

**Georgia Department of Revenue
Mandatory Film Tax Credit Audit Program
Agreed Upon Procedures**

March 12, 2025

I. Background

Pursuant to the authority granted to the Department of Revenue ("DOR") by O.C.G.A. § 48-7-40.26 and Ga. Comp. R. & Regs. 560-7-8-.45, the DOR has issued ~~an a Georgia Film Tax Credit Audit Procedures Manual providing administrative guidance on which the qualification of production expenditures qualify for the film tax credit and the general parameters Georgia Entertainment Industry Investment Act of mandatory film tax credit audits.~~ The audit manual sets forth standard parameters of the mandatory film tax credit engagement to be performed by certified independent third-party accounting firms ("eligible auditors"). In accordance therewith, the following are the specific Agreed Upon Procedures to be followed by Eligible Auditors when performing mandatory film tax credit audits authorized under O.C.G.A. § 48-7-40.26. Any capitalized terms used but not defined herein shall have the meaning ascribed to them in the Audit Procedures Manual.

II. Eligibility

1. Obtain from the Production Company the following initial documents required to begin the audit pursuant to Information Document Request ("IDR") #1:
 - ~~a. Copy of the Mandatory Audit Application and proof of DOR audit fee payment (PDF)~~
 - ~~b. Copy of the DEED Tax Certification Application and DEED Certification Letter(s) for the Production (PDF)~~
 - ~~c. Audit Questionnaire (Excel)~~
 - ~~d. Production Balance Sheet and Trial Balance (Excel)~~
 - ~~e. Completed GL cost report containing all production expenditures formatted in accordance with the Audit Template ("GL") (Excel) (from the DOR website) containing all qualified and non-qualified expenditures for the Production (Excel)~~
 - ~~f. All Payroll Reports (including identifying all states where work was performed) from the Payroll Provider(s) in approved DOR format (Excel). Reports must provide a detailed listing of all production company personnel (including loan-outs), masked social security numbers, Georgia wages (taxable and non-taxable payments), per diems, withholding, detailed fringes, etc. A set of all Payroll Reports must also be submitted directly to the auditor from the Payroll Provider(s) (Excel)~~
 - ~~g. Copies of 1099s issued by the production (PDF)~~
 - ~~h. Copy of any of the Production's filed Georgia sales/use tax returns (PDF)~~
 - ~~i. Assets and Improvements to Real Property List (Excel) costing \$10,000 or more in identified ledger cost - Including depreciation calculation for film tax credit purposes~~
 - ~~j. Copy of all submitted Georgia Form G7-Film return(s) and account payment transcripts (PDF)~~
 - ~~k. Contracts for all loan-out and non-employee personal service companies Signed, original contracts/agreements/deal memoranda for all loan-out companies receiving \$100,000 or more per episode in total taxable/non-taxable payments per episode or in the case of productions that are not episodic programs, run of show in any form of payment. (PDF)~~
 - ~~l. Signed Daily Producer detailed daily narrative of activities required for executive producers and/or their loan-out companies receiving \$100,000 or more per episode in total taxable/non-taxable payments per episode or in the case of productions that are not episodic programs, run of show in any form of payment. The form must be signed by the executive producer under penalty of perjury (PDF).~~
 - ~~m. Loan-out Contract Allocation (Excel)- Loan-out Contract Allocation Sheets for loan-out companies receiving \$100,000 or more per episode in total taxable/non-taxable payments per episode or in the case of productions that are not episodic programs, run of show in any form of payment. See DOR example:~~
 - ~~n. Source documents used to complete the Loan-out Contract Allocation (Excel) Days tabs~~
 - ~~o. Producers Detailed daily narrative of activities performed (PDF)~~

- ~~o-j.~~ All Final Days ~~o~~Out of Days report, Shooting Schedules, Cast, ~~-~~ Crew, and Vendor lists for length of production (PDF)
- ~~k.~~ All Final Daily Production Reports (including pre-production and post-production if prepared) –Final (PDF)
- ~~l.~~ SAG-AFTRA Performers Production Time Report(s) (Exhibit G) - For pre-production, production, post-production and promotion & publicity (PDF)
- ~~p-~~
- ~~m.~~ Chart of Accounts (Excel or PDF)
- ~~q-n.~~ Bank Statements & Reconciliations (PDF)

- 2. Confirm that the Production applied for a mandatory audit with the DOR within one (1) year of the end of principal photography in Georgia. If not, notify the Production and the DOR ~~that~~ the Production does not qualify for film tax credits and do not perform any further procedures.
- 2.3. Confirm the Production name and FEIN on the mandatory audit application match the entity stated on the Department of Economic Development (“DECD”) certificate. Any discrepancies need to be resolved by the production before the audit can proceed.
- ~~3.4.~~ Inspect Confirm the GL, ~~d~~Daily ~~p~~Production reports, and ~~d~~Day ~~o~~Out of ~~d~~Days schedule agrees with the Audit Questionnaire to determine the Qualifying Period for the Production (defined as expenditures (regardless of when paid) incurred no more than four weeks prior to the opening of the production office and incurred no more than six weeks after the close of the production office).
- 4.5. Inspect the GL to confirm that total qualified Georgia production expenditures incurred during the Qualifying Period meet or exceed the minimum base investment of \$500,000. If not, notify the Production and the DOR that the Production ~~does~~ has not qualify for film tax credits met the minimum spend requirement, and ~~do~~ the mandatory auditnot perform any further procedures should not proceed.

III. Expenditures (other than Payroll)

- 1. Obtain from the Production a written representation that all outstanding purchase orders and all invoices for qualified expenditures have been paid incurred by the Production. ~~If applicable, deduct any invoices or purchases orders that have not been paid from the GL.~~ In the event a production contracts another production company on a “Work for Hire” basis, the source invoices, contracts, and like documentation issued to the “For-Hire” company by its vendors is to be examined.
- ~~2.~~ Inspect the qualified GL via item and account descriptions for expenses that are *per se* non-qualified (i.e., any expense items described as development, publicity, marketing, distribution, wrap party, gifts, alcohol, loss & damages, COVID-19 costs after November 1, 2021, etc.). Deduct such expenses from the GL prior to further segregation and sampling.
- ~~3.2.~~ Confirm that the Production has sSegregated the following qualified expenses into separate tabs in the GL workbook:
 - ~~a.~~ Airfare Costs – all costs related to flights, including airfare, baggage fees, etc.
 - ~~b.~~ Lodging Costs – all lodging costs (including commercial and private lodging), and supplemental costs billed such as parking, cleaning, pet fees, and other ancillary costs billed by the vendor
 - ~~e-a.~~ Assets and Improvements to Real Property with \$10,000 or more in identified ledger cost
 - ~~b.~~ Insurance – all costs related to insurance premiums
 - ~~c.~~ Related party expenses (except for Productions that have a transfer pricing study approved in advance by the Georgia Department of Revenue
 - ~~d.~~ Payments to Loan-Outs made through any means other than payroll.
 - ~~e.~~ Payroll
 - ~~f.~~ Extra's Payroll
 - ~~d-g.~~ Remaining qualifying GL costs

4.—~~3.~~ Perform the following procedures on the segregated costs referenced in procedure 2. 3. ~~Perform these procedures by inspecting GL item and account descriptions. When GL item and account descriptions do not provide enough information to make a determination, obtain revised~~ Inspect the General Ledger detail and backup documentation (invoices, receipts, etc.) from the Company with enough detail to make a determination. If enough detail cannot be obtained, disqualify the costs.

- a. Airfare - Airfare is to be included in the statistical sampling population. Confirm these costs include only qualified airfare costs. ~~Confirm also that the~~ for airfare is purchased through a Georgia travel agency or the air carrier is a Georgia Vendor. The following procedures are to be utilized for airfare.
 - i. The airfare is to be copied onto a unique tab in the workbook that represents a database of all flights for the production.
 - ii. When an airfare record is selected as part of the statistical sampling protocol, the individual identified on the sampled cost is to be selected from the flight database tab and analyzed based on the following standards:
 - i-iii. Feature Films – One roundtrip allowed per qualifying individual; flight to Georgia must originate from qualifying individual's home state; return flight must originate in Georgia and conclude uninterrupted in qualifying individual's home state; first flight in-to Georgia and last flight out of Georgia are the qualifying flights. The one roundtrip restriction does not apply to intrastate flights for transportation to filming locations.
 - iv. Episodic Series - One roundtrip per episode is allowed. Travel must occur upon conclusion of the individuals work on the episode, and the individual must return prior to commencement of the individuals subsequent work on the show. The roundtrips cannot be "banked" and used upon discretionally.
 - v. If the selected individual has an error in any of the airfare population, the item selected becomes the error and is projected in the standard statistical sampling criteria.
 - ii-vi. If the production amalgamated multiple airfares into a single cost line, the airfare database will be required to be examined on an actual (100%) basis, and all airfare removed from the statistical sampling population.

Obtain explanations for costs that exceed limits from the Company. Deduct known errors from the GL.

- b. ~~Lodging — Confirm only persons directly involved in the production are included as guests. Confirm that amounts per qualifying individual do not exceed the federal per diem rate (including prorated taxes) as set forth by the United States General Services Administration (GSA). Obtain explanations for costs that exceed limits. If excess costs are not included in the individual's taxable income, deduct known errors from the GL.~~

- e.b. Assets and Improvements to Real Property - Confirm that all each assets that with \$10,000 or more in value, that are destroyed or disposed of before the end of principal photography, have not been expensed ~~have been depreciated at prorated amounts based upon the time the assets are used in qualified production activities in Georgia as follows:~~

- i. For tangible personal property, recalculate the allowable depreciation amount based on number of days of use in production over 1,825 days (5-year life) and confirm -that the Company calculations are correct.
- ii. Improvements to real property amounts should be treated as a capital lease if the lease term exceeds 75% of the life of the asset, or if there is a transfer of the asset to the lessee at the end of the lease, or there is an option for the lessee to purchase the asset for a bargain purchase price, or the lease payments exceeds 90% of the fair market value of the asset. If the production abandons the asset upon termination, the asset is subject to a 50% depreciation cap. Confirm that the Company Productions calculations are correct.
- iii. Obtain from the Company a listing of all sold assets and the proceeds of those sales. Confirm that the qualified costs in the GL are net of the proceeds received.

~~Obtain explanations for asset costs not depreciated. Deduct known errors from the GL.~~

~~d.c. Insurance – Insurance premiums are priced based upon the productions budgeted costs. The applicable premium costs allocated to Georgia should reflect the pricing calculations in conjunction with the production activities. The calculation to attribute qualified insurance costs to Georgia shall be: Perform the following procedures for all insurance related costs:~~

- ~~i. Georgia Actual Production Costs/Total Actual Production Costs Confirm that all qualified insurance premium costs were purchased from an insurance company or broker that is a Georgia Vendor.~~
- ~~ii. Disqualify Errors/Omissions and Completion Bonds premium costs from qualified costs.~~
- ~~iii. Cost allocation – Confirm allocation of insurance premiums to Georgia using one of the following methods:~~
 - ~~1. Total Qualified Georgia Costs vs. Net Insurable Production Costs~~
 - ~~2. Total Qualified Georgia Costs vs. Total Budgeted Production Cost~~
 - ~~3. Number of Days in Georgia vs. Outside Georgia~~

~~iv. Insurance Claims/Proceeds – Confirm that any insurance claim proceeds related to otherwise qualified costs are included as an offset (credit) to qualified Georgia GL costs and reduce eligible costs.~~

~~Obtain explanations of any calculation variances. Deduct known Identified errors are to be marked as nonqualified from the GL.~~

~~d. Related Party Expenses – Haphazardly sample from the population of related party expenses. For each sample selected, obtain three comparable quotes from the Production. Calculate an average comparable quote price based on the comparable quotes provided. Compare the sampled item to the average comparable quote price. Calculate an error ratio based on the dollar value of reviewed samples that exceed the average comparable quote price divided by the total dollar value of sampled related party expenditures. Project this error ratio to the population of related party expenditures. Mark the resulting projected error amount as a disqualified expense. If the Production Company or its affiliates have a transfer pricing study approved by the DOR in advance, then this step is to be omitted for such productions.~~

~~5-4. From the remaining qualifying GL costs, segregate the costs Select the sample from the qualified GL according to the sampling methodology below and perform testing procedures as detailed:~~

- ~~a. For AP & PC (Credit Card purchases with the source code of CC are to be included with PC) selected all line-item expenses of greater than \$100,000 or more. – Select all line-item amounts that exceed \$100,000.~~
- ~~b. For AP & PC expenses less than \$100,000, segregate into the following categories of expenses: AP (accounts payable), PC/CC (petty cash including Credit Card purchases with the source code of CC), and JE (journal entry); Create a separate sample for each source code as follows:~~
 - ~~i. For each expense category, match positive and negative amounts (e.g., voided amounts). For any unmatched negatives, segregate the unmatched negatives into another tab. The unmatched negatives and voided amounts will not be a part of the statistical sample population.~~
 - ~~ii. For all remaining source codes amounts, select a statistical sample as follows:~~
 - ~~1. AP + PC/CC purchases totaling less than \$2,000,000 – Randomly select a single AP strata of 100 invoices, plus a single PC/CC Stratum of 50~~

~~invoices~~ ~~AP~~ — Randomly select four strata of samples (150 invoices per stratum) using the Multistate Tax Commission (MTC)-mandated statistical sampling software. If the population does not support enough invoices for a stratum, the costs are to be examined on an actual basis.

2. AP + PC/CC purchases totaling \$2,000,000 but less than \$15,000,000 – Randomly select three two AP strata (50-75 invoices per stratum totaling 150 invoices) and two PC/CC strata (50 invoices per stratum totaling 100 invoices) using the MTC-mandated statistical sampling software. If the population does not support enough invoices for a stratum, the costs are to be examined on an actual basis.

~~2-3.~~ AP + PC/CC purchases totaling \$15,000,000+ - Randomly select four strata of AP invoices (100 invoices per stratum totaling 400 invoices) and three strata of PC/CC invoices (50 invoices per stratum totaling 150 invoices) using the mandated statistical sampling software. If the sample population does not support enough invoices for a stratum, the costs are to be examined on an actual basis.

~~3-4.~~ JE – Select all JEs that are not internal-intradepartmental transfers between qualified accounts.

c. Obtain the source documentation establishing the costs meet the film tax credit vendor and service requirements.

e.d. For each item identified in procedure Expenditures (other than payroll) 5a and 5b.ii. selected perform the following procedures:

- ~~i.~~ i. For all sampled expenditures, inspect invoices, receipts, contract, or equivalent, and proof of payment (e.g., bank statements, check images, credit card statement and reimbursement checks, if applicable) and reconcile amounts listed on such records to the GL. Note any exceptions. Exceptions do not qualify for the film tax credit. Confirm that the expenditure amount is correct, directly incurred by the production, (costs cannot be invoiced to and paid directly by a parent or related company without a Work for Hire agreement in place), incurred during the Qualifying Period, and directly used in a qualified production activity.
- ~~ii.~~ ii. For all sampled expenditures, confirm that the expenditure was not associated with activities specifically excluded from qualified expenditures in the Audit Procedures Manual or DOR Schedule of Qualified Expenses (e.g., development, publicity, marketing, distribution, wrap party, gifts alcohol, meals in excess of per diem rates, box rental without W 2/1099, out of state shipping, L&D, Covid 19 costs after the relief date, etc.).
- ~~iii.ii.~~ iii.ii. For all sampled expenditures, eConfirm that the expenditure was recorded net of any refunds, insurance claims, or credit notes received for discounts, rebates, invoicing errors, and purchase returns.
- ~~iv.iii.~~ iv.iii. For all sampled expenditures, confirm that if it was incurred with a related party as defined in the Audit Procedures Manual, confirm that the transaction was at arms-length by reviewing at least three comparable quotes provided by the Production to unrelated parties or other suitable documentation.
- ~~v.iv.~~ v.iv. For sampled purchases or rental of tangible personal property, confirm that the expenditure was incurred to a Georgia Vendor as defined by the Film Tax Credit Audit Manual. If purchased from an Internet source, confirm that the item was shipped from a Georgia location to a Georgia location.
- ~~vi.v.~~ vi.v. For sampled purchases or rental of tangible personal property, inspect that sales/use tax was charged-remitted (if applicable) on for the expenditure invoice. If When the vendor has total production purchases exceeding \$10,000, inspect documentation that the vendor had a valid sales tax number was valid as of the date of the purchase. If no sales tax was charged, confirm that use tax was remitted by the Company Production and paid timely on the Company's Production's use tax return. If the receipt or invoice of the sampled cost lists a Georgia address, is marked as paid in full, and shows Georgia sales tax has been charged, and an internet search for the business

yields a company website or Google Maps address matching the address on the receipt or invoice, no sales tax number must be obtained or tested.

- ~~viii.vi.~~ For sampled purchases or rental of tangible personal property from a Georgia home-based business exceeding a total of \$10,000, confirm that the Georgia Vendor had a valid local business/occupation license for the year in which the expense was incurred and provided a valid Form W-9 to the Production.
- ~~viii.vii.~~ For sampled expenditures for services performed at the filming site (e.g., production stage and remote locations), confirm that the individual/vendor name is included on the Daily Production Report or inspect other documentation to confirm that the services were performed at the filming site.
- ~~ix.viii.~~ For sampled expenditures for services not performed at the filming site, confirm that the service was provided by a Georgia Vendor and that the Georgia Vendor normally provides these types of services in its ordinary course of business. Obtain a Verification of In State Work Form for each vendor confirming the percentage of work done within Georgia and outside Georgia.
- ~~ix.~~ For sampled expenditures for services, confirm that the expenditure was not for in-kind services.
- ~~x.~~ Confirm withholding was timely paid on Georgia Form G7-Film for all loan-outs & independent contractors.
- ~~x.~~

~~6-5.~~ For exceptions noted in connection to the population described in Step 4a and 4b 5a hereof (AP & PC expenses greater than or equal to \$100,000), adjust the GL dollar for dollar for known errors identifying the costs as non-qualified in accordance with the procedures set-forth in the Film Tax Credit Audit Workbook template.

~~7-6.~~ For exceptions noted in connection with the sampled AP and PC populations described in 45b.ii.1 and 45.b.ii.2 hereof (sampled AP and PC items less than \$100,000), do the following:

- a. Adjust the GL for known errors noted during your testing. Identify the costs as non-qualified in accordance with the procedures set-forth in the Film Tax Credit Audit template.
- b. Using a one-sided 95% Confidence level with zero expected errors, perform a statistical evaluation of each sampled population (AP and PC items less than \$100,000) using the mandated MTC-statistical sampling software. Calculate the lower confidence limit point estimate of each sampled population using the Stratified Difference estimator. Adjust the total of each sampled population in total over the GL to match the lower confidence limit calculated point estimate should be marked as a disqualified expense.

IV. Payroll (Wage) Expenditures

1. Segregate the following in the qualified GL by source codes, free field codes, and/or item and account descriptions:
 - a. Loan-out Wages – including per diems, relocation allowances, advances, etc. (i.e., all payments to loan-outs with the exception of reimbursed expenses)
 - b. W-2 Individual wages
 - c. Fringe costs (if not assigned by employee) - ER (employer payroll) taxes, WC (workman's compensation), PHW (pension, health and welfare), and excludes payroll handling fees
 - d. Extras wages and fringe
2. Perform the following procedures on the qualified loan-out wages segregated in Payroll (Wages) Expenditures procedure 1:
 - a. Compare the corresponding loan-out qualifying wages from the payroll register from the payroll company and the qualified GL for a side-by-side comparison by loan-out. If applicable and necessary to reconcile, add payroll from AP, JE and/or PC to GL PR payments to calculate total GL wage payments.

- b. Inspect the payroll report to confirm that withholding at the prescribed rate was made on each qualified loan-out, including per diems, allowances and box rentals.
 - c. Obtain a full, signed and dated, unredacted copy of the contract/agreement for each loan-out and personal service company whose total payment complies with Section II.1.f. Inspect the contract and confirm the following:
 - i. Loan-out company and individual names match the payroll report.
 - ii. Job description(s) of the loan-out per the contract(s) correspond to all listed titles in the payroll report. For example, if the loan-out was paid in the payroll report as a Director, Producer and Writer, then the services of each role should be stated in the contract.
 - iii. Contract is between the loan-out and the production company.
 - iv. If listed in the contract as a separately identifiable fee, contract services for non-allowable activities and services outside of Georgia are excluded from qualified loan-out wages, including but not limited to activities of planning, development, pre-production, ~~post-production~~ postproduction and promotional activities.
 - v. Perks noted in the Contract are excluded from qualified costs.
 - d. Obtain the loan-out contract days detail from the Loan-out Contract Allocation Workbook as required by Section II 1.h, for loan-outs that meet the requirements of Section II.1.f for total payroll greater than \$300,000 (per film or per episode)), and perform the following:
 - i. Recalculate the allocation of qualified loan-out wages based on the number of days performing qualified services in Georgia and for qualified activities in ratio to divided by the total days in which services are provided under the loan out contract. Ensure that that- specified travel days that original or terminate in Georgia only qualify as a half day.
 - ii. Confirm that the Georgia days exclude promotional activities.
 - ~~ii-iii.~~ Include publicity days, and other services that do not qualify for the film tax credit in the denominator.
 - e. Obtain explanation for any variances and calculation differences. Deduct know errors from the GL.
 - ~~e.f.~~ Fully executed, original loan-out contracts (payroll start-up documentation is not sufficient) must be available for audit review. Copies of original contracts are required to be made available for viewing. Failure to provide in the documentation in the requested condition will result in the loan-out costs not qualifying for the film tax credit.
3. Perform the following procedures on the ~~individual~~ individual wages and fringe segregated in procedure ~~Payroll (Wages) Expenditures 1~~ Section 4.1b and c:
 - a. Compare the ~~corresponding consolidate/total~~ qualifying individual ~~qualifying employee~~ wages from the payroll register from the payroll company by Georgia work state and the qualified GL for a side-by-side comparison ~~by individual~~ on a consolidated/total. If applicable and necessary to reconcile, add payroll from AP, JE and/or PC to GL PR payments to calculate total GL wage payments..
 - b. Confirm that wages are incurred during the Qualifying Period.
 - c. Create a look-up table of individual wages by paid amount. Confirm that any qualified W-2 wages exceeding \$500,000 and the related portion of fringes are excluded.
 - d. Confirm that fringe does not include SUI payments for CA residents or handling fees.
 - e. Obtain explanations for any variances and calculation differences. Deduct known errors from the GL.
4. Perform the following procedures on ~~the the extras payroll~~ the extras payroll and fringe costs segregated from procedures 1 Payroll (Wages) Expenditures:

- a. Sort the extras payroll report by work state Georgia and exclude any non-Georgia states.
- b. Calculate the total extras payroll cost, including gross wages and all applicable fringes.
- c. Compare the total extras payroll cost to the GL extras payroll cost.
- d. Obtain explanations for any variances and calculation differences. Deduct known errors from the GL.

V. Wrap-up Procedures

1. Record all known and projected errors in GL indicated above. Save a separate copy of the GL. Refer to Film Tax Credit Audit Workbook Template for format.
2. Prepare Final Cost Report (“FCR”) and attach as Exhibit A. Attach the loan-out allocation worksheet as Exhibit B.
3. Provide copy of the adjusted GL and FCR to the Production and the DOR.
4. Prepare an independent accountant’s Agreed Upon Procedures Report in accordance with the above and transmit to the Company and the DOR.

These Agreed Upon Procedures are intended as guidance for the certified auditor’s responsibilities during the conduct of the Film Tax Credit Audit as specified by the Georgia Entertainment Industry Investment Act statute, regulation and Audit Procedures Manual. The rules and guidance in these procedures are not intended to supersede any of these materials or other published guidance.