



May 20, 2010

Production Alert:

California Film & Television Tax Credit Program Permanent Regulations Approved

The permanent regulations for the film and TV tax credit program were formally adopted by the Office of Administrative Law on May 19, 2010. To assist you in understanding the new regulations, please find a **summary of the more significant changes** to the regulations below.

1. **Animated Productions**, consisting principally of computer generated or hand painted images are not considered qualified productions. An animated production does not engage in principal photography and therefore does not meet the conditions for eligibility set forth in the Statute. Any animated production issued a Credit Allocation Letter shall continue to be eligible for the tax credits allocated and must comply with all the permanent regulations (except the first 3 sentences of subsection 5502(g)).
2. Productions whose **Qualified Expenditure Budget** does not exceed \$10 million dollars may be considered an Independent Film, provided they are not owned by a publicly traded company or a publicly traded company does not own more than 25% of the producing company. Previously, the \$10 million dollar budget **threshold** for Independent Films was measured by the total production budget – including qualified and non-qualified expenditures.
3. An **Independent Film** whose Qualified Expenditure Budget exceeds \$10 million dollars will be reclassified as a Feature Film and placed at the end of the queue for any available tax credits in the non-Independent film allocation category. The credits will no longer be transferable, and the credit percentage will be adjusted from 25% to 20%.
4. A **new television series** licensed for original distribution on basic cable must have a running time of no less than 60 minutes, inclusive of advertisements and interstitial programming. It must submit documentation verifying that the series will have its initial distribution on basic cable.
5. The definition for a **Movie of the Week** has been revised. A Movie of the Week must submit documentation verifying its initial distribution on television with a minimum of 75 program minutes broadcast in one part.
6. The definition for a **Miniseries** has been revised. A Miniseries must submit documentation verifying its initial distribution on television consisting of two or more episodes with a total running time of at least 150 program minutes.
7. All productions must submit the **Financing Sources Report**, and it must include documentation which confirms at least 60% of the production's financing.

8. Businesses are not required to be registered to do business in California in order for their expenditures to qualify as long as the service is performed in the state.
9. The provision referencing capitalized property has been deleted.
10. Applicants must submit a report prepared by a certified public accountant licensed to perform attest services in compliance with the **Agreed Upon Procedures**, which is available for review on the CFC website.
11. **Orientation meetings** must occur not less than 4 weeks prior to principal photography. Previously, orientation meetings were required within one month of issuance of the Credit Allocation Letter. The production accountant is required to attend.
12. Production companies must submit documentation from each contracted **visual effects, digital effects and/or title company**, indicating the total dollar amount of work performed within the state of California.
13. The following **forms have been revised**: Application (Form A), Financing Sources Report (Form B), Independent Film Declaration (Form C), Monthly Status Report (Form I), Fiscal Year End Report (Form K), Expenditure Summary Report (Form F). All forms can be found on the CFC website.
14. The **Application Form** now requires the applicant to provide an estimate of total California expenditures – qualified and non-qualified.
15. Costs are qualified only until 30 days after the creation of the final elements. Only expenditures incurred up to 30 days after that date shall be considered qualified expenditures.

You are encouraged to read the permanent regulations, revised guidelines, Tracking Tips, and Expenditure Charts on the CFC website. Please feel free to contact the CFC with any specific questions regarding the Tax Credit Program.