.98 (k)(1)-(2), 17053.98(k)(8)-(9), 17053.98(k)(11), 23036, 23698(i)(4), 23698(k)(1)-(2), 23698(k)(8)-(9), 23698(k)(11), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5540. Credit Certificate Issuance Process – Phase C

- (a) After an applicant's Phase A and B submissions are approved by the CFC, and the qualified motion picture has been produced and the final element has been created, the applicant may proceed to submit the documentation described in this section along with the diversity report described in section 5537. The CFC shall not certify any tax credit until it has received a final diversity report from the Phase B applicant and has determined that the Phase A applicant has complied with the annual workforce certification requirements in section 5538.
- (b) 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 Soundstage AUP (August 12, 2022), hereby incorporated by reference.
 - (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 Soundstage Local Community Expenditure Report Form (March 11, 2022), hereby incorporated by reference, for each county outside of Los Angeles County if applicable. Provide PP stage shooting days in total and PP stage shooting days on the soundstage or soundstages certified as part of the certified studio construction project from Phase A.
 - (E) Section 5A. Production and Financial Statistics. Provide total number of cast, base crew, extras and stand-in man days, residents and non-residents, 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 (excludes independent films with qualified expenditure budgets of ten million dollars (\$10,000,000) or less).
 - (G) 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 stand-ins and background performers) and all individuals that received non-qualified wages.
 - (H) Section 6. Career Readiness and Pilot Skills Training Program.
 1. Verification of fulfillment of career readiness requirement utilizing one of the required forms for Soundstage Career Readiness verification, Forms SCR1,

SCR2, SCR3, SCR4, and SCR5 (March 11, 2022), hereby incorporated by reference. If applicable, verify submission of career readiness payment.

2. Verification of payment of 0.5 percent of the approved credit amount to the Career Pathways Training Program with date paid and amount.

(I) Section 7. Uplifts (as per Soundstage AUP findings)

1. Out of zone Uplift. (Non-independent films only)

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

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

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

(iv) Total out of Los Angeles zone uplift amount is calculated.

2. Local hire labor uplift: Total of out of zone local hire labor eligible for uplift.

3. Visual Effects (VFX) uplift (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.

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

(i) Multiply total out of zone amounts by .05

(ii) Multiply total VFX amount by .05

(iii) Multiply total Local Hire Labor amount by .10 for Non-Independent Films and by .05 for Independent Films and Relocating Television Series

(iv) (Total additional amount of (i) + (ii) + (iii) above calculated automatically)

5. Total Diversity Goals Potential Increase: Select CFC-approved percentage point increase, up to four percent for meeting or making a good faith effort to meet the diversity goals in the applicant's diversity workplan, as evidenced by the applicant's CFC-approved diversity report.

(J) Section 8. Credit Amount. As per the findings of the CPA performing the Soundstage AUP report, 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.

(K) 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 their 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 Soundstage AUP.

(6) An AUP report in compliance with the Soundstage AUP. The Soundstage AUP 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) The same public accounting firm is not permitted to perform the Soundstage AUP report required pursuant to this section if it is providing or has provided services related to Phase A for the soundstage or soundstages where the Phase B qualified motion picture is being produced, such as the Certified Studio Construction Project Verification Report required pursuant to section 5532 or the annual soundstage workforce report required pursuant to section 5538.
- (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 5536.
- (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) and 23698(g)(3)(C)(i)(I) of the Revenue and Taxation Code. Updated information as per section 5533(f)(11) is also required.
- (12) Documentation verifying that the required fee was paid by the qualified taxpayer to fund the Career Pathways Training Program.
- (c) The production shall be completed within 30 months from the issuance date of the CAL, Form SD (August 12, 2022), hereby incorporated by reference as required in sections 17053.98(b)(18)(B)(ii) and 23698(b)(18)(B)(ii) of the Revenue and Taxation Code.
- (d) 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.
- (e) 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.

- (f) The CFC shall approve or disapprove the request for the tax credit certificate, Form SM (August 12, 2022), hereby incorporated by reference.
- (1) 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.
 - (2) Upon approval, the tax credit certificate shall be issued to the applicant.
 - (A) 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.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. References: Sections 17053.98(k)(1)-(5), 17053.98(k)(8), 17053.98(k)(10), 23698(k)(1)-(5), 23698(k)(8), 23698(k)(10), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5541. On Screen Credit and Promotional Requirements

- (a) All productions that are issued a tax credit certificate, Form SM (August 12, 2022), hereby incorporated by reference, 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, CALIFORNIA SOUNDSTAGE FILMING TAX CREDIT PROGRAM, 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.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. Reference: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 14998.1, Government Code.



California Soundstage Filming Tax Credit Program
CERTIFIED STUDIO CONSTRUCTION PROJECT VERIFICATION REPORT

AGREED UPON PROCEDURES

I. Introduction

To enable the California Film Commission (CFC) to certify that a Phase A applicant's studio construction project (SCP) meets the requirements of sections 17053.98(k), 23698(k), and 17053.99 of the Revenue and Taxation Code, a third-party Certified Studio Construction Project Verification Report, performed by a CPA firm and documenting compliance with the requirements of the California Soundstage Filming Tax Credit Program, must be submitted. The CPA firm producing the report may use the *optional* Agreed Upon Procedures (AUP)¹ outlined in this document, but this is not a requirement; the CPA firm may alternatively use the Phase A [Soundstage Certification CPA Verification Checklist](#) on [the CFC website](#) to base their report on. Whichever format the CPA firm chooses the CFC requests that the Certified SCP criteria be listed in the same order as on the AUP or checklist, and that findings be specified below each criterion (numbered 1 through 7).

A studio construction project may include the construction or renovation of more than one soundstage located in the state. Applicants may provide separate reports for each soundstage construction or renovation project or a comprehensive report for all soundstage construction or renovation projects that make up each studio construction project. Regardless of whether the applicant submits one or multiple reports for the soundstage construction or renovation projects, the comprehensive studio construction project must, in aggregate, meet the definition and criteria in Revenue and Taxation Code sections 17053.98(k)(2)(A) and 23698(k)(2)(A) to be eligible as a certified studio construction project.

The California Soundstage Filming Tax Credit Program provides tax credits to producers of eligible qualified motion picture projects, for qualified expenditures incurred when filming on CFC certified soundstages.

II. Statutory and Regulatory References

- California Revenue and Taxation Code sections:
 - 17053.98 (personal income tax)

¹ A CPA is not permitted to provide production accounting services and agreed upon procedures services to the same production company, per Rule 101 of the American Institute of Certified Public Accountants Code of Professional Conduct and its interpretations and rulings.

- 23698 (corporate income tax)
 - 17053.99 (studio construction project requirements)
- California Code of Regulations, Title 10:
 - Chapter 7.75, Article 4, sections 5530 – 5541

III. General

- The Report shall be prepared for the use of the following specified parties:
 - The owner of the studio construction project (Owner); and
 - The California Film Commission (CFC)
- The Report must be completed by a CPA firm that meets the requirements of subparagraph (B) of paragraph (4) of subdivision (c) of section 5532 of Title 10 of the California Code of Regulations.
- The Report should include the California CPA license number or proof of a valid out-of-state accounting firm registration for the firm completing the report.
- Please include CPA name and contact information for the CPA responsible for the review and final sign off of the Report.
- Any sums must be presented in U.S. dollars.

IV. Certified Studio Construction Project Verification

1. Skilled & Trained Workforce

- A. Verify that either of the following is true:
 - i. All contractors and subcontractors performing construction work on the soundstage(s) used a skilled and trained workforce, in accordance with Revenue and Taxation Code section 17053.99, subdivision (b), or;
 - ii. All contractors and subcontractors performing work on the project are subject to a project labor agreement, as defined in the Public Contract Code, section 2500(b)(1), that requires compliance with the skilled and trained workforce requirement and provides for enforcement of that obligation through an arbitration procedure.
- B. If 1.A.ii. is true, please attach the project labor agreement to the Report.
- C. If neither 1.A.i. or 1.A.ii. is true, the project is ineligible; inform the Owner of their ineligibility and cease review.

2. Minimum Eligible Capital Investment

- A. Verify that the amount for actual construction or renovation expenditures is twenty-five million dollars (\$25,000,000) or more.
 - i. Note the amount for actual construction or renovation expenditures.
- B. Verify that the actual construction or renovation expenditures have been incurred over not more than five continuous calendar years.
 - i. Note the time period during which expenditures were incurred.
- C. If the amount threshold in 2.A. has not been met or has not been met within the timeframe specified in 2.B., the project is ineligible; inform the Owner of their ineligibility and cease review.

3. Capital Improvements

- A. An SCP seeking certification must meet a capital improvement minimum expenditure threshold for those soundstages that are being renovated, improved, or created in a repurposed space.
 - i. If the SCP involves capital improvements on one soundstage, verify that capital improvement expenditures are of an amount no less than \$750,000.
 - ii. If the SCP involves capital improvements on more than one soundstage, verify that capital improvement expenditures average no less than \$500,000 per soundstage.
- B. If the SCP includes capital improvements on renovated, improved, or repurposed soundstages and the expenditure threshold specified in 3.A.i. or 3.A.ii. has not been met, and the SCP will not meet overall Phase A requirements without including that soundstage or soundstages, the project is ineligible; inform the Owner of their ineligibility and cease review.
- C. If the SCP includes capital improvements on renovated, improved, or repurposed soundstages and the expenditure threshold specified in 3.A.i. or 3.A.ii. has not been met, but the SCP will meet Phase A requirements without including that soundstage or soundstages, the CPA may complete the Certified Studio Construction Project Verification Report, provided they consider only those soundstages that fulfill the capital improvement minimum expenditure requirement in 3.A. when verifying any project requirements.

4. Actual Expenditures

- A. Verify that actual construction or renovation expenditures for soundstages, not including ancillary buildings, are at least 70% of the total spend for the SCP.
 - i. Note the total spend of the SCP.
 - ii. Note the sum of actual construction or renovation expenditures specific to soundstages, excluding ancillary buildings.
- B. If the percentage threshold for actual construction or renovation expenditures in 4.A. has not been met, the project is ineligible; inform the Owner of their ineligibility and cease review.

5. Permits

- A. SCPs seeking certification may only include construction or renovation which has commenced pursuant to a foundation permit or structural building permit issued after July 21, 2021.
 - i. Verify that construction or renovation of each soundstage or ancillary building listed as part of the SCP commences/commenced pursuant to a foundation permit or a structural building permit issued after July 21, 2021.
 - ii. List each applicable foundation permit and/or structural building permit and its issuance date.
- B. If construction on a soundstage or soundstages or ancillary building/s designated as part of the SCP commenced pursuant to a permit issued prior to July 21, 2021, and the SCP will not meet the other Phase A requirements without including that building or

buildings, the project is ineligible; inform the Owner of their ineligibility and cease review.

- C. If construction on a soundstage or soundstages or ancillary building/s designated as part of the SCP commenced pursuant to a permit issued prior to July 21, 2021, and the SCP does meet Phase A requirements without including that building or buildings, the CPA may complete the Certified Studio Construction Project Verification Report, provided they consider only those buildings that fulfill the permit requirement in 5.A.i. when verifying any project requirements.

6. California Competes Grant Prohibition

- A. Verify that the SCP applicant did not receive a California Competes Grant under section 12096.6 of the Government Code for wages or investment related to construction of the SCP.
- B. If the SCP applicant did receive a California Competes Grant related to the SCP, the project is ineligible; inform the Owner of their ineligibility and cease review.

7. Soundstage Details

- A. An SCP may include a combination of newly constructed soundstages, renovated or improved soundstages, and/or other buildings (e.g., warehouses) repurposed/converted into soundstages.
 - i. Verify and list the number of newly constructed soundstages, if any, that are part of the Studio Construction Project.
 - ii. Verify and list the number of existing soundstages, if any, that are being renovated as part of the SCP.
 - iii. Verify and list the number of buildings, if any, that are being repurposed into soundstages as part of the SCP.
 - iv. To the extent possible, list the internal name/s or number/s (e.g., "Stage 13"), and the address/es of each soundstage that is part of the SCP.
- B. Verify that each soundstage designated as part of the SCP:
 - i. is a building that is purpose-built, renovated, or converted for film, television and/or media production in California,
 - ii. is no less than 10,000 square feet (ancillary space may count, as specified below),
 - iii. is column-free,
 - iv. has a permanent grid; and
 - v. has at least 20 feet of clearance below the permanent grid.
- C. If any soundstage designated as part of the SCP does not meet the requirements outlined in 7.B. above, that soundstage shall not be counted as part of the SCP for purposes of meeting any project requirements or receiving certification.
- D. An SCP may include ancillary buildings, meaning buildings purpose-built, renovated, or repurposed on contiguous property to the soundstage/s and intended for production-related purposes. An ancillary building approved as part of the Certified SCP may count toward the square-footage of a soundstage to fulfill the requirement

in 7.B.ii. above, provided the ancillary building meets the requirements of 7.D.iii through 7.D.v. below.

- i. Verify and list the number of ancillary buildings that are part of the SCP.
 - ii. To the extent possible, list the internal name/s or number/s, and the addresses of each ancillary building that is part of the SCP.
 - iii. List the ancillary buildings that are being counted toward the square-footage of any soundstage in the SCP and verify that their square-footage is only counted once toward the overall square-footage.
 - iv. Verify that each ancillary building is purpose-built, renovated, or converted and intended for purposes including, but not limited to, accompanying production office space, mill space, workshops, and property or wardrobe storage.
 - v. Verify that each ancillary building is on contiguous property to the soundstage/s of the SCP.
- E. If any ancillary building designated as part of the SCP does not meet the requirements outlined in 7.D. above, that building shall not be counted as part of the SCP for purposes of meeting any project requirements or receiving certification.

Please contact the CFC at SoundstageIncentive@film.ca.gov if you have any questions.



California Film & Television Soundstage Filming Tax Credit Program

AGREED UPON PROCEDURES

I. Introduction

The Soundstage Filming Program provides tax credits for qualified expenditures incurred when producing qualified motion pictures on California Film Commission certified soundstages. 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 and Regulatory 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 and 5530 - 5541

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 AUP 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 or a Soundstage Filming Program Orientation 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 AUPs 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 Soundstage Filming Program 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, **CS** – Certified Stage PP day, **SF** – Non-certified soundstage PP day, **SW** – Soundstage Qualified Wages (must be double-tagged with QW tag).

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 performing 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, certified stage identifier 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. 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 AUPs, matters come to the CPA’s attention by other means that significantly contradict the subject matter of the Report or assertions of the Company, 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.
3. Obtain and read the Company's Credit Allocation Letter (CAL). Indicate in the Report the CFC certified stage identifier number or numbers as stated 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 during the qualified period. (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.
 - c. Based upon inspection of the documentation, state the total number of principal photography days on soundstages (tagged CS and SF) for each taxable year for which a tax credit is claimed; only include principal photography days in which the company utilized the stage for a minimum of 6 hours. State the number of principal photography days on a certified stage (tagged CS) for each taxable year for which a tax credit is claimed; Note the total principal photography days on soundstages and state the percentage of principal photography days on certified stage(s), divided by taxable year for which a tax credit is claimed. If the production did not

shoot at minimum 50% of its principal photography stage days on a certified stage or stages, per each taxable year for which a tax credit is claimed, there is no need to continue with the AUP. Notify the Company's management to inform the CFC that they are ineligible.

- d. Obtain the payroll report from the payroll company. Based on findings in above procedure with respect to principal photography days on certified stage(s), confirm that qualified wages for labor performed on certified stage(s) and in ancillary buildings approved as part of a certified studio construction project during the production period is at minimum \$7,500,000, inclusive of qualified fringes, per each taxable year for which a tax credit is claimed. Soundstage wages should be double tagged QW, SW in the production budget. If the total amount of qualified soundstage wages is less than \$7,500,000 per each taxable year for which a tax credit is claimed there is no need to continue with the AUP. Notify the Company's management to inform the CFC that they are ineligible.
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 (SCR1-SCR5) 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 0.5% 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 sections 17053.98(b)(16) and 23698(b)(16) and do not include Non-Qualified Expenditures (NQ) as defined in section 17053.98(b)(21)(B)(i)-(iv) or 23698(b)(21)(B)(i)-(iv). Adjust QE for any NQ noted, such as insurance premiums which may not have been prorated for out of state work and box/car/computer rentals for out of state qualified individuals which do not qualify unless purchased or rented and used in the state. 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 defined in 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 Revenue and Taxation Code. In particular, inspect travel costs, insurance premiums which may not have been prorated for out of state work, and box/car/computer rentals for out of state qualified individuals, which do not qualify unless purchased or rented and used in the state.
 - d. Verify that the expenditure was not for in-kind services.

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- 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
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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.

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- 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, postproduction, 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 section 17053.98(b)(21)(A)(i)-(iv) or 23698(b)(21)(A)(i)-(iv). Adjust QW for any non-qualified individuals or misclassified wages. Verify that any box/car/cell phone allowances classified as wage but rented from out-of-state workers are reclassified as non-qualified expenditures. In your review, include non-qualified payroll that may have been mis-tagged and should be qualified. 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 timecards, 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.

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- 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 the payroll entity has a different federal ID for signatory purposes, contact the 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.
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- 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.
 11. 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.
 12. 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. For any Dual Role Employees that were tagged as NQ, but received qualified credits, adjust the NQ to 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. Box rentals and qualified fringes are not part of the \$100,000 cap.
 - d. 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**.
 - e. Inspect end credits and note in the Report if CFC acknowledgement and logo are included or not included. For a television series or miniseries, the acknowledgement and logo are required on each episode.
 13. 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**.
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14. Based on findings above, verify that for each taxable year for which a tax credit will be claimed by the qualified motion picture, at least seven million five hundred thousand dollars (\$7,500,000) in qualified wages for filming on a certified soundstage or soundstages during the production period were incurred (soundstage wages, SW). This includes project-specific wages incurred on soundstages and in ancillary buildings approved as part of the certified studio construction project.
 - a. Verify that all wages tagged SW are qualified wages and have been double tagged QW, SW.
 - b. Inspect timecards, production reports, call sheets or other equivalent documentation, divided into taxable years for which a tax credit will be claimed. Verify that SW amounts have been incurred during the production period, as defined in sections 17053.98(b)(14) and 23698(b)(14) of the Revenue and Taxation Code.
 - c. Inspect timecards, production reports, call sheets or other equivalent documentation, divided into taxable years for which a tax credit will be claimed. Verify that SW amounts have been incurred only for services performed on soundstages or in ancillary buildings approved as part of a certified studio construction project. Wages for maintenance or repairs on the soundstages or ancillary buildings do not count as soundstage wages. Wages for work performed on soundstages or in ancillary buildings that are not certified, or in other locations, do not count as soundstage wages.
 - d. If the threshold for qualified soundstage wages has not been met for each taxable year for which a tax credit will be claimed, with wages incurred within the production period, there is no need to continue with the AUP. Notify the management of the production to inform the CFC that they are ineligible.
 15. 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.
 16. For exceptions noted in ZW testing in procedure 9. above:
 - a. Adjust ZW for known errors noted during your testing.
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- 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.

17. 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.
- c. Verify that Box/car/cell phone allowances from qualified individuals who live in the Los Angeles zone but are working outside the LA zone do not receive a local wage uplift, as the items were not purchased or rented out of the zone. If required documents are not readily available and completed, the wages will not qualify for the LW uplift.
- d. 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.
- e. 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).
- f. 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).

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- g. 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.
 18. For exceptions noted in the LW testing in procedure 11 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.

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 and Taxation Code section 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.

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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**.
- 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) for VFX, as defined in section 5520(cc) 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 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)**. If production does not meet the uplift threshold for visual effects, any verified vendor contract should be reclassified 70% QW and 30% QE.

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 11. to determine amount of LW eligible for additional 10% tax credit during the Applicable Period. Include findings in **Exhibit Q**.
- d. Diversity Goals
-

- (1) Total Diversity Goals Potential Increase: The applicant may achieve up to a four-percentage point increase in its credit percentage if it meets or makes a good faith effort to meet the diversity goals in its diversity workplan, as described in sections 17053.98(k)(3) and 23698(k)(3) of the Revenue and Taxation Code. Inspect documentation from the CFC to the production company to verify if the production company met or made a good faith effort to meet its diversity goals. If acknowledged by the CFC, determine if the production company's project qualifies for a 2%, 4% or 0% uplift.

e. Note uplift 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 over, and Relocating TV Series, utilize findings in QE procedure V.9. and if applicable, verify that top 5 highest cost and 5 haphazardly chosen expenditures tagged VU were incurred in California. Verify that sampled Outside Contract Bids / VFX Vendor costs are prorated 70% QW and 30% QE as per Revenue and Taxation Code 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**.

3. Diversity Goals

- a. Total Diversity Goals Potential Increase: The applicant may achieve up to a four-percentage point increase in its credit percentage if it meets or makes a good faith effort to meet the diversity goals in its diversity workplan, as described in sections 17053.98(k)(3) and 23698(k)(3) of the Revenue and Taxation Code. Inspect documentation from the CFC to the production company to verify if the production company met or made a good faith effort to meet its diversity goals. If acknowledged by the CFC, determine if the production company's project qualifies for a 2%, 4% or 0% uplift. Note uplift findings in **Exhibit O**.

XII. 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 \$12 million dollars in tax credits (the qualified expenditure threshold inclusive of uplifts). Verify that uplift

amounts do not exceed the maximum allowable as per section 5531(k) and (l) 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. Recalculate the \$7,500,000 minimum threshold required for qualified soundstage wages inclusive of qualified fringes incurred on certified stage(s) or in certified ancillary buildings during the production period in each taxable year for which a tax credit is claimed after accounting records are revised for findings in QW procedures. Verify that the threshold has been met. If the threshold has not been met, the project is not eligible. Inform the management of the production to inform the CFC that the project does not qualify.
4. 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.
5. Complete and attach **Exhibit 1A** or **1B** as applicable, based on findings in **Exhibit 2**.

Appendix A2

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

	Payroll		Non-Payroll*				
	Top Stratum	Stratum 1	Stratum	Stratum 1	Stratum 2		
Total Qualified Expenditures	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	Items \$500 and less		
0 - \$500,000	All Items	10	All Items	50	25		
\$500,001 - \$1,000,000	All Items	20	All Items	50	25		
\$1,000,001 - \$5,000,000	All Items	25	All Items	50	25		
\$5,000,001 - \$10,000,000	All Items	25	All Items	60	25		
\$10,000,001 - \$25,000,000	All Items	25	All Items	75	25		
\$25,000,001 - 50,000,000	All Items	25	All Items	100	25		
\$50,000,001 +	All Items	25	All Items	100	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.

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

California Film Television Tax Credit Program 3.0

Appendix B

Test #1

Total Payroll Population	3,500,000	A
Less Top Stratum Tested	(1,500,000)	B
Population for Stratum 1	2,000,000	C = A+B
Sample for Stratum 1	1,200,000	D
Test #1 Findings	15,000	E
Rate of Misstatement in Sample	1.25%	F = E/D
Projected Misstatement of Sampled Population	25,000	G = F x C
Projected Misstatement % in Total Population (if below 2% no additional test needed)	0.71%	H = G / A

Test #2

Total Non-Payroll Population	3,500,000	A
Less Top Stratum Tested	(1,500,000)	B
Population for Stratum 1	2,000,000	C = A+B
Less Stratum 1 from Test #1	(1,200,000)	D
Population for Stratum 1 Test #2	800,000	I = C+D
Sample for Stratum 1 Test #2	-	J
Test #2 Findings	-	K
Rate of Misstatement in Sample		L = J / K
Projected Misstatement of Sampled Population		M = C x L
Projected Misstatement % in Total Population		N = M / A
Average of Two Projected Misstatements (if both over 2%)		P = Average (H,N)

Total Non-Payroll Population	3,500,000	A
Less Top Stratum Tested	(1,500,000)	B
Less Tested in Sample for Test #1	(1,200,000)	D
Less Tested in Sample for Test #2	-	J
Total Population Not Tested	800,000	Q = A+B+D+J
Projected Misstatement in Population Not Tested		R = P x Q

Total Non-Payroll Population Unadjusted	3,500,000	A
Less Actual Findings Top Stratum	-	
Less Actual Findings Test #1	(15,000)	E
Less Actual Findings Test #2	-	K
Less Projected Findings Avg of Tests		R
Total Adjusted Non-Payroll Qualified Costs	3,485,000	S = A+B+F+L+R

CALIFORNIA

Film Commission

Soundstage Filming Tax Credit Program

Soundstage Certification Letter

QUALIFIED TAXPAYER SOUNDSTAGE INFORMATION

Applicant Entity _____
Applicant Name, Title _____
Address _____
City _____
State _____ Zip _____
Phone _____
Cell _____
Email _____
Taxpayer ID Number _____
Type of Entity _____

ELIGIBILITY ATTESTATION RECEIVED

☐ The applicant attests that it has not received a California Competes Grant under Section 12096.6 of the Government Code for wages or investment related to construction of the studio construction project.

STUDIO CONSTRUCTION PROJECT VERIFICATION REPORT RECEIVED

☐ Certified Studio Construction Project Verification Report, performed by an approved CPA firm documenting compliance with the requirements of the California Soundstage Filming Tax Credit Program, was submitted.

CPA Firm: _____

☐ Peer Review Submitted

CPA Contact Name: _____

Phone Number: _____

Email Address: _____

SOUNDSTAGE CERTIFICATION IDENTIFIER # _____

Approved by:

California Film Commission

Date

CALIFORNIA

Film Commission

Soundstage Filming Tax Credit Program

Credit Allocation Letter

PHASE A: STUDIO CONSTRUCTION PROJECT CERTIFICATION

Identifier Number	Soundstage Applicant Entity	Date Approved
_____	_____	_____
_____	_____	_____
_____	_____	_____

PHASE B: MOTION PICTURE PRODUCTION APPLICATION

Production Title _____

Production Category _____

Production Period	Estimated Start Date of Principal Photography	_____
	Estimated End Date of Post-Production	_____

Qualified Taxpayer - Motion Picture Production

Applicant Entity	_____	
Applicant Name	_____	Title _____
Address	_____	
City	_____	
State	_____	Zip _____
Phone	_____	Cell _____
Email	_____	
Taxpayer ID Number	_____	Type of Entity _____

DIVERSITY WORKPLAN/TAXPAYER ATTESTATION

- ☐ The diversity workplan required by Revenue and Taxation Code sections 17053.98(k)(3) and 23698(k)(3) has been submitted, reviewed and approved.
- ☐ The applicant attests that it is the qualified taxpayer that meets the criteria specified in Sections 17053.98(k)(2)(B)(iii) and 23698(k)(2)(B)(iii) of the Revenue and Taxation Code.

TAX CREDIT ALLOCATION RESERVED
TAX CREDIT ALLOCATION CAP
CREDIT ALLOCATION LETTER

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 Soundstage Filming Tax Credit Program. "Tax credit allocation cap" refers to the sum the applicant would be eligible for, independent of available credits, and is the sum that should be allocated upon availability of credits, as applicable.

Approved by:

California Film Commission

Date

CALIFORNIA

Film Commission

Soundstage Filming Tax Credit Program

Tax Credit Certificate

PHASE A: STUDIO CONSTRUCTION PROJECT CERTIFICATION

Soundstage Certification Identifier Number(s): _____

Date Approved: _____

Soundstage Applicant Entity _____

PHASE B: MOTION PICTURE PRODUCTION APPLICATION

Credit Allocation Letter (CAL) Number _____ CAL Date _____

Production Period _____ Start Date of Principal Photography _____
End Date of Post-Production _____

PHASE C: TAX CREDIT ISSUANCE

Production Title _____

Production Category _____ Copyright Registration _____

Applicant Entity _____

Taxpayer ID Number _____ Seller's Permit Number _____

Type of Entity _____

Applicant Name _____ Title _____

Address _____

City _____

State _____ Zip _____

Phone _____ Cell _____

Email _____

FINAL TAX CREDIT AMOUNT

TAX CREDIT CERTIFICATE

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 be claimed 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.

Approved by:

California Film Commission

Date



California Soundstage Filming Tax Credit Program

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.

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 VENDORS	
Local Hired Cast	\$ _____	Hotel Cost	_____
	# of Cast _____		
Local Hired BG Performers	\$ _____	Location Fees and Permits	_____
	# of Background Performers _____		
Local Hired Crew	\$ _____	All Other Local Rentals & Purchases	_____
	# of Crew _____		
Total Local Payroll	\$ _____	Total Local Vendor Spend	_____

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

This report was prepared by:

Primary Contact Name: _____ Title: _____

Email: _____ Phone: _____ Date: _____

Career Readiness Requirement

Verification Form: **PAID INTERNSHIP**



PRODUCTION COMPANY INFORMATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

SCHOOL / ORGANIZATION & INTERNSHIP INFORMATION

School OR Career Based Learning Program _____

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

Intern's Name _____ Email _____

Area of Interest _____ Cell Phone _____

INTERNSHIP REQUIREMENT 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.

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

☐ Survey completed by intern. Video testimonial submitted. (Optional) ☐ Yes ☐ No

Submitted images of intern at work, if available. ☐ Yes ☐ No

☐ ***I acknowledge and certify that the information provided above is accurate to the best of my knowledge or at least what would be expected of a reasonable person in the same capacity.***

Primary Contact Name _____ Date _____

Career Readiness Requirement

Verification Form: **PROFESSIONAL SKILLS TOUR**

PRODUCTION COMPANY INFORMATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

SCHOOL OR ORGANIZATION INFORMATION

School OR Career Based Learning Program _____

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

Classes Participating _____ # of Students Participating _____

School/Organization Contact Name _____

Position _____ Email _____

EXTERNSHIP REQUIREMENT VERIFICATION

Tour Date(s) _____ Total # of Hours _____

Production Department Tour Location _____

Brief Description of Tour Activities and Focus _____

☐ Survey completed by participants.

Video testimonial submitted. (Optional)

☐ Yes ☐ No

Submitted images of professional skills tour, if available.

☐ Yes ☐ No



I acknowledge and certify that the information provided above is accurate to the best of my knowledge or at least what would be expected of a reasonable person in the same capacity.

Primary Contact Name _____ Date _____

Career Readiness Requirement

Verification Form: **FACULTY EXTERNSHIP / CONTINUING EDUCATION**

PRODUCTION COMPANY INFORMATION

Date _____ Queue # _____

Project Title _____

Primary Contact Name _____

Email Address _____

Office Phone _____ Cell Phone _____

EDUCATOR AND SCHOOL INFORMATION

Education Institution _____

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

Name _____ Title _____

Email _____ Phone _____

Courses Taught _____

EXTERNSHIP REQUIREMENT VERIFICATION

Externship Date(s) _____ Total # of Hours _____

Production Department Externship Location _____

Brief Description of Externship Duties _____

☐ Survey completed by educator.

Video testimonial submitted. (Optional)

☐ Yes ☐ No

Submitted images of educator at work, if available.

☐ Yes ☐ No

☐

I acknowledge and certify that the information provided above is accurate to the best of my knowledge or at least what would be expected of a reasonable person in the same capacity.

Primary Contact Name _____ Date _____

Career Readiness Requirement

Verification Form: **CLASSROOM WORKSHOP**



PRODUCTION COMPANY INFORMATION

Date _____ Queue # _____
Project Title _____
Primary Contact Name _____
Email Address _____
Office Phone _____ Cell Phone _____

SCHOOL / ORGANIZATION PRESENTATION INFORMATION

School OR Career Based Learning Program _____
Program Type / Degrees Offered ☐ Associate ☐ Certificate ☐ H.S. Diploma ☐ Other _____ ☐ N/A
Classes Participating _____ # of Students Participating _____
School/Organization Contact Name _____
Position _____ Email _____

CLASSROOM WORKSHOP / PANEL / PRESENTATION VERIFICATION

Presentation Date _____ Total # of Hours _____
Workshop / Event Topics _____

Presentation, Workshop, or Panel Presenters

Name	Title	Name	Title
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

☐ Survey completed by participants. Video testimonial submitted. (Optional) ☐ Yes ☐ No
Submitted video and images of event, if available. ☐ Yes ☐ No

☐ *I acknowledge and certify that the information provided above is accurate to the best of my knowledge or at least what would be expected of a reasonable person in the same capacity.*

Primary Contact Name _____ Date _____

Career Readiness Requirement

Verification Form: **FINANCIAL CONTRIBUTION**

PRODUCTION COMPANY INFORMATION

Date _____ Queue # _____
Project Title _____
Primary Contact Name _____
Email Address _____
Office Phone _____ Cell Phone _____

FINANCIAL CONTRIBUTION RECIPIENT

Organization / Fund _____
Amount of Contribution _____

The Production Company may contribute to California Department of Education (CDE) or Foundation of California Community Colleges (FCCC). The contribution must be of .25% of the estimated tax credit with a minimum of \$5,000 and a maximum of \$12,000. To verify financial contribution, a receipt obtained from CDE or FCCC must be submitted along with this form to the California Film Commission.

California Department of Education

Write check to *Californians Dedicated to Education Foundation*, with a note on the memo line - *Career Readiness Program*.

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

Foundation of California Community Colleges

Write check to *Foundation of California Community Colleges*, with a note on the memo line - *Non-Profit Internship Fund*.

- ☐ Non-Profit Internship Fund

☐

I acknowledge and certify that the information provided above is accurate to the best of my knowledge or at least what would be expected of a reasonable person in the same capacity.

Primary Contact Name _____ Date _____