Notice is hereby given that the California Film Commission (CFC) proposes to adopt the regulations described below after considering all comments, objections and recommendations regarding the proposed action.

Proposed Regulatory Action
The CFC proposes to adopt new sections 5530 through 5541 in Article 4 of Chapter 7.75 of Title 10 of the California Code of Regulations in order to implement, interpret and make specific Revenue and Taxation Code sections 17053.98, 17053.99, and 23698 relating to a film and television tax credit program.

No public hearing is scheduled; however, any interested person or their duly authorized representative may request a public hearing no later than fifteen (15) days prior to the close of the public comment period.

Written Comment Period
Any interested person, or their authorized representative, may submit written comments relevant to the proposed regulatory action to the Agency. Written comments will be accepted by the Agency until 5:00 p.m. on December 6, 2022. Submit comments to:

   Name:       Hedvig Marx
   Address:    California Film Commission, 7080 Hollywood Boulevard,
               Hollywood, CA 90028
   Email:      SoundstageIncentive@film.ca.gov

Authority and Reference
The proposed regulation will be adopted under the authority of Government Code section 11152, and Revenue and Taxation Code sections 17053.98(k)(10) and 23698(k)(10). The proposed regulation implements, interprets, and makes specific Revenue and Taxation Code sections 17053.98, 17053.99 and 23698.
INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW
The California Film Commission (CFC) proposes to adopt new sections 5530, 5531, 5532, 5533, 5534, 5535, 5536, 5537, 5538, 5539, 5540, and 5541, constituting Article 4 of Chapter 7.75 of Title 10 of the California Code of Regulations. The regulations establish a procedure for allocating tax credits to qualified taxpayers in the motion picture industry.

Summary of Related Existing Laws and Regulations:
Existing law provides for a similar program, the California Film and Television Program 3.0 (Program 3.0), allocating tax credits to qualified taxpayers in the motion picture industry until June 30, 2025. The provisions in the existing program provide for applicants to file a written application for the allocation of the tax credit and for the CFC to establish criteria for allocating tax credits, determine and designate applicants who meet the requirements to apply for the tax credit, and issue the credit certificate to the qualified taxpayer upon completion of an eligible and approved qualified motion picture. The existing program does not contain any provisions to incentivize the construction or renovation of soundstages in the state.

In 2021, the Legislature and Administration approved Senate Bill (SB) 144 (Ch. 114, Stat. 2021), as modified by Assembly Bill (AB) 176 (Ch. 256, Stat. 2021), 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 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 SB 144 and as implemented via these proposed regulations, establishes a tax credit for qualified motion pictures produced in a certified studio construction project facility. To receive the tax credit, a qualified taxpayer is required to film their qualified motion picture on a soundstage or soundstages newly 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.

Broad Objectives and Anticipated Benefits of the Proposed Regulations:
The proposed regulations will provide a program to the motion picture industry allocating tax credits for qualified motion pictures. These tax credit incentives will encourage production companies regardless of distribution outlet to film in
California instead of other states, provinces, and countries offering incentives. The California Soundstage Filming Tax Credit Program is structured to encourage job creation and provides separate funding categories to ensure tax credits for multiple types of productions.

The California Soundstage Filming Tax Credit Program will help create jobs and benefit the economy by building on the success of California’s previous and existing 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, and 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. Additionally, the Program provides disadvantaged youth with training opportunities to prepare them for a career in the motion picture industry.

The program encourages infrastructure growth by allocating tax credits to eligible qualified motion picture projects that film on newly constructed or renovated soundstages certified by the CFC. Aside from impacting the productions that participate in the Program directly, production infrastructure growth will enable California to increase the number of productions and therefore, jobs and dollars spent in state. In addition, the Soundstage Filming Tax Credit Program specifically encourages skilled and trained construction labor job creation, by incentivizing construction and renovation of soundstages within the state, subject to specific workforce eligibility requirements.

The proposed regulations clarify and instate the specific processes necessary to implement the California Soundstage Filming Tax Credit Program in accordance with statute, enabling the state to operate the Program and realize its benefits.

**Consistency And Compatibility with Existing State Regulations:**
During the process of developing these regulations, 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).

ESTIMATES OF ECONOMIC IMPACT
The California Film Commission has made the following determinations:
- Mandate on local agencies and school districts: None.
- Cost or savings to any state agency: None.
- Cost to any local agency or school district which must be reimbursed in accordance with Government Code sections 17500 through 17630: None.
- Other nondiscretionary cost or savings imposed on local agencies: None.
- Cost or savings in federal funding to the state: None.
- Significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states: None.
- Potential cost impact on representative person or businesses: The agency is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

EFFECT ON SMALL BUSINESS
The California Film Commission has determined that the proposed regulations will not directly affect small businesses. The businesses that may elect to participate in the Soundstage Filming Tax Credit Program and in such cases will be complying with these regulations are film production companies or soundstage developers and are as such not small businesses, as defined in section 11342.610 of the Government Code. Small businesses in California may, however, provide goods and services to the businesses electing to comply with these regulations and thus benefit from the additional filming in California.

RESULTS OF THE ECONOMIC IMPACT ASSESSMENT
In accordance with Sections 17053.98 and 23698, the CFC is not required to provide an economic impact analysis. However, it is worth noting that the Soundstage Filming Tax Credit Program is optional and only applies to entities who elect to participate, and further, that the parameters and functions of a tax credit program such as this ensures that any participating entities will contribute to a positive economic impact on the state, its existing businesses, and opportunities for prospective businesses, as credits are allocated based on percentages of actual in-state spending for labor, goods, and services. The CFC has found that the adoption of these regulations will: (1) facilitate the creation of jobs within California;
(2) facilitate the creation of businesses within California; and (3) facilitate the expansion of businesses currently doing business within California. As stated above, anticipated benefits of these regulations are that the tax credit incentive in question will encourage production companies regardless of distribution outlet to film in California instead of other states, provinces and countries offering incentives.

Allocation of credits in the California Soundstage Filming Tax Credit Program is based on qualified expenditures, including qualified wages, thereby incentivizing in-state job creation and spending on goods and services. Multiple types of productions are eligible to apply for tax credits. The Program is enabling California to increase the number of productions and therefore, jobs and dollars spent in state. In addition, the Soundstage Filming Tax Credit Program specifically benefits skilled and trained construction labor by incentivizing construction and renovation of soundstages within the state, subject to workforce requirements; this contributes to safe working conditions as well as job creation.

The California Soundstage Filming Tax Credit Program further benefits the wellbeing of Californians by promoting intentionally diverse motion picture production, providing motion picture production training opportunities for disadvantaged youth, and preventing motion picture production migration to other states and countries with less civil rights and protections for the workers on those productions.

**REASONABLE ALTERNATIVES CONSIDERED**

The California Film Commission must determine that no reasonable alternative considered by the Commission or that has otherwise been identified and brought to the attention of the Board would be more effective in carrying out the purpose for which the action is proposed or would be as effective as and less burdensome to affected private persons than the proposed action, or would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

**CONTACT PERSON**

Inquiries concerning the proposed action may be directed to:
Name: Nancy Rae Stone
Email: Nancy.Stone@film.ca.gov
Phone No.: (323) 860-2960

The backup contact person for these inquiries is:
Name: Hedvig Marx
Questions on the substance of the proposed regulations may be directed to:
Name: Hedvig Marx
Email: SoundstageIncentive@film.ca.gov
Phone No.: (323) 817-4115 or (310) 290-6501

AVAILABILITY OF CHANGED OR MODIFIED TEXT
After the close of the forty-five (45) day public comment period, the CFC may adopt the proposed regulation. As a result of public comments, either oral or written, that are received by the CFC regarding this proposal, the CFC may determine that changes to the proposed regulation are appropriate. If the CFC makes modifications that are sufficiently related to the originally proposed text, it will make the modified text (with the changes clearly indicated) available to the public for at least 15 days before the CFC adopts the regulations as revised. The CFC will provide notification of any such modifications to all persons whose comments were received during the public comment period, all persons whose comments (written or oral) were received at the public hearing (if one is held) and all persons who requested notice of such modifications. Otherwise, please send requests for copies of any modified regulations to the attention of Hedvig Marx at the above email address. The CFC will accept written comments on the modified regulations for 15 days after the date on which they are made available.

AVAILABILITY OF INITIAL STATEMENT OF REASONS, RULEMAKING FILE AND EXPRESS TERMS OF THE PROPOSED REGULATIONS
The CFC has established a rulemaking file for this regulatory action, which contains those items required by law. The file is available for inspection at the California Film Commission, 7080 Hollywood Boulevard, Suite 900, Hollywood, California during normal business working hours (9 am~5 pm). Please contact Hedvig Marx at the above email address to arrange a date and time to inspect the files. As of the date this Notice is published in the Notice Register, the rulemaking file consists of this Notice, the Initial Statement of Reasons and the proposed text of the regulations. Copies of these items are available, upon request, from the Contact Person designated in this Notice.

AVAILABILITY OF FINAL STATEMENT OF REASONS
The CFC is required to prepare a Final Statement of Reasons. Once the CFC has prepared a Final Statement of Reasons, a copy will be made available to anyone...
who requests a copy. Requests for copies should be addressed to the Contact Person identified in this Notice.

OFFICE INTERNET WEBSITE

The Office maintains an Internet website for the electronic publication and distribution of written material. Copies of the Notice of Proposed Action, the Initial Statement of Reasons and the text of the regulations can be accessed through our website at: [www.film.ca.gov](http://www.film.ca.gov)