



DATE: August 17, 2012

**Production Alert: APPROVED MODIFIED REGULATIONS, AGREED UPON PROCEDURES AND FORMS FOR CALIFORNIA FILM & TELEVISION TAX CREDIT PROGRAM NOW AVAILABLE ON WEB SITE.**

The modifications to the Regulations, Agreed Upon Procedures (AUP), and revised forms for the California Film Commission's (CFC) Film and TV Tax Credit program, were formally approved by the Office of Administrative Law. To assist you in understanding the changes to the Regulations, AUP, and required forms, please find a **summary of the more significant changes** below. The changes in these forms reflect new statutory requirements as per AB1069 and are now incorporated into the Regulations. Please note that AB1069 became effective on January 1, 2012; all applications received on or after that date must comply with these new requirements.

**Application (Form A)**

1. The time required to submit missing materials has been increased from 3 to five days.
2. Once it is determined credits are available, Applicants will be notified and required to submit additional information via secure electronic format including:
  - a. A detailed narrative statement describing the influence of the tax credit with respect to choice of filming location;
  - b. Independent projects: If available, most recently produced balance sheets, annual statements of profit and loss, financial statements; names of all partners or members of LLC (not subject to public disclosure);
  - c. Non-independents: Listing of all members in the most recently filed CA combined reporting group (Schedule R would be acceptable) and any members to which the credit is assigned; If readily available, listing of all locales in which any of those members financed productions in the year previous to the application year.

**Expenditure Summary Report (Form F)**

1. When requesting a tax credit certificate, applicants are required to include any revised and/or updated information to the requirements in item #2 above.

2. The checklist now includes documentation required by the CPA performing the Agreed Upon Procedures. Newly added documentation:
  - a. Insurance or bond company statement of calculation for prorated insurance and or bond company costs;
  - b. Payroll representative letter verifying no outstanding invoices;
  - c. Verification that all insurance claims related to qualified expenditures have been credited to the cost report.

### **Agreed Upon Procedures**

1. It is now required that all CPAs performing AUPs for the California tax credit program attend the CFC's CPA Orientation Meeting.
2. CPAs must inspect all call sheets and production reports even if filming days were incurred prior to acceptance into the program. In this way, CPAs can determine eligibility as per the 75% principal photography day test.
3. Inspection of cancelled checks has been replaced with bank statements, check images, credit card statements or other equivalent documentation.
4. All proceeds related to qualified spend from insurance claims must be credited to the cost report.
5. Prorated insurance premiums and completion bonds require a statement of allocation from the insurance and/or bond company.
6. Clarification that vendor letters for vfx, post sound, titles and digital effects work are only required for costs being claimed as qualified expenditures.
7. Clarification that qualified wages and expenditures are verified if incurred during the qualified period regardless of when paid.
8. During Related Party testing, the CPA must verify that the expenditure is allowable as per the relevant expenditure or payroll testing criteria. The CPA does not need to retest expenditures if related party issues were addressed during previous testing.
9. In Appendix A, the criteria for testing has been changed from "employees with total qualified wages under \$100,000" to "Employees with total qualified wages under top 10" in order to capture the highest paid employees. Appendix B has the same modification for nonqualified wages.
10. Appendix C has been amended to incorporate all the changes in the Agreed Upon Procedures.

All revised documents are available on the CFC website or upon request. You are encouraged to read the Regulations, revised Guidelines, Check List, Expenditure Tracking Tips and Qualified Expenditure Charts. Please feel free to contact the CFC with any specific questions regarding the Tax Credit Program.