STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Elhawary and Schiavo	Sponsor:	Bill Number: AB 2403
	Related Bills: See Legislative History	Amended: March 19, 2026

SUBJECT

Qualified Commercial Production Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and Corporate Tax Law (CTL), for taxable years beginning on or after January 1, 2027, would allow a credit to a qualified commercial production company that produces qualified commercials in the state and is allocated a credit by the California Film Commission (CFC).

This is the Franchise Tax Board's (FTB) first analysis of the bill and only addresses the provisions of the bill that would impact the FTB's programs or operation.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The March 19, 2026, amendments added a co-author and removed intent language relating to establishing a commercial production tax credit and replaced it with the provisions discussed in this analysis.

REASON FOR THE BILL

The reason for the bill is to encourage television commercial production in the state.

ANALYSIS

The Credit

This bill, for taxable years beginning on or after January 1, 2027, would allow a credit to a qualified taxpayer in an amount equal to the following:

1. 20% of qualified production costs for the production of a qualified commercial if the qualified commercial is filmed inside the Los Angeles zone as defined in Revenue and Taxation Code (RTC) section 17053.98.1 or 23698.1.

2. 30% of qualified production costs for the production of a qualified commercial if the qualified commercial is filmed outside the Los Angeles Zone, as defined in RTC section 17053.98.1 or 23698.1.

A production would not be deemed a qualifying commercial and would not be eligible for the credit if the commercial was created entirely by generative artificial intelligence (GAI). A commercial would be deemed to be created by GAI if both of the following are satisfied:

a. All principal expressive elements, including, but not limited to, script, dialogue, visual imagery, animation, performances, voices, music, and sound design, are generated by GAI.
b. No natural person performs a principal creative role in the origination, performance, or fixation of those expressive elements, other than de minimis technical prompting, selection, or compilation.

A production would not be excluded from eligibility for this credit for use of any of the following:

1. Use of GAI as a tool in support of human creative decision-making.
2. Use of artificial intelligence-assisted processes in preproduction, production, or postproduction, provided that natural persons exercise principal creative control.
3. Incorporation of artificial intelligence for technical, logistical, or efficiency purposes that do not replace principal creative roles performed by natural persons.

The production of a qualified commercial would have to satisfy one of the following for covered workers:

1. The covered workers are employed pursuant to a valid and applicable collective bargaining agreement with a labor organization recognized under state or federal law.
2. The covered workers are employed under terms and conditions that are no less favorable than those provided under the most comparable collective bargaining agreements applicable to similar motion picture production work in the state including all of the following:
    a. Minimum wage rates.
    b. Overtime premiums.
    c. Meal and rest period protections.
    d. Health and welfare contributions.
    e. Pension or retirement contributions, where applicable.

The bill states that Section 41 would not apply to the credits allowed by this bill.

Definitions

The bill would define the following:

1. "Advertisement" means an openly and identifiably sponsored public promotion or announcement of goods, services, companies, or ideas. For the purposes of this definition, the term "advertisement" would not include music videos or infomercials.
2. "Covered worker" means all individuals employed or engaged in the state by a qualified commercial production company in connection with the production of a qualified commercial, including but not limited to, the following:
    a. Cast and background performers.
    b. Production and postproduction crew.
    c. Production assistants.
    d. Technical, creative, and craft classifications.
    e. Any individual whose services constitute employment.
3. "Generative artificial intelligence" means a computational system or model capable of generating text, audio, video, performances, or other expressive content based on training data, algorithms, or machine learning techniques, without direct contemporaneous creative control by a natural person over expressive output.
4. "Qualified commercial" means an advertisement of any length that is recorded on film, audiotape, videotape, or digital medium in the state for multimarket distribution via radio, television, cable, satellite, motion picture theaters, or internet. Additionally, a qualified commercial would include a package of commercials which includes: two or more commercials that are bid and produced under a single agency or client contract, and a specified number of deliverables that are produced together within a defined timeframe by a qualified commercial production company.
    - A qualified commercial would not include either of the following:
        i. A news or current affairs program, interview or talk program, network promotional such as a commercial promoting a television series or movie, "how-to" or instructional commercial or program, commercial or program consisting entirely of stock footage, trailer promoting a theatrical film, sporting event or sporting program, game show, award ceremony, or daytime drama including daytime soap operas or reality programs.
        ii. A production involving sexually explicit conduct subject to the recordkeeping requirements or Section 2257 of Title 18 of the United States Code.

5. "Qualified commercial production company" means a person that meets both of the following requirements:
    a. Is responsible for the direct payment of production expenses and is a signatory to the qualified commercial's contracts with its payroll company and facility operators.
    b. Is neither the distributor or the contracting entity for production of the qualified commercial, nor a variable interest entity of the distributor or contracting entity.
6. "Qualified production costs" means all expenditures made in the state directly attributable to the production of a qualified commercial except costs for a story, script or scenario to be used for the qualified commercial or wages, salaries, or other compensation for writers, directors, including music directors, producers, and performers other than musicians and background actors with no scripted lines who are employed by a qualified company.
7. "Qualified taxpayer" means a qualified commercial production company that produces qualified commercials in the state and is allocated credit by the CFC.

Credit Allocation

This bill would require the CFC to establish an application process to approve and allocate tax credits; to require certification under penalty of perjury that the production is not created by means of GAI and that labor standards are satisfied; and to adopt regulations to implement this credit allocation process.

The total amount of credit that may be allocated for a fiscal year is $15,000,000, plus any amount unallocated in any prior fiscal year.

The bill additionally states that information provided to the CFC would constitute confidential tax information and would be subject to RTC section 19542.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2027.

Federal/State Law

Federal and state laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits, hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that may not otherwise be undertaken.

Federal Law

No comparable provision in federal law.

State Law

State law allows qualified taxpayers a tax credit in an amount equal to the applicable percentage of the qualified expenditures for the production of a qualified motion picture in California. Credit amounts are allocated and certified by the CFC. No credit is allowed for any otherwise qualified expenditures to the extent that another motion picture credit has been claimed for the same expenditures.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

The bill is silent on how the FTB would be notified of the amounts allocated as well as the taxpayers receiving the allocation amounts. It is recommended that the bill be amended to include how the FTB would be notified.

Technical Considerations

None noted.

Policy Considerations

This bill does not include a per taxpayer limit on the amount of credit a taxpayer can receive. This could result in one taxpayer receiving the entire credit allocation for a taxable year.

This bill does not provide a sunset date, which would generally allow periodic review of the effectiveness of the tax law change. If this is contrary to the author's intent, the author may wish to amend the bill to include a sunset date and a repeal date.

This bill does not provide a carryover period. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. Generally, experience shows that credits are exhausted within five to eight years of being earned. The author may wish to add language to allow a limited carryover period.

This bill could allow taxpayers in certain circumstances to claim multiple tax credits or a tax credit and a deduction for the same item of expense. Generally, a credit would be allowed in lieu of a deduction to eliminate multiple tax benefits for the same item of expense, or to clarify that the expenditure would only qualify for the one credit to ensure a double benefit for the same item is not allowed.

If part of a qualified production is filmed inside the Los Angeles Zone and another part is filmed outside of the Los Angeles Zone, this could result in two credits being generated for one qualified production. If this is contrary to the author's intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 1138 (Zbur, Chapter 27, Statutes of 2025) modified the definitions of "independent film," "qualified motion picture," and "qualified taxpayer," changed the credit percentage amount allowed for a qualified motion picture, made other technical and nonsubstantive changes, for the purposes of a certified studio construction project, modified the qualified taxpayer requirement and removed the requirement that a credit exceed the qualified taxpayer's tax liability in order to assign any portion of the credit. Additionally, for purposes of the Motion Picture Credit 1.0 and 2.0, allowed credit assignment by a disregarded single member limited liability company for credits assigned and claimed on a tax return that was timely filed with the FTB on or before January 1, 2025.

SB 630 (Allen, Chapter 775, Statutes of 2025) modified the definition of "qualified motion picture", and the credit percentage amount allowed for a qualified motion picture, and for the purposes of a certified studio construction project, modified the credit percentage amount allowed for a qualified motion picture, and eliminated the requirement a qualified taxpayer must either own more than 50% of the soundstage or have a contract or lease of 10 years or more with the owner of the soundstage on which the production is filmed as well as modified the definition of "qualified motion picture", increase the credit percentage amount allowed for a qualified motion picture, and make other technical, nonsubstantive changes.

SB 863 (Senate Committee on Revenue and Taxation, Chapter 462, Statutes of 2025) allowed credit assignment of the California Motion Picture and Television Production Credit 3.0 (Motion Picture Credit 3.0) and the Certified Studio Construction Project Credit, by a disregarded SMLLC to an affiliated corporation for credits that were assigned and claimed on a timely filed tax return for taxable years beginning on or before January 1, 2025.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

New York state has a similar program which provides credits of up to $7,000,000 per year to qualified production companies to produce commercials in New York. If a commercial is produced in New York City, a company would receive a credit on 20% of qualified production expenses up to $4,000,000 in credit or if produced in upstate New York can receive a credit on 30% on qualified production expenses up to $3,000,000.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2403 as Amended March 19, 2026
Assumed Enactment after June 30, 2026

($ in Millions)

Fiscal Year	Revenue
2026-2027	-$3.4
2027-2028	-$6.9
2028-2029	-$6.9

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

This estimate assumes full program allocation of $15 million each fiscal year. It is estimated that about $14 million of credits will be generated in the 2027 taxable year. Of that amount, approximately 70%, or $10 million, would be used by taxpayers with positive tax liability to offset with the credit. Of this amount, 65%, or $6.5 million, would be claimed in the year generated and the remaining credit would go unused.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov