



Budget Tagging and Tracking Tips

California Film and Television Tax Credit Program 4.0
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CALIFORNIA FILM & TELEVISION TAX CREDIT PROGRAM 4.0

Budget Tagging and Tracking Tips

June 2025

This document contains useful budget, tagging, and program information.

A. GENERAL TRACKING TIPS

1. Credit Allocation Letter Date:

The **Credit Allocation Letter** ("CAL") is the document that indicates a reservation of tax credits for approved productions. Expenses incurred, whether paid or not, prior to the issuance of the CAL are not qualified expenditures. However, qualified items which require full or partial payment (insurance premiums, completion bonds, office rent) prior to the issuance of the CAL may be pro-rated.

For example, insurance premium payments may be prorated by the number of pre-production and production weeks. After issuance of the CAL, the payments are considered qualified expenditures. Prorations of insurance premiums should be calculated by your insurance broker and given to the Certified Public Accountant (CPA) performing the Agreed Upon Procedures (AUP.)

2. Cutoff Date for Tracking Costs: Expenditures incurred up to 30 days after the creation of the final element (e.g. digital air master, composite answer print, digital cinema files or interoperable master) can be qualified, regardless of when they are paid. Services that have not yet been performed by that date do not qualify, even if they have been prepaid.
Documentation indicating the date of completion of the final element will be required by the CPA performing the Agreed Upon Procedures. Please use the [Final Element Creation Verification Form](#) available on the CFC website.
3. Refunds and credit notes received for discounts, rebates, insurance claims, invoicing errors, and purchase returns must be credited to the production costs.
4. In-kind services that are exchanged for equity in the project and deferrals are not considered qualified expenditures. Only direct out-of-pocket costs may qualify.
5. Contingency funds which are spent during the production period should be properly allocated into the specific accounts on the cost reports.
6. All receipts/invoices must be legible; illegible documentation may not be accepted by the CPA. Petty Cash (P.C.) receipts should be numbered, legible, and must not be truncated, with each transaction clearly marked on the front of the P.C. envelope or on a spreadsheet.
7. The costs recorded are to be actual costs with no markups, profit additions or personal expenses.

B. SPECIFIC TRACKING TIPS & USEFUL INFORMATION

1. Hyphenate Wage Split

If an Above-the-Line creative employee (Writer, Producer, Director, Cast member) also receives a Below-the-Line credit, the BTL portion of the salary qualifies. The salary must fall within industry standards, and is capped at \$100,000, exclusive of fringes, box rentals, cell phone and car allowances. If the employee does not receive a BTL credit on the project, then none of the salary qualifies.

Examples:

- If a DGA/UPM receives a Producer screen credit, the wage attributable to the UPM account will qualify up to \$100,000.
- Non DGA UPM receives an Executive Producer credit, the wage attributable to the UPM will qualify up to the industry standard rate.
- If a Visual Effects Supervisor also receives a Visual Effects Producer screen credit, the wage attributable to the VFX Supervisor account will qualify up to \$100,000.
- If a Post Supervisor also receives an Associate Producer screen credit, the wages attributable to the Post Supervisor account will qualify up to the industry standard rate.

All wages attributable to any individual that receives an on-screen producer credit are subject to review.

The same holds true for a Director that also serves a BTL role, such as Director of Photography, Production Designer, or Editor. The BTL portion of the wage shall be capped at \$100,000.

2. Box Rentals/Car/Cell Phone Allowances

a. Box rentals, cell phone allowances and car allowances are considered qualified wage expenditures (QW) for qualified individuals only, including hyphenates, up to the amount commensurate with other department heads. However, Box Rentals are not qualified for out-of-state crew working in California, and should be tagged XX.

b. Payments for cell phones rented from and for nonqualified ATL crew or cast which are paid directly to the vendor from an actual bill, are considered qualified spend. All amounts must be commensurate with those of other department heads.

3. Proration for Out of State Work

a. If at any time during the production period the project operates out of state, wages, goods, and services must be prorated proportionately to accurately allocate the costs.

For example, if an employee who makes \$1000/week works 2 days out of the state and 3 days in the state, his or her salary would be prorated and \$600 (\$200/daily rate x 3 days) would be the employee's qualified wages for that week. If a company is contracted to perform work both inside and outside of the state, their contract amount would need to be prorated proportionately for the percentage of work time expended in and out of California.

Rented or purchased items such as camera equipment, self-drive cars, production trucks, picture cars, wardrobe, props and the like must all be prorated according to the number of days shot out of state.

b. For any items fabricated or built in the state, but filmed out of state, only the labor will qualify – not the materials (can prorate for usage in state). Insurance premiums must also be prorated if filming occurs out of the state.

4. Stunt Personnel

The earnings of stunt coordinators, riggers and safeties are considered qualified wages when those personnel are not on-camera. The production company must indicate on production reports and Exhibit Gs when they are “not photographed”. Without that notation it will be presumed that all stunt personnel have been photographed, and their earnings will not qualify. On days when a stunt coordinator, rigger or safety rehearses or has wardrobe fittings for planned on-camera work, their salaries do not qualify.

5. Travel Expenses

a. Airfare is considered a qualified expenditure only if air travel both originates and concludes in California (“intrastate”) and is purchased from a CA travel agent. (The carrier’s state of origin is not a factor.)

b. Travel day salaries for qualified individuals traveling within California are qualified expenditures, unless either the point of embarkation or debarkation is not in state, in which case the salaries do not qualify. For Non-Independent productions, travel day salaries for qualified individuals traveling out of and back into the Los Angeles zone* qualify for the 5% uplift.

*“Los Angeles zone” means the area within a circle 30 miles in radius from Beverly Boulevard and La Cienega Boulevard, Los Angeles, California, and includes Agua Dulce, Castaic, including Lake Castaic, Leo Carillo State Beach, Ontario International Airport, Piru, and Pomona, including the Los Angeles County Fairgrounds. The Metro Goldwyn Mayer, Inc. Conejo Ranch property is within the Los Angeles zone.

c. Travel Agency fees qualify only when airfare is purchased from a California travel agent, for intrastate travel. Luggage and ancillary airline fees qualify for intrastate travel only.

d. Living allowance payments to non-qualified cast or crew are not qualified expenditures. However, if the production company directly pays for a hotel room, corporate housing, short-term rental agency or Airbnb for non-qualified cast or crew, those expenditures will qualify. Car rentals if paid directly to the vendor will also qualify. Private housing rentals do not qualify.

e. Per Diems for non-qualified individuals do not qualify. For hyphenates, per diem is considered a qualified wage expenditure up to the amount commensurate with per diems given to other department heads.

f. Relocation costs (including fold-and-hold Set costs) for relocating series do not qualify.

g. Aerial photography only qualifies if performed within the state. The helicopter or plane must take off and land only in California.

Itemized proof will be required for any intrastate travel allowances paid to qualified crew members.

6. Shipping Goods

Items purchased or rented in California are qualified. Shipping costs are qualified only if both the origination and destination points are within the state. Save any return address labels that prove the item was shipped intrastate (if purchased on the internet). Remember, unless it is clear the item was purchased or rented in California, it will not qualify. When purchasing items online, items must be shipped from the California in-state vendor to a California location to qualify. Items may be shipped from the vendor's California warehouse location. U.S. Postage expenditures are NQ.

7. In-State Vendors

The definition of an in-state vendor is "...a vendor or supplier which has an office or other place of business in California and is registered with the CA secretary of state or is required to file a return with the CA Franchise Tax Board under Parts 10 or 11 of the Revenue and Taxation Code." To claim qualified expenditures for tax credits, productions must purchase or rent from California suppliers and be able to prove via receipts or return shipping labels that the purchase or rental is from a company (not a pass-through business) which meets the above requirements and was shipped from a California location. Online purchases will be particularly scrutinized. To clarify:

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

Visit the California Secretary of State website to verify if a company is registered to do business in California: [Search | California Secretary of State](#)

8. Insurance Claims Refunds

Cash refunds received as the result of an insurance claim must be credited to the cost report and offset against related qualified expenditures. Proceeds from the refunds that are spent on qualified labor and/or materials will count toward your tax credit amount.

9. Local Community Expenditure Report

Productions filming outside Los Angeles County must fill out a Local Community Expenditure Report for each county as part of the Expenditure Summary Report (Phase IV) on the portal.* A Local Community Expenditure Report tutorial is available on the CFC website, under [Frequently Asked Questions](#). Please follow the tagging directions to accurately report both labor and non-labor expenditures per county as soon as all work in the county has been completed. (Please see the [Program Guidelines](#) for more information regarding filing this report.) The labor figures should correspond with Local Hire Labor (see Section C (3) Uplifts).

For all out-of-Los Angeles county purchases and/or rentals, the county where the vendor is located must be noted. Do not include items purchased and/or rented in L.A. County. For wages (local hire payroll only), note the county where the work is incurred during prep, shoot, and strike.

Please create a free field code for each county – e.g., HC for Humboldt county, OC for Orange county, etc. – to report spend for each county. Suggested county code tags are available on the [CFC website](#). Exact spend is not crucial; estimates are acceptable.

C. JOBS RATIO, BONUS POINTS, UPLIFTS

1. What is a Jobs Ratio?

A production's Jobs Ratio is determined by combining its Qualified Wages plus 35% of its Qualified Non-Wages divided by the estimated tax credit. The Jobs Ratio may be enhanced by Bonus Points which reflect economic activity in particular areas. See Section (V)(B) of the [Guidelines](#) and [Jobs Ratio Ranking](#) page on the CFC website.

2. Bonus Points (See Appendix A for bonus point chart)

a. **Out-of-Zone Principal Photography Days:** Productions can earn bonus points for every principal photography day which is shot outside of the Los Angeles zone ("OZ"). If a principal photography day is split between in- and out-of-zone locations, the first scene of the day must be shot in the OZ location for the day to be considered OZ.

b. **Visual Effects:** There is no minimum California spend for bonus points. The VFX costs that qualify for bonus points are primarily vendor payments for VFX processes, such as previz, postviz, Lidar, element creation, and CGI shot costs. This also includes Virtual Production and the use of LED walls. VFX vendor payments must be split 70% Wages (QW) and 30% Non-wages (QE) for the Jobs Ratio calculation regardless of the actual cost breakdown.

See [qualified expenditure chart](#) for items marked "VU".

c. **Scoring/Track recording wages paid to scoring musicians, including the following positions:** Instrumental musicians, vocalists, music arrangers, orchestrators, Musical Instrument Digital Interface (MIDI) transcribers, music copyists, music librarians, conductors (unless also composer), and musician and choral contractors employed solely for the purpose of recording music for the project.

3. Uplifts (Additional Tax Credits)

a. NON-INDEPENDENT FILMS and TELEVISION (Excluding Relocating TV Series in its first CA season)

1.) Visual Effects (5%)

- a) VFX expenditures in-state must equal at least \$10 million dollars OR 75% of total worldwide VFX costs to qualify for the uplift.
- b) The VFX costs that qualify for the 5% uplift are primarily vendor payments for VFX processes such as previz, postviz, Lidar, element creation and CGI shot costs. This also includes Virtual Production and the use of LED walls. The same expenditures also qualify for bonus points.
- c) VFX vendor payments must be split 70% Wages (QW) and 30% Non-wages (QE) for the Jobs Ratio calculation regardless of the actual cost breakdown. The [Qualified Expenditure Chart](#) indicates those VFX expenditures that qualify for the VFX uplift and for VFX bonus points (they are the same accounts.)

- d) VFX Labor, such as VFX Supervisor or VFX Editor, that are paid directly by the production company, as well as their computer rentals, will qualify for the uplift. (Refer to [Qualified Expenditure charts](#) for all VFX costs which qualify for the uplift labeled “VU”).

2.) Out of Los Angeles Zone (5%)

- a) OZ uplift only applies to work associated with filming original photography and reshooting original footage out of the LA Zone. Out-of-zone post-production expenditures do not qualify for this uplift.
- b) OZ labor: Applies to individuals who reside in the LA zone for work performed outside the LA zone during the “applicable period,” which is prep, shoot, and the time needed to strike sets in the OZ location. OZ labor costs will be the estimated labor costs (initial submission) and actualized labor paid (for tax credit allocation). Double tag these budget lines QW and ZW.
- c) OZ materials that are purchased and/or rented and are used or consumed entirely OZ should be double tagged QE and ZC. If documentation is sufficient, the cost of these items will be credited 100% toward the tax credit. A sample listing of ZC expenditures can be found in Appendix C of this document.
- d) Items purchased or rented outside the LA zone and used both outside and inside the LA zone are qualified for tax credit at a percentage equal to the percentage of principal photography days which occurred OZ. These budget lines should be double tagged QE and ZE.

3.) Out-of-zone Hires for Out-of-zone Work (10%)

- a) Applies to individuals who reside in California outside the Los Angeles zone, and who perform services outside the Los Angeles zone; qualified OZ hire labor should be double tagged QW and LW. Documentation is required (CA Driver’s License or State ID Card AND one of the following: recent utility bill, current home or apartment rental agreement, mortgage statement, home internet/phone provider, apartment renter’s insurance or homeowner’s insurance bill) as proof of domicile outside the LA Zone. A Driver’s License alone is not sufficient. Proof must be requested by production accountants at the time of hire and provided to the CPA performing the audit. Lack of proof of a crewmember’s domicile will result in the Local Hire Labor Uplift for that crewmember to not be applied.
- b) The LW uplift only applies to work associated with filming original photography and/or reshooting original footage out of the LA Zone. Post-production local hire labor working out of zone (other than for reshoots) does not qualify for this uplift.

b. INDEPENDENT FILMS

1) Out-of-zone Hires for Out-of-zone Work (10%)

- a) Applies to individuals who reside in California outside the Los Angeles zone, and who perform services outside the Los Angeles zone; qualified OZ hire labor should be double tagged QW and LW. The same documentation applies to Independent Films as noted above in 3a.
- b) OZ uplift only applies to work associated with filming original photography and/or reshooting original footage out of the LA Zone. Post-production local hire labor working out of zone (other than for reshoots) does not qualify for this uplift.

c) ZW, ZC and ZE uplifts do not apply to this category of projects.

c. RELOCATING TV SERIES

2) Out-of-zone Hires for Out-of-zone Work (5%)

- d) Applies to individuals who reside in California outside the Los Angeles zone, and who perform services outside the Los Angeles zone; qualified OZ hire labor should be double tagged QW and LW. The same documentation applies to Relocating TV Series as noted above in 3a.
- e) OZ uplift only applies to work associated with filming original photography and/or reshooting original footage out of the LA Zone. Post-production local hire labor working out of zone (other than for reshoots) does not qualify for this uplift.
- f) ZW, ZC and ZE uplifts do not apply to this category of projects.

Please review the [Guidelines](#) for more information regarding uplifts.

D. BUDGET TAGGING AND TRACKING INSTRUCTIONS

1. Qualified Wages Processed Through Payroll

All of the payments listed below are considered Qualified Wages (QW) when the individual's salary is qualified. Only wages paid through the production's payroll service, musicians' payroll service, or directly by the production company to an individual or her/his loan-out company can be considered QW.

- Salary/overtime
- Meal Penalties
- Turnaround violations
- Per diem (up to industry-standard allowances, i.e., \$75 for crew, \$100 for Heads of Department)
- Guild/Union mandated upgrades (e.g., 2nd Camera bump for Script Supervisor, wardrobe for background actors)
- Mileage allowance
- Drive-to mileage for qualified labor
- Box rentals (does not apply to out-of-state crew working in California)
- Cell phone allowances or personal rentals
- Car allowances or personal rentals

2. Non-Wage Expenditures

All purchases and rentals are considered non-wage expenditures, as is labor paid via a contracted company, such as security guards, police, firefighters and site reps.

The following expenditures provide examples of items which should be tagged QE whether paid through payroll or invoiced separately:

- Equipment and vehicle rentals
- Location site rentals and ancillary costs
- Stage rentals
- Special effects makeup companies

- Set dressing, costume and prop rentals and purchases
- Hotel, corporate housing or Airbnb rentals
- Living allowances for qualified labor
- Mileage reimbursement
- Stipends

Tagging Methodology

NON-INDEPENDENT FILMS AND ALL TELEVISION EXCEPT RELOCATING SERIES

Bonus Points and Uplifts (additional tax credits)

OZ Bonus Points do not require tagging. They are calculated by the percentage of principal photography days outside the L.A. studio zone as indicated on the shooting schedule.

	Budget & Cost Report Tagging	Comments
Qualified Wages	QW	Qualify for 35%
Qualified Expenditures	QE	Qualify for 35%
Out of Zone Wages – Uplift	QW, ZW	5% uplift for qualified wages by individuals who reside within the LA zone for work performed outside the LA Zone during applicable period (all units)
OZ Hire Labor – Uplift	QW, LW	10% uplift for qualified wages on OZ hire labor – individuals who reside outside the LA zone and work outside the LA Zone during applicable period (all units)
OZ Purchase and Rental Expenses – Uplift	QE, ZC	If tracked and verified, items purchased or rented OZ and used or consumed entirely OZ are eligible for a 5% uplift. See Appendix C in this document for a sample list.
OZ Purchase and Rental Expenses used both inside and outside the zone – Uplift	QE, ZE	If tracked and verified, items purchased or rented OZ and used or consumed both inside and outside the zone are eligible for an additional 5% uplift based on the % of OZ PP days.
Vendor VFX Uplift / Bonus Points	70% QW, VU 30% QE, VU	5% uplift for qualified expenditures for work performed by VFX vendors in CA. In state VFX expenditures must be at least \$10 million dollars OR 75% of total Worldwide VFX costs. Refer to the Qualified Expenditure Chart – all VFX costs which qualify for uplifts & bonus points tagged “VU.”
Direct Hire VFX Uplift / Bonus Points	QW, VU	5% uplift for qualified expenditures for VFX work performed in CA. In state VFX expenditures must be at least \$10 million dollars OR 75% of total Worldwide VFX costs. Tag all qualified VFX costs “VU.”

Music Wages Bonus Points	QW, MW	No uplift. Bonus Points for music recording and scoring labor done in CA. All categories listed in the Qualified Expenditure Chart under music noted by "MW" qualify for this uplift.
Non-Qualified CA Expenses	NQ	Costs incurred in CA but not qualified for the Incentive.
Non-Qualified Expenditures outside CA	XX	Costs incurred outside CA never qualify for the Incentive.

INDEPENDENT FILMS

Bonus Points and Local Hire Labor Uplift (additional tax credits)

OZ Bonus Points do not require tagging. They are calculated by the percentage of principal photography days outside the L.A. studio zone as indicated on the shooting schedule.

	Budget & Cost Report Tagging	Comments
Qualified Wages	QW	Qualify for 35%
Qualified Expenditures	QE	Qualify for 35%
OZ Hire Labor – Uplift	QW, LW	10% uplift for qualified wages for OZ hire labor work performed outside the LA Zone during applicable period (All units)
Vendor VFX Bonus Points	70% QW, VU 30% QE, VU	For Independent Films Over \$10M. Bonus points for qualified Visual Effects spend in California. Does not apply to Independent Films \$10M and Under.
Direct hire VFX Bonus Points	QW, VU	For Independent Films Over \$10M. Bonus points for qualified Visual Effects spend in California. Does not apply to Independent Films \$10M and Under. Direct hires must be paid via payroll. If paid on a vendor contract, must be split 70/30 QW to QE.
Music Wages Bonus Points	QW, MW	Does not include Composer or Music Supervisor. Does not apply to Independent Films \$10M and Under.
Non-Qualified Expenditures inside CA	NQ	Costs incurred in CA but not qualified for the Incentive.
Non-Qualified Expenditures outside CA	XX	Costs incurred outside CA never qualify for the Incentive.

RELOCATING TELEVISION SERIES

Bonus Points and Local Hire Labor Uplift (additional tax credits)

OZ Bonus Points do not require tagging. They are calculated by the percentage of principal photography days outside the L.A. studio zone as indicated on the shooting schedule.

	Budget & Cost Report Tagging	Comments
Qualified Wages	QW	Qualify for 40%
Qualified Expenditures	QE	Qualify for 40%
OZ Hire Labor – Uplift	QW, LW	5% uplift for qualified wages for OZ hire labor work performed outside the LA Zone during applicable period (All units)
Vendor VFX Bonus Points	70% QW, VU 30% QE, VU	Bonus points for qualified Visual Effects spend in California.
Direct hire VFX Bonus Points	QW, VU	VFX Supervisor, Editor, Coordinator etc. Must be paid via payroll. If paid on a vendor contract, must be split 70/30 QW to QE.
Music Wages Bonus Points	QW, MW	Does not include Composer or Music Supervisor.
Non-Qualified Expenditures inside CA	NQ	Costs incurred in CA but not qualified for the Incentive.
Non-Qualified Expenditures outside CA	XX	Costs incurred outside CA never qualify for the Incentive.

3. Fringes

It is advisable to set up budgets with the correct fringe breakdown as federal fringes and others must be excluded from California tax credit calculations. Non-Qualifying fringes (e.g., FICA, MEDICARE, FUI, FUTA,) must be omitted or zeroed out when creating the Qualified Expenditure Budget.

Please refer to the [Qualified Expenditure Chart](#) for guidance on qualified fringes and the maximum accepted percentages.

E. CFC PORTAL – PHASE IV

1. Expenditure Summary Report

The Expenditure Summary Report will be automatically generated by the portal once the CPA performing the Agreed Upon Procedures (AUP) completes the review and final tax credit calculations. The Verified Jobs Ratio and Verified Tax Credit Amount – automatically calculated based on actual expenditures entered in Phase IV of the application portal – must match the CPA's calculations as noted in the AUP.

a. Local Community Expenditure Report

Applicants who have filmed outside Los Angeles County must fill out a Local Community Expenditure Report for each county outside of LA in which any shooting took place. We strongly encourage the Production to fill out and submit this as soon as spending in the county has ended.

b. Diversity Report

This report asks for information on the diversity of the cast and crew. Employees generally have the option of providing this information on their start paperwork, but if the payroll service does not ask for this information, it is the responsibility of the production to include an ethnicity question on the deal memo or on a separate form. It is important to explain to the employee that this question is being asked because your production is participating in the California Film & Television Tax Credit Program 4.0, and that it is a requirement of the program, although answering the question is optional. We require the ethnicity and gender statistics of all employees whether their salaries are qualified or non-qualified (see the charts below for details).

Ethnic Category	QUALIFIED WAGES							
	# Hires				# Days Worked			
	F	M	O/NA*	Total	F	M	O/NA*	Total
American Indian or Alaska Native								
Asian								
Black/ African American								
Latinx/ Hispanic								
Pacific Islander								
White/ Caucasian								
Other/ Mixed								
Prefer not to state								
TOTAL REPLIES								
**Other/ Not Applicable								

Ethnic Category	NON- QUALIFIED WAGES							
	# Hires				# Days Worked			
	F	M	O/NA*	Total	F	M	O/NA*	Total
American Indian or Alaska Native								
Asian								
Black/ African American								
Latinx/ Hispanic								
Pacific Islander								
White/ Caucasian								
Other/ Mixed								
Prefer not to state								
TOTAL REPIHS								
**Other/ Not Applicable "								

NON-QUALIFIED WAGES include (but are not limited to): Executive Producers, Line Producers, Producers, Associate Producers, Post-Production Producers, Visual Effects Producers, Music Producers, Writers, Directors, 2nd Unit Directors, Composers, Songwriters, Music Supervisors, Publicists, Special Stills Photographers, Actors (speaking roles) and On-camera Stunt Performers.

F. AGREED UPON PROCEDURES (AUP)

1. Certified Public Accountant

An AUP Report must be performed by a CPA with an active California license to perform attest services or with current firm registration in California. Applicants are not allowed to engage the same CPA/Accountant who has performed any production and/or post-production accounting for the approved project. Only CPAs who have attended a CPA Orientation Seminar 4.0 are permitted to conduct AUPs; a listing of CPAs who fulfill that requirement is available on the [CFC website](#).

In anticipation of applying for the Tax Credit Certificate, production companies need to add the CPA performing the AUP to the online portal as an application user to access necessary files. More information available under [Audit Procedures](#) section of the CFC website.

2. Verification of In-state Work

Each production must obtain documentation from visual effects, digital effects, post sound and/or title design companies or contractors to verify all work that was performed in California. Vendors must utilize the [Verification of In-State Work](#) template available on the website. If a portion of the work was performed out of state by the company or its subcontractors, the letter must indicate the dollar amount for such work and/or materials. This documentation will be reviewed by the CPA performing the AUP and the CFC.

3. Related Party Transactions

All related party* transactions must be in accordance with an “arm’s length” standard. The production company is required to provide the CPA performing the AUP with a breakdown of all related party transactions, as they are subject to review and sampling: a minimum of 3 comparison bids and/or studio rate cards will be requested. If the production company rents equipment from a BTL crew member, this is not a related party transaction. However, renting company services or equipment from cast or crew whose salaries are not qualified for the tax incentive program are considered related parties by the CFC, and are subject to review.

“The term “related parties” is understood to mean “the reporting entity; its affiliates; principal owners, management, and members of their immediate families, entities for which investments are accounted for by the equity method; and any other party with which the reporting entity may deal when one party has the ability to significantly influence the management or operating policies of the other, to the extent that one of the transacting parties might be prevented from fully pursuing its own separate interest.” Related parties also exist when another entity has the ability to significantly influence the management or operating policies of the transacting parties, or when another entity has an ownership interest in one of the transacting parties and the ability to significantly influence the other, to the extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

4. Production Assets

Proceeds from the sale of any production assets must be deducted from the costs presented in the cost report. Asset lists are required as part of the AUP documentation.

a. Any assets with a purchase price of \$10,000 and over will be subject to review in determining tangible personal property value. As a rule, the lesser of the net cost of the asset after sales proceeds (if assets sold) or 50% of the purchase price will be allowed as a qualified expenditure. If the asset is destroyed during the process of production, applicant should maintain documentation as proof for verification by the CPA performing the AUP for the company. An asset list of all items with a purchase price of \$10,000 or more is required for the AUP and for review by the CFC.

b. Any leased or rented items manufactured, assembled, or fabricated to specification with a value of \$10,000 or more shall be treated as a capital lease if it meets any one of the following four conditions:

- 1) If the term of the lease exceeds 75% of the life of the asset.
- 2) If there is a transfer of ownership to the lessee at the end of the lease term.
- 3) If there is an option to purchase the asset for substantially less than the fair market value (“bargain price”) at the end of the lease term.

- 4) 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 standards for a capital lease will be considered a purchase and subject to a 50% expense cap for purposes of qualifying for the tax incentive. All such items are required to be on the asset list of items with a purchase price of \$10,000 or more.

c. The following applies to the office, on-set or in post-production: any electronic equipment such as computers, hardware, drives, scanners, monitors and relevant components, copiers, and/or printers which are purchased for the production will be allowed the lesser of the net cost of the asset after sales proceeds (if assets sold) or 20% of their purchase price as a qualified expenditure.

- 1) Electronic assets with a purchase price equal to or less than \$250 are not subject to this requirement. See Appendix B for a list of common electronic assets.
- 2) Props or set dressing that involve electronic equipment are also subject to this rule, except for "period" props/dressing manufactured more than 5 years before the start of principal photography.
- 3) An asset list of all such items is required for the AUP and for review by the CFC.

d. Licensed Assets: Per statute, any licensed materials such as music licenses and software are not qualified expenditures. Please tag these items accordingly.

e. Disposition of assets (examples):

- 1) Asset over \$10k is sold

If the asset is sold, the qualified cost is the lesser of the net cost after sales proceeds or 50% of the original purchase price. So, in one example, if a \$15,000 asset is sold for \$6,000 (net cost of \$9,000), the qualified cost is \$7,500 (50% of the original purchase). In a second example, if a \$15,000 asset is sold for \$11,000 (net cost of \$4,000), the qualified cost is \$4,000. So, in summary, if the asset is sold, the most you can get as a qualified cost would be 50% of the original purchase price.

- 2) Asset over \$10k is retained

If the asset is retained, the qualified cost is limited to 50% of the original purchase price in all cases.

- 3) Asset over \$10k is destroyed

If the asset is destroyed as part of the production, the qualified cost is the full value of the asset. However, in all cases the production company must maintain documentation that the asset was destroyed (e.g. photographs, production reports, video footage, etc.).

- 4) Asset's value is under \$10k (excluding electronic equipment)

If the asset purchase price is below \$10k, the qualified cost is the full value of the asset. The production company does not need to specifically track the asset but upon request, may need to provide a listing of all such assets to the auditor and CFC.

- 5) Electronic assets

The qualified cost is limited to 20% of the original purchase price. The production company must track these types of purchases regardless of dollar amount of the purchase price, but the 20% limit does not apply to electronic assets with a purchase price equal to or less than \$250.

6) Asset is given to a non-qualified individual

e.g., director, producer, actors: the purchase price of the asset must be fully deducted from the qualifying expenditure total.

G. MATERIALS FOR VERIFICATION OF EXPENDITURES

Production companies may need to provide the CPA that will be performing the AUP report access to the following materials (this is not an exhaustive list):

- Copy of Credit Allocation Letter
- Copy of call sheet from first day of principal photography
- Full set of final, signed Production Reports for principal photography and any reshoots/additional photography
- Shooting schedule
- Final cast and crew lists
- Final cost report, including all non-qualifying expenditures
- For productions close to threshold limits, CPAs will review ATL contracts for any guaranteed deferments or bonuses, which must be included in the total budget amount.
- Detailed Cost Ledger, e.g. Bible
- Payroll register of all cast, crew, and staff paid (summary)
- Detailed Trial Balance
- Detailed Ledger of expenditures
- Petty cash envelopes
- Bank Statements & Reconciliations
- Information to substantiate qualified expenditures, including invoices, purchase orders, receipts, contracts, deal memos, timecards, stop/start forms, etc.
- List of all visual effects, digital effects, and/or title companies who worked on the production.
- Complete Inventory/Asset list (electronic).
- Listing of items with a purchase price over \$10,000 indicating the status of the assets (e.g. destroyed, sold, donated, being held for future productions, given to cast or crew, etc.).
- Listing of office, post-production or effects equipment purchased for the production and its disposition.
- Listing of customized leased or rented items manufactured, assembled, or fabricated to specification with payment aggregating \$10,000 or more.
- Listing of all related party transactions, including type of relationship, transactions, amount of transactions; comparison bids may be requested.
- Listing of all parties with a 5% or greater ownership in or other affiliation with the production company.
- Script Supervisor's reports
- Out of zone local labor documentation – CA driver's license and recent utility bill

Please refer to the [Qualified Expenditure Chart](#) to confirm qualified and non-qualified expenditures. However, do not hesitate to contact the CFC Film & Television Tax Credit Program if you are unsure if an expenditure is qualified or not.

APPENDIX A – BONUS POINTS

VISUAL EFFECTS							
Non-indie Range		TV Series Range		Indies \$10m or less		Indies Over \$10m	
\$	Pts	\$	Pts	\$	Pts	\$	Pts
0	0	0	0	0	0	50,000	0
2,000,000	1	100,000	1	0	0	100,000	1
3,000,000	2	350,000	2	0	0	350,000	2
5,000,000	3	500,000	3	0	0	500,000	3
7,500,000	4	1,000,000	4	0	0	1,000,000	4
10,000,000	5	2,000,000	5	0	0	2,000,000	5
15,000,000	6	3,500,000	6	0	0	3,000,000	6
20,000,000	7	5,000,000	7	0	0	4,000,000	7

Visual effects expenditures which qualify for bonus points are indicated by “VU” in the [qualified expenditure charts](#).

MUSIC							
Non-indie Range		TV Series Range		Indies \$10m or less		Indies Over \$10m	
\$	Pts	\$	Pts	\$	Pts	\$	Pts
0	0	0	0	0	0	0	0
100,000	1	50,000	1	0	0	30,000	1
200,000	2	150,000	2	0	0	60,000	2
400,000	3	250,000	3	0	0	90,000	3
600,000	4	600,000	4	0	0	120,000	4
800,000	5	800,000	5	0	0	150,000	5

Qualified Music Scoring Labor which qualify for bonus points are indicated by “MW” in the [qualified expenditure charts](#).

OUT OF ZONE DAYS	
%	Points
0%	0
10%	1
20%	2
30%	3
40%	4
50%	5
60%	6
70%	7
80%	8
90%	9
100%	10

Bonus Points only apply to filming original photography (principal photography and reshooting original footage) OZ.

If a principal photography day is split between in- and out-of-zone locations, the first scene of the day must be shot in the out of zone location for the day to be considered as OZ.

APPENDIX B – ELECTRONIC ASSETS

All productions are required to create a listing of electronic assets with a purchase price over \$250. Equipment such as computers, hardware, drives, scanners, monitors and relevant components, copiers, and/or printers which are purchased for the production will be allowed the lesser of the net cost of the asset after sales proceeds (if assets sold) or 20% of their purchase price as a qualified expenditure.

A non-exhaustive list:

- TV's/Monitors
- Printers
- Scanners
- Copiers
- Atomos Connect H2S converter (SDI to HDMI and HDMI to SDI video converter)
- Modems/ Cell Signal Boosters
- Laptops/Computers
- DVD Players
- VCRs
- Digital Blue Screen
- Rig X-Ray Camera
- GoPro Camera
- Cameras
- Phone Systems
- Cellphones
- iPads
- Fitbit/ Apple Watches
- Wireless Microphones
- Hard Drives (except for archival purposes)
- Coffee Maker (High-end)
- Projectors
- Speakers
- Gaming table (Pacman, Galaga, etc.)
- Xbox & other Gaming Equipment
- Radar Gun

APPENDIX C – Out of Zone Expenditures eligible for Uplift

Examples of tangible personal property purchased or leased outside the Los Angeles zone and used or consumed outside the Los Angeles zone include but are not limited to:

- Food and catering items
- Rented hotel or corporate housing usage
- Construction supplies and materials for Out of Zone sets
- Automotive or other fuels
- Security services
- Location and stage services
- OZ location site rentals
- OZ governmental permit fees
- Personnel services
- Printing
- OZ Equipment rentals during the applicable period
- Transportation services
- Dry cleaning
- Shipping costs from within the state to or from the OZ location
- OZ Office rentals
- OZ vehicle rentals