

CALIFORNIA FILM COMMISSION
California Soundstage Filming Tax Credit Program
Title 10, Chapter 7.75, Article 4, Sections 5530–5541

NOTICE OF PROPOSED RULEMAKING

September 15, 2023

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

Proposed Regulatory Action

The CFC proposes to amend 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 October 31, 2023. 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 amend sections 5530, 5531, 5532, 5533, 5534, 5535, 5536, 5537, 5538, 5539, 5540, and 5541 of Article 4 of Chapter 7.75 of Title 10 of the California Code of Regulations. The regulations outline a procedure for allocating tax credits to qualified taxpayers in the motion picture industry and the proposed amendments align that procedure with statutory changes and/or provide necessary additional clarity to applicants.

Summary of Related Existing Laws and Regulations:

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 the new California Soundstage Filming Tax Credit Program, applicable to taxable years beginning on or after January 1, 2022, and before January 1, 2032. Permanent regulations for the California Soundstage Filming Tax credit program were adopted on February 15, 2023, as Article 4 of Chapter 7.75 of Title 10 of the California Code of Regulations. These regulations provided a program to the motion picture industry allocating tax credits for qualified motion pictures. In July 2023, SB 132 (Ch. 56, Stat. 2023) amended subdivision (k) of sections 17053.98 and 23698 of the Revenue and Taxation Code, which details the requirements of this Program. These statutory amendments necessitate regulatory amendments to ensure that the Program is aligned with statute.

Existing law also 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, outlined in Article 3 of Chapter 7.75 of Title 10 of the California Code of Regulations, 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. Program 3.0 does not contain any provisions to incentivize the construction or renovation of soundstages in the state.

Broad Objectives and Anticipated Benefits of the Proposed Regulations:

The California Soundstage Filming Tax Credit Program, implemented through Article 4 of Chapter 7.75 of Title 10 of the California Code of Regulations, encourages production companies regardless of distribution outlet to film in California instead of other states, provinces, and countries offering incentives. The Program is structured to encourage job creation, in-state infrastructure growth, motion picture industry

diversity, training opportunities for disadvantaged youth, as well as skilled and trained construction labor, and to increase and retain motion picture production in California. The proposed amendments to the previously adopted California Soundstage Filming Tax Credit Program regulations align the regulations with recent statutory changes and clarify the specific processes necessary for Program implementation, enabling the state to successfully operate the Program and realize its benefits. The objective of these amendments is to ensure that the Program regulations are fully consistent with statute, as well as to ensure that Program processes and requirements are detailed and clear so that applicants can understand and utilize the Program as intended, and so that the CFC is better able to administer the program fairly and consistently.

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). This duplication aids the regulated public in gaining a comprehensive understanding of the relevant provisions of this specific program as the sections of statute that govern the program are lengthy and complex, and also include provisions relevant to other programs. In addition, in some cases, certain related process components are outlined in separate parts of the governing sections, making it necessary for the CFC to incorporate these components in a process-structured manner within the regulations in order for the public to be able to follow complete process requirements from start to finish.

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 effect on housing costs: 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

Pursuant to clause (iii) of subparagraph (C) of paragraph (10) of subdivision (k) of sections 17053.98 and 23698 of the Revenue and Taxation Code, the CFC is not required to provide an economic impact analysis. Due to the nature of tax credit incentives in relation to economic impact, the CFC has been exempted from the economic impact analysis throughout the existence of the California Film and Television Tax Credit Programs in all iterations; this exemption for the Soundstage Filming Tax Credit Program is consistent with previous practice.

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 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 fewer 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
Email: Hedvig.Marx@film.ca.gov
Phone No.: (323) 817-4115 or (310) 290-6501

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

PROPOSED AMENDMENTS 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) - (b) (Continued)

(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, as defined in subdivision (i), and is column-free~~column-free, as defined in subdivision (e),~~ 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) - (3) (Continued)

(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~~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) “Column-free” means an open space entirely free of columns if used for a traditional soundstage, or an open space free of columns to such a degree that a stationary LED volume large enough for feature film and television production fits in the part of the space that does not contain columns, if used for an LED volume soundstage.

(f) “Documentary” means a film or television project dealing with factual events, that are photographed in actual occurrence or depicted through techniques including, but not limited to partial reenactment, stock footage, stills, animation, or stop-motion.

(g) “Limited series” shall be understood to have the same meaning as “miniseries,” as defined in section 5520(o) of this chapter, and the terms may be used interchangeably for purposes of the California Soundstage Filming Tax Credit Program.

~~(e)~~(h) (Continued)

- (i) "Permanent grid" means a grid which is installed and functional for long-term, non-temporary use in soundstage production and shall include a smart grid which is adaptable to the circumstances of production.
- (j) "Reality television program" means a program depicting real events and non-actors through actual footage which presents persons in purportedly unscripted or partially scripted situations.
- (k) "Scripted series" means a fictional episodic television series based upon scripted materials.
- ~~(f)~~(l) "Stage shooting day" or "stage filming day" means a principal photography day, as defined in section 5520(s)5520(u) 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) – (2) (Continued)

~~(g)~~(m) (Continued)

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)(2), 17053.98(b), 23698(k)(2), 23698(b), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5531. Eligibility Determination

(a) (Continued)

(b) (Continued)

(1) (Continued)

(2) Phase B applications, except for recurring television series, 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 or its successor programs 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).

(3) Phase B applications for recurring television series that received a CAL for the first season of that television series in the California Soundstage Filming Tax Credit Program will be accepted on a first come, first served basis for the lifetime of such a television series.

(c) – (d) (Continued)

(e) The qualified motion picture must be produced by an applicant, as defined in section ~~5530(b)~~5530(b)(2), 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) – (k) (Continued)

(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~~ the cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code. 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)~~ that cap sum for subsequent seasons that qualify for this Program.

(m) (Continued)

(n) Any television series, relocated television series and any television series based on a pilot that has been approved and issued a Credit Allocation Letter under the California Soundstage Filming Tax Credit Program, shall be given first priority for a credit allocation as a recurring television series in each subsequent year in the life of that series for as long as credits are available. When credits are no longer available for the California Soundstage Filming Tax Credit Program, a recurring television series initially allocated tax credits from this Program and seeking an allocation of credits for a subsequent season shall receive an allocation of credits from the California Film and Television Tax Credit Program 3.0 or its successor programs, pursuant to sections 17053.98(k)(8)(E), 17053.98(k)(8)(G)(ii), 23698(k)(8)(E) and 23698(k)(8)(G)(ii) of the Revenue and Taxation Code.

(1) Each recurring television series shall submit a new application and pick-up order, if available, for each season. The application shall reflect the estimated qualified expenditures, but the allocation will not exceed the amount approved in the previous season's credit allocation letter(s). The narrative statement requirement as set forth in sections 17053.98(g)(2)(A)(viii) and 23698(g)(2)(A)(viii) of the Revenue and Taxation Code for all projects shall be deemed as met for recurring television series with the statement submitted by that series when it was accepted into this Program as a pilot, new or relocating television series.

(2) The allocation amount requested by a relocating television series applying for tax credits in subsequent fiscal years as a recurring television series shall not exceed the amount approved in the previous season's credit allocation letter(s).

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)(2)(B), 17053.98(k)(3), 17053.98(k)(4), 17053.98(k)(8), 17053.98(k)(9), 17053.98(k)(12)-(13), 17053.98(a), 17053.98(b), 17053.98(g), 23698(k)(2)(B), 23698(k)(3), 23698(k)(4), 23698(k)(8), 23698(k)(9), 23698(k)(12)-(13), 23698(a), 23698(b), 23698(g), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5532. Studio Construction Project Certification – Phase A

(a) (Continued)

(1) – (3) (Continued)

(4) (Continued)

(A) – (B) (Continued)

(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~~ August 28, 2023), 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) (Continued)

- (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. An eligible applicant fulfilling all Phase A application requirements and applying within the permitted timeframe specified in subdivisions (b) and (c) of section 5539 of this article will be approved. Upon approval, the CFC will issue the applicant an SCL, Form SCL (August 12, 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.
- (c) Pursuant to sections 17053.98(k)(2)(A) and 23698(k)(2)(A) of the Revenue and Taxation Code, the period of certification for a soundstage or soundstages that are part of a certified studio construction project shall be five (5) years.
 - (1) A once certified soundstage for which the period of certification has expired may still be utilized by a project applying for an allocation of credits under the California Film and Television Tax Credit Program 3.0 or its successor programs pursuant to and in accordance with sections 17053.98(k)(8)(D) and 23698(k)(8)(D) of the Revenue and Taxation Code and as outlined in subdivision (h) of section 5539 of this article.
 - (2) A Phase A applicant may apply for an extension of the period of certification for a soundstage that is part of its certified studio construction project by submitting a written request to the CFC to pause the period of certification due to a Force Majeure event, as defined in subdivision (i) of section 5520 of this chapter.
 - (A) A Force Majeure extension request substantiated in accordance with subparagraph (B) below may be granted for either:
 - 1. An indirect cause, which is a cause that prevents a qualified motion picture project intending to utilize the soundstage and applying for an allocation of credits under the California Soundstage Filming Tax Credit Program from moving forward with its planned application and use of the soundstage, such as, but not limited to, delays caused by breach by the motion picture director or a principal cast member or a labor disruption; or.
 - 2. A direct cause, which is a cause that prevents the use of the soundstage by any entity for any film and television production purpose, such as, but not limited to, damage caused by fire, flood, earthquake, storm, hurricane, or other natural disaster.
 - (B) The CFC will review the written request to pause the period of certification and any supporting documentation and grant the request if the applicant provides evidence of a Force Majeure disruption in accordance with paragraph (2) above or deny the request if the applicant fails to provide evidence of a Force Majeure disruption in accordance with paragraph (2) above.

1. For purposes of this subdivision, to “pause the period of certification” means to tally the time during which a Force Majeure disruption impacting a soundstage with an approved request is in effect and extend the original period of certification by that amount of time.

(i) A Force Majeure extension request that has been granted for an indirect cause, as defined in clause 1. of subparagraph (A) above, will be in effect from the date of approval until the end-date of the Force Majeure disruption, or until the date the soundstage is in use, whichever comes first. The Phase A applicant must notify the CFC whenever a certified soundstage that was granted a Force Majeure extension for indirect cause is in use.

(ii) A Force Majeure extension request that has been granted for a direct cause, as defined in clause 2. of subparagraph (A) above, will be in effect from the date of approval until the soundstage is considered safe for use by the applicant. The Phase A applicant must notify the CFC whenever a certified soundstage that was granted a Force Majeure extension for direct cause is safe for use, whether it is in use or not.

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)(1), 17053.98(k)(2), 17053.98(k)(10), 17053.98(k)(12), 17053.99, 23698(k)(1), 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) (Continued)

(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 with the same login credentials used for their Phase A application. ~~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 required 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 applicant must create an account in the online portal. In both cases, the Phase B application must also include the information set forth below:

(A) - (E) (Continued)

(c) (Continued)

(d) (Continued)

(1) (Continued)

(A) (Continued)

(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~~. cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code, and must not exceed that cap sum.

(2) (Continued)

(3) (Continued)

(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 per episode 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 per episode exclusive of commercials.

(B) – (D) (Continued)

(4) (Continued)

(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, 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) - (vi) (Continued)

(B) (Continued)

(C) Enter the data for PP days on soundstages.

1. Indicate the overall total number of PP stage shooting ~~days, 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, 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~~ 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 during the production period.

(5) (Continued)

(A) (Continued)

1. – 3. (Continued)

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) – (C) (Continued)

(6) (Continued)

(A) (Continued)

(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).

1. The applicant is responsible for collecting proof of identity and proof of the location where the qualified individual resides for local hire labor at the time of hire and for providing copies to the CPA performing the Soundstage AUP (August 28, 2023), hereby incorporated by reference. Without proof of identity and proof of the location where the qualified individual resides for a crewmember the Local Hire Labor Uplift shall not be applied for that individual.

(i) Acceptable proof of identity is a California Driver's License, a State ID Card, or a Passport.

(ii) For purposes of sections 17053.98(a)(4)(E) and 23698(a)(4)(E) of the Revenue and Taxation Code, acceptable proof of the location where the qualified individual resides is a current home or apartment rental agreement, or a utility bill, mortgage statement, internet or phone provider bill, renter's or homeowner's insurance bill, or equivalent document, issued within the previous three months.

(C) - (D) (Continued)

(E) Total Additional Tax Credit: ~~The online application will automatically calculate~~ Enter 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. – 4. (Continued)

(7) (Continued)

(A) - (B) (Continued)

(C) If applicable, enter total contingency, which can be no more than 10% of qualified expenditures. The contingency cannot be included as a line-item within the body of the budget.

(D) If applicable, enter total completion bond fee, which can be no more than 2% of qualified expenditures. The completion bond fee cannot be included as a line-item in the body of the budget. Completion bond costs for any filming outside of California must be excluded proportionately.

(E) – (I) (Continued)

(8) (Continued)

(A) (Continued)

1. – 2. (Continued)

3. (Continued)

i. Television series applicants submitting more than one budget shall submit only the pattern and amortization budgets; no additional budgets or budget versions will be accepted.

4. (Continued)

5. No motion picture may be allocated more than ~~twelve million dollars (\$12,000,000)~~ the cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code under this Program, regardless of additional tax credit allowances achieved through uplifts or any other mechanism.

(B) – (E) (Continued)

(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. The number of episodes indicated on the pick-up order must match the number of episodes in the application.

(G) Narrative statement pursuant to sections ~~17053.98 (g)(2)(A)(x) and 23698(g)(2)(A)(x).~~ 17053.98(g)(2)(A)(viii) and 23698(g)(2)(A)(viii) of the Revenue and Taxation Code. 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)~~ 17053.98 (g)(2)(A)(viii) and 23698(g)(2)(A)(viii) 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 section 17053.98(g)(2)(A)(xi) and 23698(g)(2)(A)(xi)-17053.98(g)(2)(A)(ix) and 23698(g)(2)(A)(ix) of the Revenue and Taxation Code.
- (J) ~~A summary of the applicant's~~ Applicants that administer voluntary programs to increase the representation of women and ~~minorities~~ minorities, or have access to such programs, shall submit a summary of those programs 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)-17053.98(g)(2)(A)(xi) and 23698(g)(2)(A)(xi) of the Revenue and Taxation Code.
- (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)-17053.98(g)(2)(A)(v), 17053.98(g)(2)(A)(xii), 23698(g)(2)(A)(v), and 23698(g)(2)(A)(xii) of the Revenue and Taxation Code.

(L) (Continued)

(9) (Continued)

- (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 cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code. ~~the \$12,000,000 cap.~~
 - (1) Each CAL is issued to the specific project described and outlined in the synopsis, script, schedule, and budget that were submitted with the application. Exchanging the approved project for a different project is prohibited and will result in revocation of the CAL.
 - (2) A qualified motion picture project that is taken over by an entity other than the applicant entity and wishes to retain the project's allocation of tax credits must comply with the following:
 - (A) The original applicant entity must submit a statement on company letterhead declaring that they no longer retain the project and specify the business entity that will take over the project, including that business entity's taxpayer ID.
 - (B) The applicant entity taking over the project must submit:
 - 1. Applicant contact, production company contact, and budget contact.
 - 2. Documentation required pursuant to paragraph (2) and subparagraphs (E) and (K) of paragraph (8) of subdivision (d) of this section.
 - 3. An updated production schedule, required pursuant to subparagraph (B) of paragraph (3) of subdivision (d) of this section.
 - (C) A qualified motion picture project described in paragraph (2) above can only be transferred to a different business entity prior to the start of principal photography.
- (f) An applicant that begins principal photography in California prior to receiving a CAL shall be disqualified from receiving such letter for that particular production.

- (g) An applicant shall not submit a duplicate application for a project. Submittal of duplicate applications will disqualify an applicant from the tax credit program.
- (1) Submitting an application for an allocation of credits under the California Film and Television Tax Credit Program 3.0 or its successor programs simultaneously with an application for an allocation of tax credits under the California Soundstage Filming Tax Credit Program shall constitute a “duplicate application.”
 - (2) Submitting an application for an allocation of credits under the California Soundstage Filming Tax Credit Program for a project that has applied for but has confirmation that it is not receiving credits under the California Film and Television Tax Credit Program 3.0 or its successor programs for the project shall not constitute a “duplicate application.”
- (h) An applicant, including any affiliated entities, that has been issued a tax credit allocation for a particular production that begins but does not complete principal photography of that production, shall not be eligible to reapply for a tax credit allocation for that particular production.
- (i) Any expenditures for services, wages, or goods incurred prior to the date of CAL issuance shall not be considered qualified expenditures with the exception of production facility, office rentals, completion bonds and insurance premiums, which are permitted on a prorated basis, to include the expenditures which are incurred on or after CAL issuance.
- (j) An applicant of a television series shall submit one application for a season of that television series. A television series with an order for additional episodes for the same season may submit an additional application for the additional episodes, however, the season as a whole shall be subject to the credit allocation cap.
- (k) Within thirty (30) business days of receipt of the completed application and all supporting documents required pursuant to this section and section 5534, the Director of the CFC, or their designee, will notify the applicant whether its Phase B submission is approved or rejected.
- (1) If revisions to the diversity workplan required pursuant to section 5534 are required, the re-submission of the amended document pursuant to subdivision (c) of section 5534, will count as the application date for purposes of the timeframe specified in subdivision (k) above and for purposes of determining the order of applications received 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)(1)-(5), 17053.98(k)(8), 17053.98(k)(10), 17053.98(a), 17053.98(b), 17053.98(g), 23698(k)(1)-(5), 23698(k)(8), 23698(k)(10), 23698(a), 23698(b), 23698(g), 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 ~~application portal~~. ~~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) (Continued)
- (1) (Continued)

(A) Goals to ensure qualified wage parity among ~~all races, ethnicities, and genders~~ employees, regardless of race, ethnicity, gender, and disability status, considering factors such as level of experience and competency.

(B) – (D) (Continued)

(2) (Continued)

(A) Goals to ensure qualified wage parity among ~~all races, ethnicities, and genders~~ employees, regardless of race, ethnicity, gender, and disability status, considering factors such as level of experience and competency.

(B) – (D) (Continued)

(3) – (4) (Continued)

(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~~ gender, and disability status.

(6) (Continued)

(7) ~~Nothing in this section shall be construed to require or encourage the~~ The CFC will reject any submitted diversity workplan ~~to include~~ that includes quotas or other numeric goals regarding protected classifications, including race, ethnicity, and ~~gender~~ gender, and disability status.

(c) (Continued)

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)(1)-(4), 23698(k)(1)-(4), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5535. Qualified Expenditures

(a) – (b) (Continued)

(c) (Continued)

(1) (Continued)

(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~~ August 28, 2023), hereby incorporated by reference, required pursuant to section 5540.

(3) (Continued)

(d) – (e) (Continued)

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)(1)-(4), 17053.98(k)(8),

17053.98(a), 17053.98(b), 23698(k)(1)-(4), 23698(k)(8), 23698(a), 23698(b), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5536. Approved Applicant Responsibilities – Phase B

(a) (Continued)

- (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)~~5520(u)) no later than two hundred and forty (240) calendar 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(b)(18)(B)(iv) and 23698(b)(18)(B)(iv)~~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) – (5) (Continued)

- (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 career-based learning program, high school, school and community college, and California State University students to careers in the entertainment industry. To demonstrate compliance with this requirement the applicant must submit the applicable form for Soundstage Career Readiness verification, Form SCR1, SCR2, SCR3, SCR4, or SCR5 (March 11, 2022), hereby incorporated by reference, to the CFC as soon as the qualifying event has concluded. To meet the requirements of this section, the applicant may do any of the following:
 - (A) Provide to students enrolled within the past twelve months in an accredited California high school, school or community college, California State University, or career-based learning program 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 within the past twelve months in an accredited California high school, school or community college, California State University, or career-based learning program 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 within the past twelve months in an accredited California high ~~school, school or~~ community college ~~college~~, California State University, or career-based learning program 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) – (F) (Continued)

(7) (Continued)

(A) (Continued)

- (B) The contribution shall be submitted to the CFC with the career pathways program form, Form SCPP (July 28, 2023), hereby incorporated by reference, no later than thirty (30) business days after the CAL date; failure to submit the contribution within this time frame ~~may~~ will result in revocation of the CAL.

1. An applicant facing a technical or funds-related barrier to meeting the deadline may request an extension of up to ten (10) business days and the CFC will grant the extension if the applicant requests such an extension prior to the expiration of the timeframe specified in subparagraph (B) above and provides supporting documentation.

- (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)~~ 5520(y).

- (D) A qualified motion picture that receives an increase in allocated tax credits, causing an additional contribution sum to become due, shall make a payment of that additional sum within thirty (30) business days of notification of that increase in allocation.

- (E) The contribution must be made by business or personal check. No other payment options will be accepted.

NOTE: Authority cited: Sections 17053.98(k)(10), 23698(k)(10), Revenue and Taxation Code; and Section 11152, Government Code. Reference: Sections 17053.95(e), 17053.98(k)(1), 17053.98(k)(4), 17053.98(k)(10), 17053.98(b), 17053.98(e), 23695(e), 23698(k)(1), 23698(k)(4), 23698(k)(10), 23698(b), 23695(e), 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 to the CFC for review. The diversity report required pursuant to this section must be submitted to the CFC and approved

~~before the applicant can proceed to submit along with the documentation described in section 5540.~~
before the applicant can proceed to submit along with the documentation described in section 5540 and seek tax credit certification.

(b) (Continued)

(1) – (3) (Continued)

(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, gender, and disability status~~ as evidence of whether goals were met.

(c) Within ~~approximately forty-five (45) business days of receipt of the final diversity report, report and all documentation required pursuant to section 5540,~~ the Director of the CFC, or their designee, will notify the applicant whether the report meets the requirements under subdivision (b) of this section and is approved or does not meet the requirements under subdivision (b) of this section and is 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~~ August 28, 2023), 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) (Continued)

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)(1), 17053.98(k)(3), 23698(k)(1), 23698(k)(3), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5538. Approved Applicant Responsibilities – Phase A

(a) (Continued)

(1) (Continued)

(2) For purposes of this section, "continuously operated, maintained, and repaired" means ongoing services performed within a soundstage, or externally, if structural, that keep the soundstage in a state fit for operation and use. This includes but is not limited to, non-production related janitorial and security services inside the structure, internal and external structural upkeep, and soundstage systems maintenance and repairs. It does not include replacement of full systems or stand-alone components, such as but not limited to HVAC systems replacement, comprehensive grid replacement, or plumbing systems replacement.

- (b)(1) To certify that ~~every soundstage~~ the soundstages that ~~is~~ are part of a certified studio construction project ~~meets~~ meet the requirements set forth in Revenue and Taxation Code sections 17053.98(k)(13) and 23698(k)(13), the applicant must annually provide ~~one or several~~ third-party Soundstage Workforce Report ~~Reports~~, as specified in paragraph (2) of this subdivision, 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) (Continued)

- (2) The applicant must provide one annual report for each Phase B qualified motion picture project filming on the soundstage or soundstages that make up the certified studio construction project during the year under review. The report for one Phase B qualified motion picture project must include all soundstages utilized by that project during the year under review.

(A) The required information for a soundstage that is in use by more than one Phase B project shall be included in all relevant workforce reports and count toward the total sums of all the individual reports in which it is included.

(B) If the certified studio construction project includes one or more certified soundstages that have not been in use by any Phase B qualified motion picture project allocated tax credits under the California Soundstage Filming Tax Credit Program during the year under review, those unused soundstages shall be grouped together in one report.

- ~~(2)(3)~~ 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~~ Each report shall include:

1. – 2. (Continued)

(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), 5538(b)(3)(A)1.~~ 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), 5538(b)(3)(A)1.~~ 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), 5538(b)(3)(A)1.~~ 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.~~

- (4) Annual reports are required:
- (A) Throughout the certified studio construction project's period of certification; or,
 - (B) Until the total amount of credits authorized under Revenue and Taxation Code sections 17053.98(k) and 23698(k) has been allocated by the CFC, if that occurs prior to the timeframe outlined in paragraph (A) above; or,
 - (C) Throughout the production period of any Phase B project allocated credits under the California Soundstage Filming Tax Credit Program and filming on a certified soundstage or soundstages that is part of the certified studio construction project, if that extends beyond the timeframes outlined in paragraph (A) or paragraph (B) above.
- (5) Each annual Soundstage Workforce Report must be submitted to the California Film Commission no more than thirty (30) calendar days after the anniversary date of the issued Soundstage Certification Letter or Letters, Form SCL (August 12, 2022), hereby incorporated by reference, for the soundstage or soundstages included in the report.
- (A) Applicants shall submit the report or reports electronically to SoundstageIncentive@film.ca.gov.
- (6) A Phase A applicant who leases a certified studio construction project in its entirety and for the duration of the period of certification to a producer of qualified motion pictures and who has delegated all operation, maintenance, and repairs of the soundstages in the certified studio construction project to that producer may also delegate the responsibility of submitting the annual Soundstage Workforce Report to that same entity.
- (A) The declaration of delegated responsibility must be made by the Phase A applicant in writing on company letterhead and submitted to the CFC.
 - (B) The declaration of delegated responsibility must include as an attachment a statement of accepted responsibility, on company letterhead, signed by a representative of the entity to which the responsibility is delegated.
 - (C) The declaration of delegated responsibility and statement of accepted responsibility must be submitted within ninety (90) calendar days following certification of the studio construction project.

(c) – (d) (Continued)

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)(1), 17053.98(k)(13), 17053.99(b), 23698(k)(1), 23698(k)(13), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5539. Tax Credit Allocation

(a) – (d) (Continued)

- (e) Notwithstanding subdivision (d), no certified motion picture will be allocated more than the cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code. ~~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 the cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code. ~~twelve million dollars (\$12,000,000) for subsequent seasons that qualify for this Program.~~

(f) – (g) (Continued)

(h) The relationship between the California Soundstage Filming Tax Credit Program and the California Film and Television Tax Credit Program 3.0 and its successor programs~~and the transition for a motion picture from the Soundstage Program to Program 3.0~~ is defined and shall occur as follows:

- (1) A qualified motion picture, other than a recurring television series, that satisfies the criteria of the California Soundstage Filming Tax Credit Program but that does not receive a credit allocation under this program because the total amount of credits has been allocated or because the period of certification for the soundstage or soundstages where the project is filming has expired, may apply for a credit allocation under the California Film and Television Tax Credit Program 3.0 or its successor programs subject to a jobs ratio enhancement of 133 percent, pursuant to sections 17053.98(g)(2)(D)(iv)(II) and 23698(g)(2)(D)(iv)(II) of the Revenue and Taxation Code. ~~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.~~

- (2) A recurring television series that satisfies the criteria of the California Soundstage Filming Tax Credit program but is no longer eligible for a credit allocation under this program because the total amount of credits has been allocated or because the period of certification for the soundstage or soundstages where the project is filming has expired shall receive a credit allocation under the California Film and Television Tax Credit Program 3.0 or its successor programs, pursuant to sections 17053.98(g)(2)(D)(v) and 23698(g)(2)(D)(v) of the Revenue and Taxation Code.

(3) A qualified motion picture 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 the period of certification has expired for purposes of being eligible to apply for or receive an allocation of tax credits under the California Film and Television Tax Credit Program 3.0 or its successor programs, as described in paragraphs (1) and (2) above, when a reason for ineligibility under the California Soundstage Filming Tax Credit Program is that the period of certification for the certified studio construction project has expired.

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)-(4), 17053.98(k)(8)-(9), 17053.98(k)(11), 17053.98(a), 23036, 23698(i)(4), 23698(k)(1)-(4), 23698(k)(8)-(9), 23698(k)(11), 23698(a), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5540. Credit Certificate Issuance Process – Phase C

- (a)(1) Within 48 months of the date of the 30-month completion deadline for the qualified motion picture, as specified in subdivision (c), every applicant allocated tax credits under the California Soundstage Filming Tax Credit Program shall do one of the following:
- (A) Submit the documents specified in this section, in an electronic format and/or hardcopy, as directed by the CFC; or,
 - (B) Submit a written notice to the CFC stating that they will not be requesting certification for the allocated credits; or,
 - (C) For an applicant with insufficient tax liability to initiate the process at the timeframe set in paragraph (1) above, request an extension in writing.
 - 1. The applicant may request one or more extensions of up to twelve (12) months and the CFC will approve the extension for an applicant that requests such an extension within the timeframe specified in clause 2. below and submits a statement of insufficient tax liability to initiate use of the allocated tax credits.
 - 2. The applicant shall request an extension no less than thirty (30) business days prior to the expiration of the timeline specified in paragraph (1) above or prior to the expiration of a previously approved extension for the request to be considered by the CFC.
 - (D) Failing to comply with the requirements of this paragraph shall constitute forfeiture of an applicant's allocated tax credits.
- (a)(2) Within the timeframe specified in paragraph (1) above, Afterafter 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 ~~5537-5537~~ and the CFC's approval or rejection of that report. 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 that owns the certified soundstage or soundstages on which the qualified motion picture project is filmed has complied with the annual workforce certification requirements in section ~~5538-5538~~ for that soundstage or soundstages.

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

(1) – (2) (Continued)

(3) List of all Cast and Crew for the ~~project~~project with Social Security numbers redacted, if applicable.

(4) (Continued)

(5) Expenditure Summary Report information as set forth ~~on the CFC website below.~~ 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.~~ensure that all contact information provided is correct and up to date.

(A) Section 1. Applicant ~~Information~~Information, including the applicant entity, type of entity, taxpayer ID, address(es), phone number(s), contact person(s) and their title(s), parent company information (if applicable), CPA 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.Information for parent company and CPA firm.

(C) (Continued)

(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~~July 28, 2023), 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) – (F) (Continued)

(G) Section ~~5H5D~~5H5D. 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) (Continued)

1. (Continued)

2. Verification of payment of 0.5 percent of the approved credit amount to the Career Pathways Training Program with date paid and ~~amount.~~amount, utilizing required Form SCPP (July 28, 2023), hereby incorporated by reference.

(I) (Continued)

1. (Continued)

(i) – (iii) (Continued)

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

2. – 3. (Continued)

4. Total additional tax credit: ~~The online application will automatically calculate~~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) – (iii) (Continued)

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

5. Total Diversity Goals Potential Increase: ~~Select~~Calculate based on the 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.~~Amount, subject to verification and to the cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code.

(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) – (10) (Continued)

(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)(14)~~5533(d)(8)(K) is also required.

(12) (Continued)

(c) – (f) (Continued)

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)(1)-(5), 17053.98(k)(8), 17053.98(k)(10), 17053.98(k)(13), 17053.98(b), 17053.98(c), 17053.98(d), 17053.98(e), 17053.98(g), 17053.98(i), ~~23695(e)~~, 23698(k)(1)-(5), 23698(k)(8), 23698(k)(10), 23698(k)(13),

23698(b), 23698(c), 23698(d), 23698(e), 23698(g), 23698(i), Revenue and Taxation Code; and Section 14998.1, Government Code.

§ 5541. On Screen Credit and Promotional Requirements

(a) (Continued)

(1) Provide an on-screen acknowledgement ~~to: to~~ THE STATE OF CALIFORNIA, CALIFORNIA AND THE CALIFORNIA FILM COMMISSION, and THE 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.~~

(A) The acknowledgement must include a five-second long static logo in the end credits before the below-the-line crew crawl for the life of the project.

(B) Such acknowledgement and logo shall appear on every episode of a television series except where prohibited as specified in paragraph (1) above.

(C) The applicant may choose the wording of the acknowledgement and the placement of the required entities within that wording, but all three entities specified in paragraph (1) above must be named.

(2) (Continued)

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 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, and regulations governing the Program, Program guidelines, Qualified Expenditure Charts, Budget Tagging and Tracking Tips, and other Soundstage Filming Program materials are posted on the California Film Commission website as resources. 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~~ during the production period; 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 ~~\$5,000,000,\$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 ~~\$5,000,000,\$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, California State University 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

Stratum 2. Recalculate the projected misstatement for the second additional samples. If the projected misstatement for the second additional samples does not exceed 2%, document the projected misstatement in the Report. Do not make an adjustment to QE for a projected misstatement; however, do adjust QE for noted known errors in the second samples. If the projected misstatement from the second samples exceeds 2% of QE, adjust QE for the average of the two projected misstatements to QE population not sampled.

- c. Attach a listing of any known exceptions noted in the QE tests in procedures 2. and 3.b. above in **Exhibit E**. The listing should include amount, vendor/person, and nature of discrepancy.
4. Obtain from the Company a statement, either separately or within the representation letter, that all outstanding purchase orders and all invoices for qualified expenditures have been paid and attach as **Exhibit F**. If applicable, for any invoices or purchases orders that have not been paid, deduct expenditures from total QE.
5. Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which are prior to the Qualified Period and 14 days after issuance of the CAL. After final element creation, inspect the detailed cost ledger 14 days after element creation and thereafter. Based on this description determine if expenditures were incurred within the Qualified Period. Summarize and inquire with client those expenditures which appear to be outside the Qualified Period. Based on your inspection and the inquiries with Company, adjust QE for any amounts outside the Qualified Period.
6. For the qualified items listed which required full or partial payment, such as insurance premiums, stage rentals, completion bond, or office rent (if not reviewed in procedure V.2.i.), made prior to the issuance of the CAL, confirm that these costs are prorated by the number of pre-production, production and post-production weeks or obtain a statement of allocation from the California based broker and/or completion bond company. Confirm only the prorated costs after the CAL date and no more than 30 days after creation of the final element are included in QE.
7. Obtain fixed asset listings from the Company of all assets used in the production as follows: (1) all electronic equipment with a purchase price equal to or greater than \$250; and (2) all other assets not considered electronic equipment with an original purchase price equal or over \$10,000. The listings should indicate the status of the assets (e.g., destroyed, sold, donated, being held for future productions, given to cast or crew, etc.). Attach a copy of both asset listings as **Exhibit D**. For all assets on the listings perform the following procedures:
 - a. For all electronic assets (Include electronic assets purchased for set dressing and/or prop purposes) including but not limited to computers, hardware and relevant components, printers, copiers, etc. with a purchase price equal to or greater than \$250, verify that the QE is the lesser of the net costs of the asset after sales proceeds (if assets sold) or 20% of the original cost. If asset was given to a non-qualifying cast or crew member or sold to a non-qualifying cast or crew member for less than 20% of original purchase price, verify that the cost of such asset is not included in the QE.

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

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

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

9. Verify with the Company the names of any and all visual effects, digital effects, 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.

- 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.~~ 5. Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which are prior to the Qualified Period and 14 days after issuance of the CAL. After the final element creation, inspect the detailed cost ledger 14 days after element creation and thereafter. Based on this description, determine if QW including qualified fringes were incurred within the Qualified Period. Summarize and inquire with client those QW which appear to be outside the Qualified Period. Based on your inspection and the inquiries with Company, adjust the QW for any amounts outside the Qualified Period.

~~12.~~ 6. Obtain the final “galley” or “checker” or electronic version of the main (if applicable) and end title credits for the production.

- a. For those individuals receiving both above the line (ATL) and below the line (BTL) credits (Dual Role Employees), please note the names, qualified compensation, and end title credits received and attach in **Exhibit K**.
- b. For any Dual Role Employee whose BTL wages are not within industry standards or equivalent with other crew in similar positions, adjust QW. Additionally, verify that QW for DGA Unit Production Managers and/or Assistant Directors with ATL credits have no more than \$100,000 in wages (exclusive of guild or union or other qualified taxes, fees, or fringes, if applicable). If determination cannot be reached, contact the CFC to discuss.
- c. 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.~~ 7. Verify with the Company that any insurance claims related to QW have been properly credited in the cost report and obtain a signed letter from a Company representative stating that the applicant (indicated in the CAL) has properly disclosed all insurance claims whose costs are being claimed as QW. The information in this letter can be incorporated into the representation letter, **Exhibit F**.

- ~~14.~~ 8. 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)~~ five million dollars (\$5,000,000) 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.~~ 9. 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.~~ 10. For exceptions noted in ZW testing in procedure 9. above:

- a. Adjust ZW for known errors noted during your testing.
- b. Project the misstatement results of the sample to the ZW from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total ZW population from which the sample was selected. If the known errors noted during testing result in an adjustment to NQ, rather than an adjustment to QW, do not include these errors when calculating the rate of misstatement.
- c. If the projected misstatement does not exceed 2% of ZW, document the projected misstatement in the Report. Do not make adjustments to ZW for the projected misstatement.
- d. If the projected misstatement exceeds 2%, adjust ZW for the projected misstatement amount to the ZW population that was not sampled and reclassify errors to QW.
- e. Attach known errors and projected misstatement (if applicable) from the above ZW procedures 8. and 9. as **Exhibit L**, the summary of wage exceptions related to uplift and bonus points.

~~17.~~ 11. 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 in accordance with section 5533(d)(6)(B)1. of the regulations 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).
- 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.~~ 12. 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 5535(c)(3)(B)5524(e)(3)(B) in of 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 QQ**.

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 the statutory cap sum specified in sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code. ~~\$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)~~ 5531(l) and (m) 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~~ \$5,000,000 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

Test #1

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
Sample for Stratum 1	800,000	D
Test #1 Findings	15,000	E
Rate of Misstatement in Sample	1.875%	F = E/D
Projected Misstatement in Population	37,500	G = F x C
Projected Misstatement % in Population	0.71%	H = G / A
(if below 2% no additional test required)		

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
Projected Misstatement in Population	-	M = C x L
Projected Misstatement % in Population	-	N = M / A
Average of Two Tests (if both over 2%)	-	O = Average (H,N)

Total Non-Payroll Population	3,500,000	A
Less Top Stratum Tested	(1,500,000)	B
Less Sample for Test #1	(1,200,000)	D
Less Tested in Sample for Test #1	-	J
Total Population Not Tested	800,000	Q = A+B+D+J
Projected Misstatement in Population	-	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	-	R
Total Adjusted Non-Payroll Unadjusted Costs	485,000	S = A+B+F+L+R



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~~ incurred local expenditures, hired local cast, crew, and/or background performers.

Instructions for Accountants: For all out of Los Angeles eCounty 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. eCounty. For wages (local hire payroll only), note the county where the work is incurred during prep, shoot, and strike. Please create a free field code for each county, e.g., HC for Humboldt county, OC for Orange county, etc. so as to report the spend for each county. Exact spend is not crucial; estimates are acceptable.

Production Title _____ Queue # _____

County _____ Total Shoot Days for Entire Project _____

Shoot Dates _____ Total # of Shoot Days in County _____

Total # of Hotel Rooms _____

LOCAL HIRE PAYROLL	LOCAL VENDORS
Local Hire Cast \$ _____ # of Cast _____	Hotel Cost _____
Local Hire BG Performers \$ _____ # of Background Performers _____	Location Fees and Permits _____
Local Hire Crew \$ _____ # of Crew _____	All Other Local Rentals & Purchases _____
Total Local Payroll \$ _____	Total Local Vendor Spend _____
Total Spend in County \$ _____	

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

This report was prepared by:

Primary Contact Name: _____ Title: _____

Email: _____ Phone: _____ Date: _____



Soundstage Filming Tax Credit program

PILOT CAREER PATHWAYS TRAINING PROGRAM

The Pilot Career Pathways Training Program is a requirement under Senate Bill 144 targeting underserved communities for entry into film and television industry jobs. These efforts, which can be applied, replicated or scaled to create broader impact and access to employment, should result in job opportunities and placement. Per the statute, approved applicants are required to fund the Pilot Skills Training Program, with the amount of .5% of the estimated tax credit on the Credit Allocation Letter (CAL). Payment must be made within 30 business days from the date of the CAL, or the CAL will be revoked. Applicants who face barriers to meeting the deadline must request an extension from the CFC prior to expiration of the 30-day deadline (see section 5536(a)(7)(B)1. of Title 10 of the California Code of Regulations).

INSTRUCTIONS

1. Fill out the form below and sign. Please make sure to include the name of the person or entity issuing the check and their relationship to the project in the designated fields below for verification purposes.
2. Make the check out to **IATSE Training Trust Fund**
3. Indicate on the memo line the title of your project and "CFC Pilot Skills Fund."
4. Submit this form along with your check to: CALIFORNIA FILM COMMISSION Attention: Tax Credit Program
7080 Hollywood Boulevard Suite 900 Hollywood, California 90028

Production Title	_____	Queue #	_____
Production Type	_____	CAL Date	_____
CAL Amount	_____	Payment Deadline	_____
Name/Entity on Check	_____	Relationship to Project	_____
Fund Amount	<div></div>	Date on Check	_____

Approved Project's Contact Information

Applicant / Company	_____	Taxpayer ID #	_____
Parent / Studio	_____		
Contact Name	_____	Job Title	_____
Email Address	_____	Phone	_____
Mailing Address	_____		
Signature	_____	Date	_____

PAYMENT CONFIRMATION

Dear Applicant:

Thank you for your contribution; this email / form verifies that you are in compliance with the Pilot Skills Training Program Requirement.

Soundstage Filming Tax Credit Program

Date _____

Submitted Check to IATSE TTF _____

Initials _____

USPS Tracking No. _____

REFUND INFORMATION (If applicable.)

Notified Fiscal Agent _____

☐ Withdrawn, full amount due: _____

☐ Reduction due to reasonable cause; balance due: _____

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

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 _____

INITIAL STATEMENT OF REASONS

OVERVIEW

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 the new California Soundstage Filming Tax Credit Program, applicable to taxable years beginning on or after January 1, 2022, and before January 1, 2032. Permanent regulations for the California Soundstage Filming Tax Credit Program were adopted on February 15, 2023, as Article 4 of Chapter 7.75 of Title 10 of the California Code of Regulations. These regulations provided a program to the motion picture industry allocating tax credits for qualified motion pictures. In July 2023, SB 132 (Ch. 56, Stat. 2023) amended subdivision (k) of sections 17053.98 and 23698 of the Revenue and Taxation Code, which details the requirements of this Program.

The California Soundstage Filming Tax Credit Program encourages production companies, regardless of distribution outlet, to film in California instead of other states, provinces, and countries offering incentives. The Program is structured to encourage job creation, in-state infrastructure growth, motion picture industry diversity, training opportunities for disadvantaged youth, as well as skilled and trained construction labor, and to increase and retain motion picture production in California.

The proposed amendments to the previously adopted California Soundstage Filming Tax Credit Program regulations are necessary to align the regulations with recent statutory changes and to clarify the specific processes necessary for Program implementation, enabling the state to successfully operate the Program and realize its benefits. The objective of these amendments is to ensure that the Program regulations are fully consistent with statute, as well as to ensure that Program processes and requirements are detailed and clear so that applicants can understand and utilize the Program as intended, and so that the CFC is better able to administer the Program fairly and consistently.

SPECIFIC PURPOSE FOR EACH REGULATION AND FACTUAL BASIS FOR DETERMINATION THAT EACH REGULATION IS NECESSARY

5530

Section 5530, subdivision (c)

Specific purpose:

The amendments to subdivision 5530(c) add reference to definitions of "permanent grid" and "column-free" in other subdivisions to ensure that applicants are able to find further details that help them determine if a soundstage meets acceptable eligibility standards for film and television production and ensures that Phase B applicants are able to rely on certified soundstages meeting acceptable standards for production use.

Factual basis:

These amendments are necessary to guide applicants to relevant details of the specific requirements that must be met for a soundstage to qualify as part of a Soundstage Filming Tax Credit Program certified studio construction project and with current industry practices relating to specifications for soundstages and ancillary support structures used for film and television production.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also

consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (d)

Specific purpose:

The amendments to subdivision 5530(d) repeal an erroneous timeframe and instead end the regulation at the reference to section 5538, which provides clarity in detail.

Factual basis:

This amendment is necessary to provide accurate information to applicants and it meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (e)

Specific purpose:

Subdivision 5530(e) is added to define the term "column-free" in order to clarify for applicants how the concept applies to a stationary light emitting diode (LED) volume. Because an LED volume is stationary within the overall structure, the presence of columns, in so far as they do not block the volume, is not a hindrance to such a soundstage in the same way they are a hindrance to a traditional soundstage. As LED volumes are in high demand for production, regulations must reflect specifications that allow for this infrastructure to be incentivized within the Program.

Factual basis:

This definition is necessary to clarify what the technical specifications are for a soundstage to qualify for certification. This definition further ensures that applicants can navigate the Program with a clear understanding of the terminology in use.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (f)

Specific purpose:

Subdivision 5530(f) is added to define the term "documentary" in order to clarify for prospective applicants how the concept applies to the Program because a documentary is one of the categories that is not a qualified motion picture, as defined in statute, and is therefore not eligible to apply for tax credit allocation.

Factual basis:

This definition is necessary to clarify eligibility parameters pursuant to and consistent with sections 17053.98(b)(18)(D) and 23698(b)(18)(D) of the Revenue and Taxation Code. This definition further ensures that applicants can navigate the Program with a clear understanding of the terminology in use.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (g)**Specific purpose:**

Paragraph 5530(g) defines a “limited series” for purposes of the Soundstage Filming Tax Credit Program regulations clarifying that it has the same meaning as “miniseries” and referencing the definition for miniseries in regulations.

It should be noted that the reference to the definition of “miniseries” is stated as 5520(o) rather than 5520(m); this change in regulations is currently underway through a proposed rulemaking for the California Film and Television Tax Credit Program 3.0 with notice file number Z-2023-0731-02 and regulatory action number 2023-[number will be entered upon filing].

Factual basis:

Adding this paragraph is necessary to clarify that the term “limited series” has the same meaning as the term “miniseries” because the motion picture production industry uses these terms interchangeably and use of the term “limited series” has become more common, but only “miniseries” is defined in CFC regulations and sections 17053.98 and 23698 of the Revenue and Taxation Code.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (h)

Prior subdivision (e) has been renumbered subdivision (h) to allow for the addition of new subdivisions (e)-(g). This is a change without regulatory effect.

Section 5530, subdivision (i)**Specific purpose:**

Subdivision 5530(i) is added to define the term “permanent grid” in order to clarify for applicants how the concept applies to a non-traditional smart grid. Because virtual production spaces may utilize a smart grid, which can be adaptable to the circumstances of production to such a degree that it may be entirely movable or removable, the definition of the term must be specified to mean that it is for long-term, non-temporary use and is not required to be a fixture which cannot be moved. As virtual production spaces are in high demand for production, regulations must reflect specifications that allow for this infrastructure to be incentivized within the program.

Factual basis:

This definition is necessary to clarify what the technical specifications are for a soundstage to qualify for certification. This definition further ensures that applicants can navigate the Program with a clear understanding of the terminology in use.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (j)**Specific purpose:**

Subdivision 5530(j) is added to define the term “reality television program” in order to clarify for prospective applicants how the concept applies to the Program because a reality television program is one of the categories that is not a qualified motion picture, as defined in statute, and is therefore not eligible to apply for tax credit allocation.

Factual basis:

This definition is necessary to clarify eligibility parameters pursuant to and consistent with sections 17053.98(b)(18)(D) and 23698(b)(18)(D) of the Revenue and Taxation Code. This definition further ensures that applicants can navigate the Program with a clear understanding of the terminology in use.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (k)**Specific purpose:**

Subdivision 5530(k) is added to define the term "scripted series" in order to clarify for prospective applicants how the concept applies to the Program. Some categories not eligible to apply for tax credit allocation, such as, but not limited to a documentary or a reality television program, may partially rely on scripts or script-like materials, therefore scripted series must be defined as a fictional motion picture to ensure that the term can be used without implying eligibility for categories that are statutorily excluded from the Program.

Factual basis:

This definition is necessary to clarify eligibility parameters pursuant to and consistent with sections 17053.98(b)(18)(D) and 23698(b)(18)(D) of the Revenue and Taxation Code. This definition further ensures that applicants can navigate the Program with a clear understanding of the terminology in use.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5530, subdivision (l)

Prior subdivision (f) has been renumbered subdivision (l) to allow for the addition of new subdivisions and the renumbering of existing subdivisions (e)-(k). It should be noted that the reference to the definition of "principal photography" in former subdivision 5530(f), now 5530(l), has been amended to 5520(u) rather than 5520(s); this change in regulations is currently underway through a proposed rulemaking for the California Film and Television Tax Credit Program 3.0 with notice file number Z-2023-0731-02 and regulatory action number 2023-[number will be entered upon filing]. These are both changes without regulatory effect.

Section 5530, subdivision (m)

Prior subdivision (g) has been renumbered subdivision (m) to allow for the addition of new subdivisions and the renumbering of existing subdivisions (e)-(l). This is a change without regulatory effect.

5531**Section 5531, paragraphs (b)(2), (b)(3), and subparagraph (b)(2)(A)****Specific purpose:**

Amendments to paragraphs 5531(b)(2), (b)(3), and subparagraph (b)(2)(A) clarify how the transferability provisions between the California Soundstage Filming Program and the California Film and Television Tax Credit Program 3.0, or its successor programs, impact application submissions.

These provisions differ between a Recurring Television Series and any other production type, and the distinction must be made clear to applicants.

Factual basis:

The amendments to these paragraphs and subparagraph are necessary to clarify the difference between Phase B application submissions for Recurring Television Series and for any other production category in the Soundstage Filming Program, and to clarify that transferability applies to successor programs. The amendments are consistent with the provisions of Revenue and Taxation Code sections 17053.98(k)(8), (k)(10), 23698(k)(8), and (k)(10).

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5531, subdivision (e)

The definitions reference in subdivision (e) has been amended to be more specific. This is a change without regulatory effect.

Section 5531, subdivision (l)

Specific purpose:

Subdivision 5531(l) clarifies that the Soundstage Filming Tax Credit Program has a credit allocation cap which applies to features and series, including subsequent seasons of a recurring television series. The amendments to this subdivision repeal the stated fixed sum and instead refers to the specific subparagraph in statute which details the cap sum.

Factual basis:

This amendment is necessary to ensure that applicants have the most accurate information and aligns with a recent statutory amendment to sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code, which has changed the cap sum to a dynamic number – the greater of \$12,000,000 or \$750,000 per episode of a season of a television series. Referencing the location in statute that specifies the credit allocation cap ensures that applicants for eligible motion picture productions can evaluate the impact of participation in the Soundstage Filming Tax Credit Program appropriately.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5531, subdivision (n), paragraphs (n)(1) and (n)(2)

Specific purpose:

Statute provides that a Recurring Television Series shall receive an allocation of credits for the lifetime of that series in the California Soundstage Filming Tax Credit Program. Subdivision (n), inclusive, is added to clarify this lifetime allocation in regulations, to provide the process for application for such a series, and to clarify the transferability to the California Film and Television Tax Credit Program 3.0 and its successor programs, as well as the boundaries of allocation.

Factual basis:

Adding this subdivision and its paragraphs is necessary to clarify the lifetime allocation provision set forth in, and consistent with, Revenue and Taxation Code sections 17053.98(g)(2)(D)(v), (k)(8), 23698(g)(2)(D)(v), and (k)(8), and referenced in Revenue and Taxation Code sections 17053.98(k)(5) and 23698(k)(5), and the processes and transferability associated therewith.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5532

Section 5532, subparagraphs (a)(4)(C)

The reference to the Soundstage AUP form incorporated in subparagraph (C) has been amended to reflect the most recent issue date of this form. This is a change without regulatory effect.

Section 5532, subdivision (b)

Specific purpose:

Subdivision 5532(b) outlines timeframes and terms for Phase A application approval, amendments, or rejection. The amendment to this subdivision explicitly states that an eligible applicant that fulfills all program requirements and applies within the permitted timeframe will be approved by the CFC; this was previously only implied and has been spelled out for clarity.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5532 institutes the process by which applicants may apply for this studio construction project certification and specifies the parameters for certification. The amendment to subdivision 5532(b) specifies CFC's procedures for approval of Phase A applications, consistent with Revenue and Taxation Code sections 17053.98(k)(2)(A) and 23698(k)(2)(A), and the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(A) and 23698(k)(10)(A).

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5532, subdivision (c), paragraphs (c)(1) and (c)(2), subparagraphs (c)(2)(A) and (c)(2)(B), clauses (c)(2)(A)1., (c)(2)(A)2., and (c)(2)(B)1., and subclauses (c)(2)(B)1.(i) and (ii)

Specific purpose:

Subdivision 5532(c), inclusive, has been added in order to specify the period of certification for a certified soundstage, to clarify the transferability component for once certified stages, and to outline the options for a Phase A applicant faced with a Force Majeure event, as defined, including the possibility to pause the period of certification. The recent COVID-19 pandemic as well as recent labor strike events impacting the motion picture production industry has made it clear that there may be unforeseen major events that impact the use of a soundstage for long periods of time. Since the period of certification for a soundstage impacts a Phase B motion picture project's chance of participating in the California Soundstage Filming Tax Credit Program, preventing that period of certification from expiring prematurely due to unforeseen external circumstances will ensure that applicants can make the most of this Program.

It should be noted that the reference to the definition of "Force Majeure" in paragraph 5532(c)(2) is stated as 5520(i) rather than 5520(h); this change in regulations is currently underway through a proposed rulemaking for the California Film and Television Tax Credit Program 3.0 with notice file number Z-2023-0731-02 and regulatory action number 2023-[number will be entered upon filing].

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5532 institutes the process by which applicants may apply for this studio construction project certification and specifies the parameters for certification. The addition of subdivision 5532(c) specifies in regulations the period of certification and the transferability for once certified soundstages pursuant to and consistent with sections 17053.98(k)(2)(A), (k)(8)(D), 23698(k)(2)(A), and (k)(8)(D) of the Revenue and Taxation Code. In addition, the CFC is putting procedures in place for applicants to request a Force Majeure extension, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(A) and 23698(k)(10)(A).

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5533**Section 5533, paragraphs (b)(1) and (2)****Section 5533, clause (d)(4)(A)1.****Section 5533, subparagraph (d)(6)(E)****Specific purpose:**

When the regulations for the California Soundstage Filming Tax Credit Program were initially adopted on February 15, 2023, the portal for electronic submission of applications was not yet finalized. The regulatory text was modeled on the portal functions of the California Film and Television tax Credit Program 3.0, but the same portal functions do not apply to the now finalized portal for this Program. The amendments to paragraphs 5533(b)(1) and (2), clause 5533(d)(4)(A)1., and subparagraph 5533(d)(6)(E), accurately represent the portal functions for the Program.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). These amendments are necessary to accurately represent the online portal functions and requirements for the Program, to ensure that applicants have all necessary information available prior to application.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraph (d)(1)(B)

Section 5533, clause (d)(8)(A)5.

Specific purpose:

Amendments to subparagraph 5533(d)(1)(B) and clause 5533(d)(8)(A)5. repeal the stated fixed credit allocation cap sum for the California Soundstage Filming Tax Credit Program and instead refer to the specific subparagraph in statute which details the cap sum in order to provide a correct reference for applicants. In addition, subparagraph 5533(d)(1)(B) specifies that applicants may not state a sum that exceeds the statutory cap sum on their applications.

Factual basis:

These amendments are necessary to ensure that applicants have the most accurate information and aligns with recent statutory amendments to sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code, which has changed the cap sum to a dynamic number – the greater of \$12,000,000 or \$750,000 per episode of a season of a television series. Referencing the location in statute that specifies the credit allocation cap ensures that applicants for eligible motion picture productions can evaluate the impact of participation in the Soundstage Filming Tax Credit Program appropriately.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraph (d)(3)(A)

Specific purpose:

The amendments to subparagraph 5533(d)(3)(A) specify that the requirement for forty minutes of running time for a new television series or miniseries applies per episode and not for the series as a whole.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is allowed under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). These amendments are necessary to explicitly set timeframes that were previously implied within the expectations of film and television production, to ensure that applicants have all necessary information available prior to application, independent of prior understanding of industry conventions.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraph (d)(4)(A)**Specific purpose:**

The amendment to subparagraph 5533(d)(4)(A) repeals language that sets the period of certification for a soundstage to 36 months. Recent statutory amendments have set that timeframe to five years. Further, as that timeframe is specified explicitly in section 5532 through this rulemaking action, it is unnecessary to include in section 5533.

Factual basis:

Repealing this language is necessary to avoid stating an erroneous timeframe in regulations, pursuant to and consistent with amendments to sections 17053.98(k)(2)(A) and 23698(k)(2)(A) of the Revenue and Taxation Code.

Section 5533, subparagraph (d)(4)(C), clauses (d)(4)(C)1., 2., and 3.**Specific purpose:**

The amendments to subparagraph (d)(4)(C), clauses (d)(4)(C)1., 2., and 3. repeal language that states that stage filming days must be on certified soundstages for 50% of all stage filming days in each taxable year for which a tax credit is claimed, and in the case of clause 5533(d)(4)(C)3. amends language to clarify the correct qualifying timeframe. Recent statutory amendments have clarified that the 50% threshold can be met within the production period as a whole and is not required to be met in each taxable year for which a tax credit is claimed in those cases when the production period of a qualified motion picture spans multiple taxable years. Language referencing functions in the online application portal that are incorrect is also repealed in clause 5533(d)(4)(C)3.

Factual basis:

Repealing and amending this language is necessary to avoid stating an erroneous qualifying time period in regulations, pursuant to and consistent with amendments to sections 17053.98(k)(2)(B) and 23698(k)(2)(B) of the Revenue and Taxation Code, and to avoid providing erroneous information about the online application portal and its functions.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, clause (d)(5)(D)4.**Specific purpose:**

The amendment to clause 5533(d)(5)(D)4. repeals language that excludes stand-ins and background performers from the individuals for whom self-reported, voluntary statistics must be gathered and reported. The scope of this requirement in statute does not preclude stand-ins and background performers.

Factual basis:

Repealing this language is necessary to avoid incongruity with sections 17053.98(g)(2)(A)(iv) and 23698(g)(2)(A)(iv) of the Revenue and Taxation Code.

Section 5533, clause (d)(6)(B)1., subclause (d)(6)(B)1.(i) and (d)(6)(B)1.(ii)**Specific purpose:**

The California Film and Television Tax Credit Program 3.0 has a potential uplift for participants, based on Local Hire Labor. This relates to individuals who live and work outside the Los Angeles zone. In order for the wages of these individuals to qualify toward the uplift, proof must be collected to show that they both work and live out-of-zone. There have been issues in administering Program 3.0, where applicants have failed to gather sufficient information and supporting documentation to substantiate the uplift-qualifying wages for these individuals which then leads to a potential loss of

tax credits. As this same uplift is part of the California Soundstage Filming Tax Credit Program, the addition of clause 5533(d)(6)(B)1. and subclauses 5533(d)(6)(B)1.(i) and (d)(6)(B)1.(ii), is proposed to resolve this known programmatic issue from Program 3.0 by providing clear requirements, assignation of responsibility, and definition of acceptable supporting documentation.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). These additions are necessary to ensure that applicants are aware of the documentation requirements related to the Local Hire Labor uplift instated pursuant to sections 17053.98(a)(4)(E)(i) and (ii), and 23698(a)(4)(E)(i) and (ii) of the Revenue and Taxation Code; that applicants have a clear understanding of acceptable supporting documentation; and that applicants are aware of their responsibility to collect and provide this information to their designated CPA for the expense to qualify.

The added regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraphs (d)(7)(C) and (d)(7)(D)

Specific purpose:

Amendments to subparagraphs 5533(d)(7)(C) and 5533(d)(7)(D) explain in more detail the parameters of a contingency or a completion bond fee included in the Phase B applicant's budget. These amendments clarify that a contingency or a completion bond fee cannot be included as a line item within the budget. Contingency expenditures will not be possible to classify in accordance with required budget tags prior to production. A completion bond fee is not allowed as a line item as this fee is not always required. In addition, subparagraph (d)(7)(D) clarifies that only in-state completion bond costs can be included in the budget, again, to ensure that the stated expenditures are not skewed or inaccurate.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). These amendments are necessary to ensure that applicants are aware of the specific requirements related to the inclusion of completion bond fees or contingencies in a submitted budget and can prepare their application accurately. These amendments are also necessary to ensure that the CFC is able to enforce rules that safeguard the integrity of the application process and prevent an applicant from gaining undue advantage based on inaccurate numbers.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subclause (d)(8)(A)3.(i)

Specific purpose:

The addition of subclause (d)(8)(A)3.(i) clarifies that not only must television series include all pattern and amortization costs, which is required pursuant to clause 5533(d)(8)(A)3., but also that if they submit more than one budget they are not permitted to submit any budgets or budget versions aside from a pattern budget and an amortization budget. This addition clarifies requirements that enable applicants to correctly prepare their application materials for submission.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). The addition of subclause (d)(8)(A)3.(i) is necessary to ensure that all television series applicants are aware of the specific requirements related to a submitted budget or budgets and can prepare their application accurately. These amendments are also necessary to enable the CFC to enforce rules that ensure a manageable and consistent application process.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraph (d)(8)(F)

Specific purpose:

The addition to subparagraph (d)(8)(F) clarifies that not only must a pilot, new television series, recurring television series, or relocating television series submit a pick-up order, they are required to submit one that encompasses the full scope of the project for which they are applying. This addition clarifies a requirement which enables applicants to correctly assess their eligibility and prepare their application materials for submission.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). The amendment of subparagraph (d)(8)(F) is necessary to ensure that all affected applicants are aware of the specific requirements related to a pick-up order

and can prepare their application accurately. This amendment is also necessary to enable the CFC to enforce rules that ensure a fair and consistent application process.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraphs (d)(8)(G), (d)(8)(H), and (d)(8)(I)

Statutory references in subparagraphs 5533(d)(8)(G), (d)(8)(H), and (d)(8)(I) have been amended due to renumbering in sections 17053.98(g)(2)(A) and 23698 (g)(2)(A) of the Revenue and Taxation Code. These are changes without regulatory effect.

Section 5533, subparagraph (d)(8)(J)

Specific purpose:

The amendments to subparagraph 5533(d)(8)(J) repeals language that requires submission of a summary of an applicant's voluntary programs to increase the representation of women and minorities from all applicants and amends the language to apply the requirement only to applicants that have those programs or have access to such programs. As having such programs is voluntary, the requirement is only logical if applicable.

The amendments to paragraph 5533(d)(8)(J) also include renumbering of a statutory reference due to recent renumbering in statute; this is a change without regulatory effect.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Repealing and amending this language is necessary to avoid incongruity with Revenue and Taxation Code sections 17053.98(g)(2)(A)(xiii) and 23698(g)(2)(A)(xiii), as referenced in sections 17053.98(k)(5) and 23698(k)(5), and to clarify the conditional scope of this requirement.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subparagraph (d)(8)(K)

Specific purpose:

The amendments to subparagraph 5533(d)(8)(K) corrects reference to statutory requirements relating to company and financial information, due to recently repealed language in statute which affects applicant requirements and numbering.

Factual basis:

Amending this language is necessary to align with the recent amendments to sections 17053.98(k)(2)(A) and 23698(k)(2)(A) of the Revenue and Taxation Code, where clauses (vi) and (vii) were repealed and their requirements removed from applicants.

Section 5533, subdivision (e)

Specific purpose:

Amendments to subparagraph 5533(e) repeal first the detailed reference to the issue date of the Soundstage AUP, a form incorporated by reference, and second the stated fixed credit allocation cap sum for the California Soundstage Filming Tax Credit Program. The specific form issue date in this subparagraph is incorrect, as the form is being updated through this rulemaking action; through other amendments in clause 5533(d)(6)(B)1. the form is also referenced in a prior part of the section, making this specific reference superfluous, which is why it has been repealed rather than amended. The amended cap sum language refers to the specific subparagraph in statute which details the cap sum in order to provide a correct reference for applicants instead of the outdated fixed sum.

Factual basis:

Repealing and amending language in this subdivision is necessary to avoid an inaccurate forms reference and to ensure that applicants have information that aligns with recent statutory amendments to sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code, which has changed the cap sum to a dynamic number – the greater of \$12,000,000 or \$750,000 per episode of a season of a television series. Referencing the location in statute that specifies the credit allocation cap ensures that applicants for eligible motion picture productions can evaluate the impact of participation in the Soundstage Filming Tax Credit Program appropriately.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, paragraph (e)(1)

Specific purpose:

Adding paragraph 5533(e)(1) prohibits applicants from applying their allocated tax credit to any project other than that which was detailed in their application. Though tax credits are allocated to a business entity, they are allocated for a specific project, the details of which determine Program eligibility. In the motion picture production industry, projects are sometimes paused or abandoned, and a business entity that received an allocation of credits but whose specific project was subsequently paused or abandoned may hope to apply the allocated tax credits to a different project so as not to forfeit them. However, this would circumvent the application process and the mandated order of allocation, as well as undo all Program eligibility checks.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to uphold the integrity of the application process and to enable the CFC to administer the Program with fairness and consistency.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also

consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, paragraph (e)(2), subparagraphs (e)(2)(A), (B) and (C), and clauses (e)(2)(A)1., (e)(2)(B)2., and (e)(2)(B)3.

Specific purpose:

Adding paragraph 5533(e)(2), inclusive, clarifies that as a credit allocation letter is issued to a specific project, that project may retain its tax credit allocation even if ownership of the project changes, as long as the change is reported prior to the start of principal photography. Through previous iterations of the California Film and Television Tax Credit Program, the CFC has encountered projects that go through a change in ownership prior to start of principal photography, where the qualified motion picture project and the qualifying conditions of program participation remain the same, but the qualified taxpayer becomes a different entity. In order to allow such an eligible project to remain in the Program, setting out clear rules for the steps the original applicant entity and the new qualified taxpayer must take to finalize a transition of the project allows the CFC to determine continued eligibility.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to uphold the integrity of the application process and to enable the CFC to administer the Program with fairness and consistency.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subdivision (f) and subdivision (h)

Specific purpose:

Statute specifies that principal photography must commence after issuance of a credit allocation letter for a motion picture to qualify for the California Soundstage Filming Tax Credit Program. Therefore, an applicant that has already begun principal photography in California is not eligible to receive a credit allocation letter for that production, nor is an applicant that has previously received a credit allocation letter and begun principal photography, but who does not complete the project at that time, eligible to apply for another credit allocation letter for that same project at a later date. Both these scenarios would violate statute; adding subdivisions 5533(f) and 5533(h) clarifies these prohibitions to applicants.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98

and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to uphold the integrity of the application process and to enable the CFC to administer the Program with fairness and consistency. These prohibitions are consistent with program practices in the California Film and Television Tax Credit Program 3.0 and with sections 17053.98(b)(18)(B)(iv) and 23698(b)(18)(B)(iv) of the Revenue and Taxation Code.

The added regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subdivision (g), paragraphs (g)(1) and (g)(2)

Specific purpose:

Adding subdivision 5533(g) and paragraphs 5533(g)(1) and 5533(g)(2) prohibits applicants from submitting duplicate applications for a project and defines what constitutes a duplicate application as related to the application processes for both the California Soundstage Filming Tax Credit Program and the California Film and Television Tax Credit Program 3.0. Statute prohibits applicants from being allocated tax credits under both programs but does not specify a prohibition against applying to both programs simultaneously. Receiving an allocation of credits in one program would disqualify any application being considered in the other, but allowing simultaneous applications would unduly increase the CFC's workload and put applicants and the CFC in a position where the pace of reviews determine which program an eligible applicant ends up in. Program 3.0 accepts applications during specified windows whereas the Soundstage Program continuously accepts applications on a first come, first served basis; an applicant that did not receive an allocation of credits under Program 3.0 would therefore be able to submit an application to the Soundstage Program as soon as they were notified. A prohibition against duplicate applications that extends to simultaneous submissions to both programs would not prevent eligible applicants from applying to both programs within the same fiscal year.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to uphold the integrity of the application process and to enable the CFC to administer the Program with fairness and consistency. The prohibition against duplicate applications is consistent with program practices in the California Film and Television Tax Credit Program 3.0. The prohibition against simultaneous applications to both programs is consistent with the intent of sections 17053.98(i)(4) and 23698(i)(4) of the Revenue and Taxation Code to prevent duplicate tax credit allocations for one project.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subdivision (i)

Specific purpose:

Adding subdivision 5533(i) clarifies to applicants that the issue date of a credit allocation letter for an eligible motion picture project is the date that determines when expenditures related to the project begin to qualify toward tax credit allocation. The subdivision adds a nuance, which allows certain expenditures, that in common motion picture industry practice may have been incurred prior to application to the Program for purposes of qualifying for the Program, to begin to qualify as of the credit allocation letter date, on a prorated basis. Setting a boundary with the credit allocation issuance date ensures that all applicants to the Program have an equal window for qualifying expenditures. Allowing for the nuance of prorating certain expenditures ensures that applicants are able to include the applicable portion of substantial costs, that would in many cases be difficult to hold off on paying until issuance of a credit allocation letter, while still fulfilling other Program requirements and that would negatively impact an applicant's ability to qualify for the Program if excluded in their entirety.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to provide clarity on the application process for applicants, to outline clear and reasonable boundaries for qualifying expenditures, and to enable the CFC to administer the Program with fairness and consistency. These provisions are consistent with program practices in the California Film and Television Tax Credit Program 3.0.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subdivision (j)

Specific purpose:

Adding subdivision 5533(j) clarifies that applicants seeking an allocation of tax credits for a television series must include the whole series in one application. Additionally, the subdivision clarifies that if additional episodes for a television series which has already submitted an application are ordered, the applicant may submit an additional application for those episodes but will be subject to the overall program cap sum for the combined episodes in that same season. Approving a number of episodes for a television series and later ordering additional episodes depending on the success of the series is common motion picture industry practice, and Program requirements are intended to accurately reflect and accommodate the reality of motion picture production while ensuring compliance with statute.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in

place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to uphold the integrity of the application process and to enable the CFC to administer the Program with fairness and consistency. The requirements relating to applications for seasons of television series and additional episodes are consistent with program practices in the California Film and Television Tax Credit Program 3.0. The application of the tax credit allocation cap sum to the entirety of a season of a television series is consistent with sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5533, subdivision (k) and paragraph (k)(1)

Specific purpose:

Previously adopted regulations for the California Soundstage Filming Tax Credit Program specify, in section 5534, the timeframe for review and approval of the diversity workplan required pursuant to that section, but fail to specify a timeframe for the overall Phase B application review. Added subdivision 5533(k) mirrors language in section 5534, while clarifying that the 30 days apply to a "completed application," and, in paragraph (k)(1) clarifying that an approved diversity workplan is one component of that "completed application." Added paragraph (k)(1) further clarifies that the review timeframe resets if amendments to the diversity workplan are required, and that the new submission date of that document will be the date that determines the applicant's position in the first come, first served review and allocation order.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5533 institutes the process by which applicants may apply for tax credit allocation for their qualified motion picture project. To implement the Program, the CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Adding this language is necessary to clarify timeframes and expectations for program applicants, and to ensure the first come, first served order of processing applications is unambiguous. Further, adding this language is necessary to uphold the integrity of the application process and to enable the CFC to administer the Program with fairness and consistency.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5534

Section 5534, subdivision (a)

Specific purpose:

When the regulations for the California Soundstage Filming Tax Credit Program were initially adopted on February 15, 2023, the portal for electronic submission of applications was not yet

finalized. The regulations text was modeled on the portal functions of the California Film and Television tax Credit Program 3.0, but the same portal functions do not apply to the now finalized portal for this Program. The repealed and amended language in subdivision 5534(a) accurately represents the portal functions for the Program.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5534 specifies the part of the application process for tax credit allocation that relates to a diversity workplan for a qualified motion picture project. To implement the Program, the CFC is putting procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). The amendments to subdivision 5534(a) are necessary to accurately represent the online portal functions and requirements for the Program, to ensure that applicants have all necessary information available prior to application.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5534, paragraph (b)(5), and subparagraphs (b)(1)(A) and (b)(2)(A)

Specific purpose/Factual basis:

Amendments have been made to paragraph 5534(b)(5) and subparagraphs (5534(b)(1)(A) and (b)(2)(A) to conform to recent statutory amendments which include "disability status" in the required considerations to be included in an applicant's diversity workplan. These amendments are necessary to align Program regulations with statutory amendments in sections 17053.98(k)(3)(A)(i), (k)(3)(B), 23698(k)(3)(A)(i), and (k)(3)(B) of the Revenue and Taxation Code.

Section 5534, paragraph (b)(7)

Specific purpose:

Paragraph 5534(b)(7) clarifies to a Phase B applicant in the Soundstage Filming Tax Credit Program that the regulations are not intended to be construed as requiring or encouraging the diversity workplan to include any quotas or numeric goals regarding protected classifications, such as race, ethnicity, and gender. Amendments to this paragraph strengthen this language to ensure that applicants do not submit, and the CFC is not required to accept or process, diversity workplans that contain quotas or numeric goals, as specified.

In addition, an amendment has been made to paragraph 5534(b)(7) to conform to recent statutory amendments which include "disability status" in the required considerations to be included in an applicant's diversity workplan. These amendments are necessary to align program regulations with statutory amendments in sections 17053.98(k)(3)(A)(i), (k)(3)(B), 23698(k)(3)(A)(i), and (k)(3)(B) of the Revenue and Taxation Code.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5534 is necessary specify the part of the application process for tax credit allocation that relates to a diversity workplan for a qualified motion picture project. To implement the Program, the CFC is putting procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a

certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Amendments to this paragraph are necessary to clarify the requirements related to the diversity workplan for applicants and to clarify that the CFC will not process any workplan containing elements contrary to federal or state law; these clarifications ensure that applicants abide by requirements of the federal and state constitution regarding protected classifications.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5535

Section 5535, paragraph (c)(2)

The reference to the Soundstage AUP form incorporated in paragraph 5535(c)(2) has been amended to reflect the most recent issue date of this form. This is a change without regulatory effect.

5536

Section 5536, paragraph (a)(1)

Specific purpose:

The reference to the definition of "principal photography" is corrected from section 5520(s) to 5520(u); this change in regulations is currently underway through a proposed rulemaking for the California Film and Television Tax Credit Program 3.0 with notice file number Z-2023-0731-02 and regulatory action number 2023-[number will be entered upon filing]. This is a change without regulatory effect.

The reference to statutory production timeframes and Force Majeure provisions in paragraph 5536(a)(1) is corrected from sections 17053.98(a)(18)(B)(iv) and 23698(a)(18)(B)(iv) to sections 17053.98(b)(18)(B)(iv) and 23698(b)(18)(B)(iv). This is a change without regulatory effect.

Section 5536, paragraph (a)(6), subparagraphs (a)(6)(A), (B), and (C)

Specific purpose:

Paragraph 5536 (a)(6), inclusive, clarifies requirements and options related to the participation in career-based learning and training programs for a Phase B applicant that has been issued a Credit Allocation Letter for a qualified motion picture in the Soundstage Filming Tax Credit Program.

Amendments to paragraph (a)(6) adds language to clarify the reporting requirements tied to the participation, referencing the five forms from which an applicant must select and submit the one applicable to their participation, and specifies that the form must be submitted once participation has concluded. Without language to prompt the submission of applicable forms directly in connection with the participation, a long time may pass between the conclusion of the participation and the applicant's Phase C submission, which may lead to important details being lost over time or may lead to difficulties in following up with participants. Submission of applicable forms in direct connection with the qualifying event is helpful to applicants, participants, and the CFC.

An additional amendment to paragraph (a)(6) ties in with amendments to subparagraphs 5536(a)(6)(A), (B), and (C) where "California State University" and "career-based learning program" have been added to broaden options for partner institutions. Additionally, the participant pool has been expanded from students currently enrolled, to students enrolled within the past twelve months, to ensure that the career-based learning and training programs are able to accommodate as broad a population as possible and also capture recent graduates in the start of their careers.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Paragraph 5536(a)(6), inclusive, includes clarifying details relating to the career readiness requirement set forth in, and consistent with, sections 17053.95(e)(1)(A), 17053.98(b)(19)(A), 23695(e)(1)(A), and 23698(b)(19)(A), and as referenced by sections 17053.98(k)(4) and 23698(k)(4), of the Revenue and Taxation Code. These amendments are necessary to allow the CFC to gauge an approved applicant's continued eligibility for the Soundstage Filming Tax Credit Program and progress toward final tax credit certification, and to ensure the timely collection of information related to a requirement which may be fulfilled at different times in the process for different productions. In addition, these amendments broaden the pool of partners applicants can work with to fulfill the requirement, and the pool of participant candidates applicants may recruit from, to maximize the potential impact of the initiative.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5536, subparagraphs (a)(7)(B), (C), (D), and (E), and clause (a)(7)(B)1.**Specific purpose:**

Paragraph 5536(a)(7), inclusive, clarifies requirements related to the participation in the Career Pathways Training Program.

Amendments to subparagraph (a)(7)(B) add reference to a new career pathways program form, Form SCPP, and requires applicants to use this form both for payment and for subsequent verification of payment, required pursuant to section 5540(b)(5)(H)2., in order to formalize the collection of information necessary to administer the Program. In addition, amendments to this subparagraph repeal the permissive word "may" and replaces it with "will," clarifying that failure to submit the contribution on time is an event that will, with certainty, result in revocation of the Credit Allocation Letter.

Adding clause 5536(a)(7)(B)1. provides applicants with the opportunity to apply for an extension of the 30-day timeframe specified in subparagraph (B), if they are facing technical barriers or barriers relating to the payment of funds which are preventing them from meeting the deadline.

The reference to the definition of "reasonable cause" is corrected from section 5520(v) to 5520(y) in subparagraph 5536(a)(7)(C); this change in regulations is currently underway through a proposed rulemaking for the California Film and Television Tax Credit Program 3.0 with notice file number Z-2023-0731-02 and regulatory action number 2023-[number will be entered upon filing]. This is a change without regulatory effect.

Adding subparagraph 5536(a)(7)(D) clarifies that an applicant that receives an increase in allocated tax credits, which would cause the required contribution sum to also increase, must pay the additional sum within a set timeframe.

Adding subparagraph 5536(a)(7)(E) clarifies that an applicant must make their contribution as a business or personal check payment and that no other payment options will be accepted. The CFC does receive contributions from applicants for purposes of verifying payment submission, however,

the fiscal agent in charge of the Career Pathways Program is a separate entity which is responsible for processing the contributions and is only equipped to handle check payments.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Paragraph 5536(a)(7), inclusive, includes clarifying details for the pilot career pathways contribution requirement set forth in, and consistent with, sections 17053.98(e), (k)(10)(B), and 23698(e), (k)(10)(B) of the Revenue and Taxation Code. These amendments and additions are necessary to provide applicants with clarity for this payment requirement including what information to submit, the consequences of non-payment, the opportunity to extend the timeframe for cause, the timeframe that applies to additional payments, and the acceptable payment form. The amendments and additions are also necessary to uphold the integrity of the participation process and to enable the CFC to administer the Program with fairness and consistency.

The added and amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5537

Section 5537, subdivisions (a), (b), (c) and (d)

Specific purpose:

Section 5537 clarifies to a Phase B applicant the requirements, timeframes and process related to their final diversity report. Amendments to subdivisions 5537(a) and (c) have been made to correct the language that erroneously prompts applicants to submit their final diversity report along with all the documentation required pursuant to section 5540 to seek certification of tax credits. The diversity report must be submitted, reviewed, and approved or rejected before an applicant can seek tax credit certification because the outcome of that review will dictate if the applicant is able to seek the Diversity Goals Potential Uplift; the CFC's evaluation must be submitted to the CPA conducting the Phase B audit for that CPA to be able to complete the audit, which must be completed prior to application for tax credit certification.

Amendments have been made to paragraph 5537(b)(4) to conform to recent statutory amendments which include "disability status" in the required considerations to be included in an applicant's diversity workplan. These amendments are necessary to align program regulations with statutory amendments in sections 17053.98(k)(3)(A)(i), (k)(3)(B), 23698(k)(3)(A)(i), and (k)(3)(B) of the Revenue and Taxation Code. An additional amendment to subdivision (c) repeals the word "approximately" to provide a clearer timeframe for review.

In subdivision 5537(d), the reference to the Soundstage AUP form has been amended to reflect the most recent issue date of this form. This is a change without regulatory effect.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has procedures in place to verify that a qualified motion picture has met the criteria established in sections 17053.98 and 23698 of the Revenue and Taxation Code for filming in a

certified studio construction project facility, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Section 5537 includes clarifying details to achieve implementation of the statutory objectives relating to the diversity report required prior to tax credit certification, as set forth in, and consistent with, sections 17053.98(k)(3)(D) and 23698(k)(3)(D) of the Revenue and Taxation Code. The amendments to this section are necessary to provide applicants with information that accurately represents the steps of the process toward achieving tax credit certification and to allow the CFC to review and evaluate an applicant's final diversity report prior to their application for tax credit certification.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5538

Section 5538, paragraph (a)(2)

Specific purpose:

Paragraph 5538(a)(2) is added to clarify terminology used in requirements related to the Phase A applicant's annual soundstage workforce report. The definition is included in section 5538 as the terms are broad and the definition would not necessarily apply to any use of these words but does apply specifically to the terms of the reporting required pursuant to this section. The CFC has received questions from applicants on how to interpret this terminology as it applies to annual reporting for their soundstage(s) and therefore sees fit to include a definition to ensure consistent interpretation. The wages and payments permitted in statute and required to be included in the annual reporting relate only to building operation, maintenance, and repairs, and are entirely separate from any production-related wages or payments incurred at a soundstage. The definition is included to clarify which costs must be reported on, and which cost should not be included in the annual workforce reports.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5538 institutes the process by which applicants that have received this studio construction project certification can fulfil their ongoing responsibilities. To implement the Program, the CFC is clarifying procedures to ensure continued certification of a studio construction project, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(A) and 23698(k)(10)(A).

Paragraph 5538(a)(2) clarifies ongoing certified studio construction project requirements, as set forth in, and consistent with sections 17053.98(k)(13) and 23698(k)(13) of the Revenue and Taxation Code. The addition of this paragraph is necessary to provide applicants with clearly defined requirements and to enable the CFC to administer the Program with fairness and consistency.

The added and amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5538, paragraphs (b)(1), (b)(2), (b)(3), (b)(4), (b)(5), and (b)(6), subparagraphs (b)(2)(A)-(B), (b)(3)(A)-(D), (b)(4)(A)-(C), (b)(5)(A), and (b)(6)(A)-(C), and clause (b)(1)(A)1.

Specific purpose:

Subdivision 5538(b), inclusive, outlines the requirements related to the Phase A applicant's annual soundstage workforce report, performed by a CPA firm, which documents the applicant's compliance with the requirements of the Soundstage Filming Tax Credit Program set forth in statute and regulations.

Amendments to paragraph 5538(b)(1) repeals and adds language to clarify that soundstages will not necessarily be evaluated on an individual basis; that one or several annual reports may be required; and that this is specified further in new paragraph 5538(b)(2).

A new paragraph 5538(b)(2) and subparagraphs 5538(b)(2)(A) and 5538(b)(2)(B) are added to provide detailed instructions for applicants on how many workforce reports they must submit annually and how the soundstages that are reported on must be grouped in those reports; how to report on a soundstage that is in use by more than one Phase B qualified motion picture project must be reported on; and the Phase A applicant's options for reporting on a soundstage that has not been in use by any Phase B qualified motion picture project during the year under review. Because the statutory penalty provision related to the outcome of an annual report is tied directly to a Phase B qualified motion picture project, paragraph 5538(b)(2), inclusive, instructs Phase B applicants how to comply with the reporting requirement in a manner which allows the CFC to assess and implement the potential penalty.

Previous paragraph 5538(b)(2) is renumbered (b)(3). Language in previous paragraph (b)(2), now (b)(3), is repealed to remove an erroneous timeframe reference which states that reports should evidence that Phase A applicants have met their statutory obligations through the date of a Phase B applicant's tax credit certification. Because a Phase A applicant and a Phase B applicant may be separate entities, and because a Phase A applicant may have one or more certified soundstages in use by one or more Phase B qualified motion picture projects at any given time, tying the reporting requirement timeframe to one Phase B applicant's tax credit certification process is not consistent with the statutory requirements in a potentially broader scenario. New paragraph 5538(b)(4) adds an accurate timeframe for applicants.

Amendments to previous subparagraph 5538(b)(2)(A), now (b)(3)(A), repeals language that implies there will only be one annual report for each Phase A applicant and clarifies that the provisions of the clauses that follow apply to each report submitted by an applicant.

Amendments to previous subparagraphs 5538(b)(2)(B), (C), and (D), now subparagraphs 5538(b)(3)(B), (C), and (D), correct the reference to subparagraph (A) through renumbering; these are amendments without regulatory effect.

Previous paragraph 5538(b)(3) is repealed since the provision is incompatible with the implementation of the statutory penalty provision related to the annual workforce report. If applicants are permitted to choose whether to submit one report for each soundstage or to group them, without regard for the Phase B qualified motion picture project or projects utilizing the soundstages, it will not be possible for the CFC to accurately assess and implement the potential penalty. New paragraph 5538(b)(2), inclusive, instead clarifies requirements that are compatible with statute.

A new paragraph 5538(b)(4) and subparagraphs 5538(b)(4)(A), (B), and (C) provide a timeframe for Phase A applicants within which annual reports are required. Because the reports are statutorily required for as long as tax credits are allocated under the California Soundstage Filming Tax Credit Program, there are three relevant timeframes for applicants which may apply. The first one, detailed in subparagraph 5538(b)(4)(A), is the certified studio construction project's period of certification

because this is the timeframe within which tax credits for projects utilizing the soundstages may be allocated under the Program. The second one, detailed in subparagraph 5538(b)(4)(B), is the period of time that tax credits are available to be allocated under the Program, in case those tax credits are depleted prior to the expiration of the period of certification mentioned in (A). The third one, detailed in subparagraph 5538(b)(4)(C), is the timeframe for completion of a Phase B qualified motion picture project allocated credits under the Program and filming on a certified soundstage or soundstages, if that production period extends past either the period of certification mentioned in (A) or the period of time that tax credits are available mentioned in (B). Once a credit allocation letter is issued for a Phase B project, they will remain in the Program until completion of production, independent of those other timelines, which means the timeframe for reporting must be extended as applicable in such a case.

A new paragraph 5538(b)(5) and subparagraph 5538(b)(5)(A) establish a timeframe and method for submission of the annual report. The timeframe is thirty days after the anniversary date of certification for the Phase A applicant's certified studio construction project. Adding this timeframe allows applicants to gather the full year of data before submitting the report and allows the CFC to implement a deadline for compliance. Subparagraph 5538(b)(5)(A) provides applicants with a mode and method of submission.

A new paragraph 5538(b)(6) and subparagraphs 5538(b)(6)(A), (B), and (C) establish a process for Phase A applicants who lease the entire certified studio construction project to a producer of qualified motion pictures for the duration of the period of certification and who delegates all responsibility for operation, maintenance, and repairs to that entity, to also delegate reporting responsibilities. While the Phase A application must be submitted by the entity that owns the studio construction project, the statutorily required operation, maintenance and repairs may be out of that entity's purview if they lease the entire construction project to another entity for long-term use. Paragraph (b)(6), inclusive, therefore enables a Phase A applicant to delegate the responsibility for submission of the annual report or reports to the entity which has taken on responsibility for operation, maintenance, and repairs, and requires the entity to which responsibility is delegated to acknowledge accepting that responsibility. This must be done in writing and submitted to the CFC. Further, subparagraph 5538(b)(6)(C) establishes a timeline for when the delegation and acceptance of responsibility may take place.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project; section 5538 institutes the process by which applicants that have received this studio construction project certification can fulfil their ongoing responsibilities. To implement the Program, the CFC is clarifying procedures to ensure continued certification of a studio construction project, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(A) and 23698(k)(10)(A).

Because the statute does not include specifics regarding how an applicant should fulfill ongoing requirements to maintain their certification status, paragraphs 5538(b)(1), (b)(2), (b)(3), (b)(4), (b)(5), and (b)(6), subparagraphs 5538(b)(2)(A)-(B), (b)(3)(A)-(D), (b)(4)(A)-(C), (b)(5)(A), and (b)(6)(A)-(C) clarify ongoing certified studio construction project requirements, as set forth in, and consistent with sections 17053.98(k)(13) and 23698(k)(13) of the Revenue and Taxation Code. The amendments and additions to this subdivision are necessary to ensure requirements consistent with statute; to structure the requirements in a manner that helps the Phase A applicant report the full scope of the required data in a format that allows the CFC to appropriately evaluate and impose the potential penalty; and, ensures the integrity of the Program participation process and enables the CFC to administer the Program with fairness and consistency.

The added and amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5539

Section 5539, subdivision (e)

Specific purpose:

Amendments to subdivision 5539(e) repeal the stated fixed credit allocation cap sum for the California Soundstage Filming Tax Credit Program and instead refers to the specific subparagraph in statute which details the cap sum in order to provide a correct reference for applicants.

Factual basis:

These amendments are necessary to ensure that applicants have the most accurate information and aligns with recent statutory amendments to sections 17053.98(k)(8)(B) and 23698(k)(8)(B) of the Revenue and Taxation Code, which has changed the cap sum to a dynamic number – the greater of \$12,000,000 or \$750,000 per episode of a season of a television series. Referencing the location in statute that specifies the credit allocation cap ensures that applicants for eligible motion picture productions can evaluate the impact of participation in the Soundstage Filming Tax Credit Program appropriately.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5539, subdivision (h), paragraphs (h)(1), (h)(2), and (h)(3)

Specific purpose:

Subdivision 5539(h), inclusive, clarifies the relationship between the Soundstage Filming Tax Credit Program and the Film and Television Tax Credit Program 3.0 and the provisions for transferability between the Programs.

Amendments to subdivision (h) add language to include any successor programs to Program 3.0 in the transferability provision as a successor program has been proposed and as Program 3.0 sunsets prior to the sunset date for the Soundstage Program. Additionally, amendments to subdivision (h) repeal language that states that a motion picture can "transition" from the Soundstage Program to Program 3.0, which may give an inaccurate idea that a qualified motion picture that has already been allocated credits under one Program may move to the other Program. As statute prohibits issuance of a credit allocation letter for a motion picture that has already commenced principal photography, a project which has been initiated under one Program must complete production under that Program. The purpose of subdivision (h), inclusive, is to clarify transferability for potential qualified motion picture project applicants that fulfill Soundstage Program requirements but are unable to receive an allocation of credits under the Soundstage Program due either to an expired period of certification for a soundstage or a lack of available tax credits to allocate.

Previous language in paragraph 5538(h)(1) is repealed, and new language is added to correct the previously stated provisions of transferability and to simplify them. Previous language was directed to both recurring television series and other qualified motion picture projects; the amended language directs paragraph (h)(1) only to qualified motion picture projects except recurring television series, because the rules and provisions differ for recurring television series. A new paragraph (h)(2) has been added to clarify the provisions that apply to recurring television series. The amendments to paragraph (h)(1) further simplify and clarify the conditions of transferability – that the total amount of

Soundstage Program tax credits have been allocated or that the period of certification for the soundstage has expired; the requirements associated with transferability – that an applicant must fulfill Soundstage Program conditions and apply to Program 3.0, fulfilling that Program’s conditions as well; and the advantage to applicants of utilizing the transferability option – that they may calculate their Jobs Ratio at 133%.

Previous subparagraph 5539(h)(1)(A) is repealed, and the language is moved to new paragraph 5539(h)(3), with a minor amendment.

New paragraph 5539(h)(2) clarifies the provisions of transferability for a recurring television series originally allocated credits under the Soundstage Program, which is limited to the source of allocated credits after the total amount of Soundstage Program tax credits have been allocated or the period of certification for the soundstage has expired. Consistent with statute, a recurring television series shall receive a credit allocation for the life of that television series whenever credits are available, therefore a recurring television series under the Soundstage Program that continues to fulfill Program requirements and makes use of the transferability function will continue to receive an allocation of credits from the tax credits available under Program 3.0 or its successor programs when it can no longer receive credits under the Soundstage Program.

New paragraph 5539(h)(3) incorporates the language of previous subparagraph (h)(1)(A), now repealed, and clarifies that for the specific purpose of fulfilling statutory requirements for a qualified motion picture when the studio construction project certification has expired, an applicant may fulfill the ownership or tenant requirement outlined in sections 17053.98(k)(2)(B)(iii) and 23698(k)(2)(B)(iii) of the Revenue and Taxation Code, which stipulates that a qualified motion picture must be either more than 50% owned by the owner or owners, or enter into a contract of ten years or more with the owner or owners of the *certified* studio construction project on which the production is filmed, with a studio construction project which was certified until the certification period expired. Because the basis for transfer to Program 3.0 in this case is the very expiration of the certification period, this provision is necessary to avoid upholding an unfulfillable requirement. Previous subparagraph 5539(h)(1)(A) used the term “Phase B applicant” and this new paragraph instead uses the term “qualified motion picture,” as the transferability applies to projects that have not and will not apply directly to the Soundstage Program, and the term “Phase B applicant” is only applicable to the Soundstage Program.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10) and 23698(k)(10). To implement the Program, section 5539 is necessary to clarify the details and terms of tax credit allocation under the Soundstage Filming Tax Credit Program.

Added and repealed language in subdivision 5539(h), inclusive, is necessary to enable the CFC to administer the Program with fairness and consistency and to clarify the conditions, functions, requirements, and criteria of transferability between the Soundstage Filming Tax Credit Program and the Film and Television Program 3.0, or its successor programs, when the Soundstage Filming Program has allocated all available credits or when the period of certification for a certified studio construction project has expired, as set forth in, and consistent with, sections 17053.98(k)(2)(B)(i), (k)(8)(B)(ii), (k)(8), (k)(9), (b)(18)(B)(iv), (g)(2)(D)(v) and 23698(k)(2)(B)(i), (k)(8)(B)(ii), (k)(8)(C), (k)(9), (b)(18)(B)(iv), (g)(2)(D)(v) of the Revenue and Taxation Code.

The added and amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

5540

Section 5540, paragraph (a)(1), subparagraphs (a)(1)(A), (B), (C), and (D), clauses (a)(1)(C)1. and 2.

Specific purpose:

In the course of administering the California Film and Television Tax Credit Program 1.0 and 2.0 and owing to the fact that statute does not establish an end date for qualified motion picture projects to apply for certification of their allocated tax credits, the CFC has experienced situations where tax credits are allocated and not subsequently certified or claimed. Current California Soundstage Filming Tax Credit Program regulations do not include a set timeframe for certification, or a requirement that applicants communicate their intentions to the CFC. Having sums of tax credits allocated and unused, with no clear direction to applicants that prevents this from being an indefinite state, means the CFC is unable to reallocate unused credits even if years have passed and applicants have ceased communication with the CFC. Adding new paragraph (a)(1), subparagraphs (a)(1)(A), (B), (C) and (D), clauses (a)(1)(C)1. and 2., instates a timeframe for applicants to apply for tax credit certification, or declare that they do not intend to apply for tax credit certification, or apply for an extension of the timeframe in those cases where they are waiting to accrue sufficient tax liability to initiate the process.

The timeframe in paragraph 5540(a)(1) is set in relation to the statutory deadline for completion of the qualified motion picture project and adds 48 months to that date. This creates a timeframe of up to six years and six months from credit allocation letter issuance before an applicant must apply for certification, declare no intent to apply, or request an extension, and this timeframe covers with good margin the average timeframe within which qualified motion pictures normally apply for certification which is 21 months.

The option added in subparagraph 5540(a)(1)(A) is for applicants to submit their complete application for tax credit certification within the stated timeframe in paragraph (a)(1).

The option added in subparagraph 5540(a)(1)(B) is for applicants to notify the CFC in writing that they do not intend to apply for certification of their allocated tax credits; the credits allocated to that qualified motion picture will then be reallocated to new projects.

The option added in subparagraph 5540(a)(1)(C) is available for applicants with insufficient tax liability to initiate the process, and allows them to apply for an extension of the timeframe set in paragraph (a)(1) in writing and include a statement declaring their insufficient tax liability. The word "initiate" is used as applicants are able to roll over tax credits for multiple taxable years and tax liability for the full sum of allocated credits is not necessary to initiate the process.

Subparagraph 5526(a)(1)(D) is added to clarify that non-compliance with this paragraph will result in forfeiture of allocated credits.

Added clause 5540(a)(1)(C)1. clarifies that the applicant may apply for one or more extensions of up to twelve months under the conditions specified in subparagraph (a)(1)(C) and that the CFC will approve an extension-request submitted within the given timeframe and accompanied by a statement of insufficient tax liability. Requiring applicants in need of multiple extensions to reapply rather than granting a longer extension ensures that the applicant stays in regular contact with the CFC, keeps their information up to date, and reaffirms their intention to apply for certification.

Added clause 5540(a)(1)(C)2. clarifies that a request for an extension must be submitted no less than 30 business days before the timeline specified in paragraph (a)(1), or a previously granted extension expires. Having a clear application deadline helps the CFC determine compliance.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC is putting procedures in place consistent with the authority provided in sections 17053.98(k)(10) and 23698(k)(10), and sections 17053.98(g)(3)(A) and 23698(g)(3)(A), as referenced by sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. Section 5540 clarifies the details and terms of tax credit certification under the Soundstage Filming Tax Credit Program.

Added paragraph 5540(a)(1), inclusive, instates a timeframe for tax credit certification necessary to permit the CFC to administer the Program in a fiscally responsible manner that ensures all allocated tax credits are certified or reallocated. It further instates the option for applicants to request an extension of that timeframe, which is necessary to accommodate applicants with insufficient tax liability. The added regulations are consistent with sections 17053.98(c)(3), (g)(3), (g)(7), (i)(1)(C), (k)(1), (k)(8)(A), and 23698(c)(4), (g)(3), (g)(7), (i)(1)(C), (k)(1), (k)(8)(A) of the Revenue and Taxation Code.

The added regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5540, paragraph (a)(2)

Specific purpose:

Previous subdivision 5540(a) is renumbered paragraph 5540(a)(2) and amended. Amendments to the paragraph clarify that the a Phase B applicant must comply with the timeframes instated in added paragraph 5540(a)(1); that the CFC's evaluation of the diversity report required pursuant to section 5537 must be submitted with that report, consistent with proposed amendments to section 5537; and adds specificity when referencing the requirements in section 5538 to clarify that they relate to the specific Phase A applicant and the specific soundstages utilized for the Phase B project that is applying for certification.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place consistent with the authority provided in sections 17053.98(k)(10) and 23698(k)(10), and sections 17053.98(g)(3)(A) and 23698(g)(3)(A), as referenced by sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. Paragraph 5540(a)(2), previously subdivision (a), as amended, includes clarifying details relating to conditions that must be met for tax credit certification, as set forth in, and consistent with, sections 17053.98(g)(3), (k)(1), (k)(3)(D)(i), (k)(8)(A), (k)(13), and 23698(g)(3), (k)(1), (k)(3)(D)(i), (k)(8)(A), (k)(13), and as referenced in sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. The amendments are necessary to ensure the integrity of the Program participation process and enable the CFC to administer the Program with fairness and consistency.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also

consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5540, subdivision (b)

As the language directing applicants to submit the materials specified in section 5540 in a format specified by the CFC has been added to new subparagraph 5540(a)(1)(A), that same language is repealed in subdivision 5540(b) to avoid unnecessary duplication. This is an amendment without regulatory effect.

Section 5540, paragraph (b)(3)

Specific purpose:

Paragraph 5540(b)(3) instructs the applicant to submit documentation which lists all cast and crew for the qualified motion picture. Amendments to the paragraph add the provision that if sensitive personal information is included on the lists, specifically Social Security Numbers, it must be redacted from the cast and crew lists an applicant is required to submit to the CFC.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place consistent with the authority provided in sections 17053.98(k)(10) and 23698(k)(10), and sections 17053.98(g)(3)(A) and 23698(g)(3)(A), as referenced by sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. Section 5540 clarifies details and terms of tax credit certification under the Soundstage Filming Tax Credit Program. Paragraph 5540(b)(3) clarifies what an applicant in the Soundstage Filming Tax Credit Program must provide to apply for their final tax credit certificate, as set forth in, and consistent with, sections 17053.98(d)(1)(A), (g)(2)(A)(xiv), (g)(3)(A), (k)(10) and 23698(d)(1)(A), (g)(2)(A)(xiv), (g)(3)(A), (k)(10), and as referenced by sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. Amendments to this paragraph are necessary to safeguard sensitive personal information of the cast and crewmembers working on qualified motion pictures participating in the Program by instructing applicants not to submit such information and allowing the CFC to enforce that prohibition.

The amended regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5540, subparagraphs (b)(5)(A), (B), (I), (J), (K), clauses (b)(5)(I)4., 5., subclauses (b)(5)(I)1.(iv), (b)(5)(I)4.(iv)

Specific purpose:

When the regulations for the California Soundstage Filming Tax Credit Program were initially adopted on February 15, 2023, the online portal for electronic submission of applications was not yet finalized. The regulatory text was modeled on the portal functions of the California Film and Television tax Credit Program 3.0, but the same portal functions do not apply to the now finalized portal for this Program. The amendments to subparagraphs 5540(b)(5)(A), (B), (I), (J), and (K), clauses 5540(b)(5)(I)4., and 5., subclauses 5540(b)(5)(I)1.(iv), and (b)(5)(I)4.(iv), accurately represent the portal functions for the Program.

Subparagraph 5540(b)(5)(J) also adds language that references the statutory cap sum because language to the effect that the sum will be automatically calculated is repealed, as that function is not part of the online portal.

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place consistent with the authority provided in sections 17053.98(k)(10) and 23698(k)(10), and sections 17053.98(g)(3)(A) and 23698(g)(3)(A), as referenced by sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. These amendments are necessary to accurately represent the online portal functions and requirements for the Program, to ensure that applicants have all necessary information available to utilize the portal appropriately.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5540, subparagraph (b)(5)(D)

The reference to the Local Community Expenditure Report Form incorporated in subparagraph 5540(b)(5)(D) has been amended to reflect the most recent issue date of this form. This is a change without regulatory effect.

Section 5540, subparagraph (b)(5)(G)**Specific purpose:**

The first proposed amendment to subparagraph 5540(b)(5)(G) corrects the section number from 5H, which is incorrect and inconsistent with the overall numbering, to 5D which is correct and consistent with the overall numbering; this is a change without regulatory effect.

The second proposed amendment to subparagraph 5540(b)(5)(G) repeals language that excludes stand-ins and background performers from the individuals for whom self-reported, voluntary statistics must be reported. The scope of this requirement in statute does not preclude stand-ins and background performers.

Factual basis:

Repealing the language that excludes stand-ins and background performers is necessary to avoid incongruity with sections 17053.98(g)(2)(A)(iv) and 23698(g)(2)(A)(iv) of the Revenue and Taxation Code.

Section 5540, clause (b)(5)(H)2.**Specific purpose:**

Amendments to clause 5540(b)(5)(H)2. include reference to the new career pathways program form, Form SCPP, and mandates that applicants use this form as their verification of payment. Use of the form at the time of payment is required pursuant to section 5536(a)(7)(B).

Factual basis:

As set forth in, and consistent with, sections 17053.98(k)(1) and 23698(k)(1) of the Revenue and Taxation Code, the CFC is authorized under the Soundstage Filming Tax Credit Program to allocate tax credits to a qualified motion picture produced in the state at a certified studio construction project. The CFC has put procedures in place consistent with the authority provided in sections 17053.98(k)(10) and 23698(k)(10), and sections 17053.98(g)(3)(A) and 23698(g)(3)(A), as referenced by sections 17053.98(k)(5) and 23698(k)(5), of the Revenue and Taxation Code. Clause 5540(b)(5)(H)2., as amended, includes clarifying details relating to career pathways program conditions that must be met for tax credit certification, as set forth in, and consistent with, sections 17053.98(e) and 23698(e) of the Revenue and Taxation Code. Adding this form and thus formalizing

the submission of information required to implement this part of the Program is necessary to ensure the integrity of the Program participation process and enable the CFC to administer the Program with fairness and consistency.

The added regulation meets the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

Section 5540, paragraph (b)(11)

Specific purpose:

An error in the reference to section 5533 has been corrected from (f)(11) to (d)(8)(K); this is a change without regulatory effect.

5541

Section 5541, paragraph (a)(1), subparagraphs (a)(1)(A) and (B)

Specific purpose:

The requirements of paragraph 5541(a)(1), inclusive, serve to inform the general public and the overall film and television industry of which projects have been supported through allocation of tax credits under the Soundstage Filming Tax Credit Program. Amendments to paragraph 5541(a)(1) serve to provide flexibility for applicants to create a unique and/or creative on-screen acknowledgement without removing any of the required entities that must be acknowledged. This is achieved by separating the entities into three blocks of text instead of requiring them to be acknowledged in a specific order.

Subparagraph 5541(a)(1)(A) has been added to clarify in what manner and in which position the acknowledgement and logo must be placed, and that it must remain throughout the life of the project.

Requirements previously included as the last sentence of paragraph 5541(a)(1) have been separated out and renumbered as subparagraph 5541(a)(1)(B), and the reference to the prohibition has been consistently updated. This is a change without regulatory effect.

Subparagraph 5541(a)(1)(C) has been added to clarify, in detail, the flexibility applicants may use in formulating their on-screen acknowledgement.

Factual basis:

To implement the Soundstage Filming Tax Credit Program, the CFC is putting procedures in place to verify that a qualified motion picture project has met the requirements of the Program, consistent with the authority provided in Revenue and Taxation Code sections 17053.98(k)(10)(B) and 23698(k)(10)(B). Because the statute does not include specifics regarding how an applicant is required to announce their successful participation in the Program, subdivision 5541(a), inclusive, includes on screen and promotional requirements that support implementation of the statutory objectives. The amendments to this paragraph and subparagraphs are necessary to ensure appropriate attention to the impact the Soundstage Filming Tax Credit Program has on a participating production and to build awareness of the Program, as well as to ensure flexibility for applicants wishing to make a unique acknowledgement to the State of California, the CFC, and the Program, and to provide clear terms for such an acknowledgement.

The amended regulations meet the "necessity," "clarity," and "consistency" standards of the APA, Section 11349 of the Government Code, subsections (a), (c), and (d). The regulation is also consistent with the requirements of style pursuant to Section 11343.1 of the Government Code and the principles of "plain English" rule drafting.

FORMS INCORPORATED BY REFERENCE

Career Pathways, CFC Form SCPP (July 28, 2023)

Form SCPP is a new form, added to formalize the information collected by applicants in relation to their mandated contribution to the pilot career pathways program, required pursuant to section 5536(a)(7), and provide applicants with a uniform document to submit as evidence of payment pursuant to section 5526(b)(5)(H)2.

Career Readiness, CFC Forms SCR1-5 (March 11, 2022)

These forms have not been amended since they were approved as part of the permanent regulations. They are referenced in the amended language and therefore listed here.

Local Community Expenditure Report (July 28, 2023)

Amendments to the Local Community Expenditure Report From include:

- Removing references to filming which limit the use of the form to counties where principal photography occurs. This is necessary to ensure that program participants provide expenditure data for all local expenditures, not only those that occur in the same county as filming occurs.
- Correcting typos.
- Amending the form issue date.

These amendments are necessary to provide applicants with an accurate form and to enable the CFC to have statistics on the impact of the Soundstage Filming Tax Credit Program on counties throughout the state.

Soundstage Certification Letter, CFC Form SCL (August 12, 2022)

This form has not been amended since it was approved as part of the permanent regulations. It is referenced in the amended language and therefore listed here.

Soundstage Filming Tax Credit Program Agreed Upon Procedures, CFC Form Soundstage AUP (August 28, 2023)

Amendments to the Soundstage AUP include:

- Repealing and amending language that erroneously references Program provisions that apply to the California Film and Television Tax Credit Program 3.0, but not to the California Soundstage Filming Tax Credit Program. This is necessary to be consistent with statute and Program regulations. These amendments include repealing Music Wage tagging references; repealing reference to separate categories for Independent Films with a budget under or over \$10 million; repealing reference to Jobs Ratio; repealing reference to the 70/30 wage/expenditure split for Visual Effects; and, correcting regulatory references to guide applicants to the Soundstage Program regulations rather than Program 3.0 regulations.
- Repealing language that references “each taxable year for which a tax credit is claimed” rather than the “production period;” amending language that references a \$7.5 million soundstage wage threshold to \$5 million; and, adding the statutory cap sum references rather than the sum itself. This is necessary to align with recent statutory amendments as well as regulatory amendments proposed through this rulemaking action.
- Adding California State University to eligible Career Readiness representatives; and, adding reference to the new clarifying language for verifying Local Hire Labor eligibility. This is necessary to align with regulatory amendments proposed through this rulemaking action.
- Clarifying what the CPA must read (statute and regulations) and what is available as a resource, but not a requirement.

- Correcting erroneous numbering on pages 11 through 14; correcting an erroneous Exhibit reference from O to Q; removing a faulty second page to Appendix B, which references Program 3.0 and should not be included; and amending the form issue date.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS RELIED UPON

The CFC did not rely upon any technical, theoretical, or empirical studies, reports, or documents in the development of these regulations.

REASONABLE ALTERNATIVES TO THE REGULATION AND THE OFFICE'S REASON FOR REJECTING THOSE ALTERNATIVES

No other alternatives were presented to or considered by the CFC. These regulations implement Revenue and Taxation Code sections 17053.98 and 23698.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON SMALL BUSINESS

The CFC has not identified any alternatives that would lessen any adverse impact on small business. The California Soundstage Filming Tax Credit Program provides more opportunities for small business as it affords more production companies the opportunity to film in California, and the proposed amendments to Program regulations will make the Program more accessible and easier to navigate for applicants.

EVIDENCE SUPPORTING FINDING OF NO SIGNIFICANT ADVERSE ECONOMIC IMPACT ON ANY BUSINESS

The CFC has determined that the proposed regulations would not have a significant adverse economic impact on businesses. The California Soundstage Filming Tax Credit Program provides for an increase in revenues and employment in California by bringing more filming business into California, in addition, one objective of the Program is to increase construction and renovation jobs, as well as maintenance and repair jobs for skilled and trained workforces in California. The proposed amendments to Program regulations will make the Program more accessible and easier to navigate for applicants.

SPECIFIC TECHNOLOGY OR EQUIPMENT

These proposed regulations do not mandate the use of specific technologies or equipment.

CONSULTATION WITH THE GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (GO-Biz)

The CFC has worked in close consultation with GO-Biz in the development of the proposed amendments to these regulations, as required pursuant to Section 17053.98(e) and 23698(e) of the Revenue and Taxation Code. GO-Biz has reviewed and approved the regulations in their entirety.

JOINTLY PRESCRIBED APPLICATION WITH THE FRANCHISE TAX BOARD (FTB)

The CFC is required to jointly prescribe the application for tax credit allocation under the California Soundstage Filming Tax Credit Program with the FTB, pursuant to Section 17053.98(g)(2)(A) and 23698(g)(2)(A) of the Revenue and Taxation Code. Prior to public notice of this rulemaking action, the CFC received input and approval from the FTB on program application content.

STATEMENT OF GOOD CAUSE FOR AMENDMENTS

A limited number of amendments were made to the adopted Emergency Regulations for this Certificate of Compliance submission. These changes were made to go into effect with the rest of the amendments to Article 4 to ensure the requirements and processes of the California Soundstage Filming Tax Credit Program are unambiguous; they were designed to aid applicants in the Program in complying with the Program requirements and thereby being able to gain access to the benefits this Program offers. These amendments do not place any additional burden on applicants, rather, they provide more clarity for all stakeholders and entities affected by the regulations.