

STATE & LOCAL TAX ALERT

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September 30, 2014

California Enacts Film and Television Tax Credit Expansion

The California Film and Television Job Retention and Promotion Act was signed into law by Governor Jerry Brown on September 18, 2014. The new law significantly increases the amount of film and television tax credits and eligibility to participate in the film and television tax credit program.

What is California's new film and tax credit budget?

Under the new program, the State has increased funding from \$100 million to \$330 million beginning with fiscal year 2016. The \$330 million annual budget will be in effect for the following four fiscal years.

What are the new program eligibility requirements?

The new law has significantly expanded the eligibility requirements and has replaced the former lottery system with a new competitive job ranking system. The State will issue regulations defining criteria under the new competitive job ranking system shortly. Changes to the current eligibility requirements under the new law are as follows:

1. There is no longer a cap on the budget of feature films and independent films that can qualify. Previously, feature films were capped at \$75 million and independent films at \$10 million.
2. TV pilots are now eligible to the extent they have a budget of at least \$1 million per episode with actual time of at least 40 minutes not including commercials.
3. New and returning one-hour television series now qualify for the credit regardless of how the series is distributed. Previously, television series only qualified to the extent they were distributed through basic cable.

Additional items to consider under the new law

1. In order to qualify for the program, specific film and television projects will need to receive approval from the California Film Commission; therefore taxpayers must consider this application process well in advance of the start date for filming or production.
2. The requirements to transfer or sell film tax credits will remain the same as the previous rules, which limited sale or transferability to film tax credits generated from independent films.
3. The film tax credits will be nonrefundable and will have a five year carryforward period.
4. Taxpayers will have the ability to make an irrevocable election beginning in 2016 to apply the credit against qualified sales and use taxes instead of income taxes. Companies that are in loss situations for income tax purposes could benefit greatly from this election.

Green Hasson Janks Recommendation

Given the significant increase in the film and television tax credit funding, small and midsize film and production studios should seriously consider the benefits of applying for the new program including the ability to make the election to

utilize the film and television tax credits to offset qualified sales and use taxes. As mentioned above, it is imperative that the application to participate in the program be filed with the California Film Commission well in advance of filming. Therefore we recommend that interested participants speak with their tax advisors as soon as possible about future film and television projects. &

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