Assembly Budget Subcommittee No. 4 on State Administration
INFORMATIONAL HEARING
October 21, 2015
California Film & TV Tax Credit
Progress Report
[Fiscal Year end 2014-15]
Film & TV Tax Credit Program

- Became law in Feb. 2009 as part of a broad economic stimulus package
- Program launched July 1, 2009
- $100 million dollars of tax credits allocated per fiscal year for 8 years
- Program targeted productions most likely to flee California
Who Qualified for the Program?

Eligible for 20% Tax Credit:

- Feature Films (up to $75 million maximum production budget)
- Movies of the Week or Miniseries
- New television series licensed for original distribution on basic cable
Who Qualified for the Program?

Eligible for 25% Tax Credit:

- A television series that filmed all of its prior seasons outside of California.

- An "independent film" ($1 million - $10 million budget that is produced by a company that is not publicly traded.)
Application Process

- Applications accepted at beginning of fiscal year
- Due to high demand, projects were selected by lottery
- Once all credits ($100M) were exhausted, remaining applicants were placed on waiting list
Application Process

Applications Received per Program Year

- Yr 1 – 67
- Yr 2 – 119
- Yr 3 – 176
- Yr 4 – 322
- Yr 5 – 389
- Yr 6 – 502
- Yr 7 – 246 (Independent projects ONLY)
Credit Allocation Process

- Application is reviewed for eligibility and required documentation
- Credit Allocation Letter is issued: this is a *reservation* of tax credits based on budget spending estimates.
Program Year 7 Summary* (July 2015 – July 2016)

Breakdown by Project Type

<table>
<thead>
<tr>
<th></th>
<th>Feature Films</th>
<th>TV Movies</th>
<th>TV Series</th>
<th>Mini-Series</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects</td>
<td>11</td>
<td>5</td>
<td>10</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>Percentage of Credit Allocation</td>
<td>15%</td>
<td>2%</td>
<td>83%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Independent VS. Non-independent Breakdown

<table>
<thead>
<tr>
<th></th>
<th>Independent</th>
<th>Non-independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Percentage of Credit Allocation</td>
<td>17%</td>
<td>83%</td>
</tr>
</tbody>
</table>

* Program Year 7 figures as of 06/30/15.
Program Year 7 Summary* (July 2014 – July 2015)

$702 Million
Estimated Aggregate Direct Spending by 27 Projects

$271 Million
Qualified Wages
Excludes wages for actors, directors, writers, producers.

$202 Million
Non-Wage Expenditures

$229 Million
Non-Qualified Expenditures
Spending that does not qualify for credits.

Individuals Hired

| 3,000 Crew Members | 1,800 Cast Members | 67,000 Background Actors |

* Program Year 7 figures as of 06/30/15.
Breakdown by Credit Allocation Amount
Program Year 7

- TV Series: 83%
- Feature: 15%
- TV Movies: 2%

Legend:
- Feature
- TV Movies
- TV Series
Breakdown by Credit Allocation Amount
Program Year 1

- Feature Films: 83%
- TV Movies: 3%
- TV Series: 12%
- Relocating TV: 1%
- Mini-Series: 1%
Film and Television Tax Credit Program – Program Years 1 - 7

Aggregate Spending

$5.93 Billion
Estimated Aggregate Direct Spending by all Projects (7 Program Years)

$2.08 Billion
Qualified Wages

$1.56 Billion
Non-Wage Expenditures

$2.28 Billion
Non-Qualified Expenditures

Individuals Hired – Aggregate over 7 Program years

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crew Members</td>
<td>42,000</td>
</tr>
<tr>
<td>Cast Members</td>
<td>23,000</td>
</tr>
<tr>
<td>Background Actors</td>
<td>546,000</td>
</tr>
</tbody>
</table>
Production Spend Outside L.A. Region

- Alameda County - $4,446,000
- Imperial - $817,000
- Kern County - $276,000
- Orange County - $130,000
- Placer County - $79,000
- Riverside County - $341,000
- San Bernardino County - $1,000,000
- San Diego County - $16,000,000
- San Luis Obispo County - $68,000
- San Mateo County - $1,500,000
- Santa Barbra County - $410,000
- Ventura County - $6,400,000
After a production completes post-production:

- Applicant undergoes an audit process conducted by an independent CPA
- Submit audit and final expenditure information to the CFC for review
- Upon approval of final documentation, CFC issues Tax Credit Certificate
Using the Tax Credits

Tax credits are issued after the project is complete and the independent audit has been approved by the CFC.

- **Transferable Tax Credits:** Independent Producers may sell their credits to a 3rd party.
- **Non-Transferable Credits:** Studios must use credits against state income tax or sales & use tax liability.
- **Credits may be used in the year they are issued OR carried forward for 5 years.**

Amount of credit is the same *or less than* the initial allocation.
Tax Credit Claims

Total tax credit certificates issued:
$423,998,000

Credits claimed against sales & use taxes:
$38,275,000

Credits claimed against income tax liability
$149,208,000

(as of 07-2015)
Projects That Applied But Did Not Receive Tax Credit

- **Program Year 2 (2010-2011)**: $323 million spent outside CA, $20 million spent inside CA
- **Program Year 3 (2011-2012)**: $424 million spent outside CA, $75 million spent inside CA
- **Program Year 4 (2012-2013)**: $370 million spent outside CA, $88 million spent inside CA
- **Program Year 5 (2013-2014)**: $1,062 million spent outside CA, $211 million spent inside CA
- **Program Year 6 (2014-2015)**: $1,389 million spent outside CA, $213 million spent inside CA
Waitlist – Total Production Spending

WAITLIST - TOTAL PRODUCTION SPENDING -2010 - 2015

$3,568,000,000
Spent Outside CA
85%

$607,000,000
Spent Inside CA
15%

CALIFORNIA FILM COMMISSION
Tax Credit Program Projects: KNIGHT OF CUPS
Tax Credit Program Projects: RIZZOLI AND ISLES
Tax Credit Program Projects: ARGO
California Film & TV Tax Credit Program 2.0
Key Changes From Prior Program

- Increases funding from $100M to $330M per year
- Expands eligibility for big-budget films, 1-hr TV series for any distribution outlet and TV pilots
- Eliminates budget caps for feature films; Credits apply to first $100M in qualified spend
- Eliminates penalty provision for Independents; Credits apply to first $10M in qualified spend
- Replaces lottery selection with jobs-ratio ranking
- Multiple allocation periods throughout the year
- Adds 5% “Uplifts” for filming outside the 30-mile zone, VFX spending and music scoring/recording in-state
Fiscal Year Funding Categories

Program Year 1 - $230 Million

- $80.5M Features (35%)
- $46M Relocating TV Series (20%)
- $92M New TV Series, Pilots, MOWs, Mini-Series, Recurring TV Series (40%)
- $11.5M Independents (5%)
Fiscal Year Funding Categories

Program Years 2-5 $330 Million

- $132M New TV Series, Pilots, MOWs, Mini-Series, Recurring TV Series (40%)
- $115.5M Features (35%)
- $66M Relocating TV Series (20%)
- $16.5M Independents (5%)
Eligibility and Tax Credit Allocation Percentages

- **75% Test PP Days or Total Budget**
- **20%***
  - Feature Films
  - MOW and Miniseries
  - New TV Series
  - TV Pilots
- **25%**
  - Relocating TV Series (First year filming in CA)
  - Independent Projects

* May be eligible for 5% Uplifts
5% Tax Credit UPLIFT

- Uplifts cannot be combined.
- The maximum credit a production can earn is 25%.
- (Does not apply to: independent productions relocation series – 1st season in California)
Jobs Ratio Ranking

Category-Specific Competition

Each production category has a dedicated fund of tax credits.
Projects will be ranked directly against comparable (or "like") projects.

- Indies will be ranked against Indies;
- TV ranked against TV, etc.
Application Ranking Process

- Applicants enter project data into on-line application
- The on-line system will calculate the Jobs Ratio and assign ranking #
- Top 200% of projects will be notified to send backup materials (Script, 1-liner, budget, financing docs, etc.) This is Phase 2 of the application process.
- Top 100% will receive Credit Allocation Letter
- Remaining projects move to wait list within their category
Jobs Ratio Calculation:

Qualified Wage + 35% of Qualified Non-Wage = Base Jobs Ratio

Estimated Tax Credit

Bonus Points (up to 25% points) can increase the Base Jobs Ratio:

Base Jobs Ratio x (Points %) = Adjusted Jobs Ratio
Adjusted Jobs Ratio Calculation

- Bonus Points (up to 25% points) can increase the Base Jobs Ratio:
  - VFX Spending Factor
  - Out-of-Zone Principal Photography Days Factor
  - Prod. Facility Principal Photography Days Factor
Non-Independent TV Breakdown Allocation # 1 – May 2015

Approved Projects by Type:
6 New TV Series
2 Mini-series
4 Pilots
3 Relocating TV Series

Total: 15
Film and Television Tax Credit Program 2.0

Non-Independent TV Projects - Spending Summary Allocation # 1 – May 2015

$473 Million
Estimated Aggregate Direct Spending by 15 Projects

$177 Million
Qualified Wages
Excludes wages for actors, directors, writers, producers.

Estimated Cast & Crew
- 2,600 Crew Members
- 2,300 Cast Members

* 2.0 Program Year 1 figures as of 09/30/2015.
Allocation # 2 Summary
July 2015

Approved Projects by Type:
8 Feature films
3 Independent projects

Total: 11
Film and Television Tax Credit Program 2.0

Feature Film & Independent Projects - Spending Summary Allocation # 2 – July 2015

$533 Million
Estimated Aggregate Direct Spending by 11 Projects

$164 Million
Qualified Wages
Excludes wages for actors, directors, writers, producers.

Estimated Cast & Crew

<table>
<thead>
<tr>
<th>Crew Members</th>
<th>Cast Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000</td>
<td>655</td>
</tr>
</tbody>
</table>

* 2.0 Program Year 1 figures as of 09/30/2015.
Audit Process

- All productions will undergo an audit process conducted by an independent CPA.

- Projects will be ranked according to the Jobs Ratio again to determine any overstatement.

- Penalties may apply.

- *Reasonable Cause* provision allows for force majeure events which may have adversely affected the Jobs Ratio.

- Once all final documentation and audit is approved, CFC issues Tax Credit Certificate.
Career Readiness Requirement

All approved applicants must participate in educational training opportunities to expose high school and community college students to jobs in the industry

- Applicants will choose from a list of options for participation:
  - Paid internship
  - Conduct a classroom workshop or demonstration
  - Direct financial contribution to a specific school or educational fund
  - Externship – continuing Ed. for faculty
April 2015 – Emergency regulations adopted
Oct 2015 – Re-adoption of emergency regulations
Jan. 2015 - Re-adoption of emergency regulations
April 2016 – Adoption of permanent regulations
The California Advantage

- Plentiful Production Facilities
- Skilled crews (we can accommodate over 100 simultaneous productions of all sizes)
- The best on-screen talent
- Worldclass VFX and Post facilities
- Diverse locations and 800 miles of coastline
- Support service vendors for every need
- Expanded tax credits
www.film.ca.gov