STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Elhawary, et al.

Sponsor:

Bill Number: AB 2403

Related Bills: See Legislative History

Amended: July 02, 2026

SUBJECT

Qualified Commercial Production Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and the Corporate Tax Law (CTL), for taxable years beginning on or after January 1, 2027, and before January 1, 2032, would allow a credit to a qualified commercial production company that produces a qualified commercial in the state and is allocated a credit by the California Film Commission (CFC) in an amount equal to 20% or 30%, as applicable, of qualified production costs in excess of $500,000, as specified.

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

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

The July 02, 2026, amendments expanded definitions, clarified the credit percentage applicable for a single qualified commercial with qualified costs incurred inside and outside of Los Angeles, provided that a deduction otherwise allowed for an amount paid or incurred that is the basis for calculation of this credit would be reduced by the amount of credit allowed, provided the credit allowed would be in lieu of other credits allowed for qualified production costs, added a carryover provision, added a credit cap for a qualified taxpayer, added a repeal date, and modified the Section 41 goals and reporting requirements.

The July 02, 2026, amendments resolved all implementation and policy considerations discussed in the FTB's analysis of the bill as amended on April 13, 2026.

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, and before January 1, 2032, would allow a credit to a qualified taxpayer in an amount equal to the following:

1. 20% of qualified production costs in excess of $500,000 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 in excess of $500,000 for the production of a qualified commercial if the qualified commercial is filmed outside the Los Angeles Zone, but within the state, as defined in RTC section 17053.98.1 or 23698.1.
3. If qualified production costs are attributable to a single qualified commercial inside and outside the Los Angeles zone, the qualified commercial would be treated as filmed within the Los Angeles zone if 50% or more of the qualified production costs incurred in the state occurred within the Los Angeles Zone, otherwise the qualified commercial would be treated as filmed outside the Los Angeles zone. Furthermore, a single qualified commercial would be eligible for only one credit percentage.

A production would not be deemed a qualifying commercial and would not be eligible for the credit if either of the following are true:

1. The commercial was created entirely by generative artificial intelligence (GAI). A commercial would be deemed to be created entirely 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.
2. The commercial utilizes GAI intelligence or autonomous vehicles, as defined in Section 38750 of the Vehicle Code which defines and prescribes rules to autonomous vehicles, in a manner that replaces the job functions that are typically performed by a human worker in the production of the commercial.

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.
4. Use of GAI, automated technologies, or autonomous vehicles, to the extent such use is authorized by, and carried out in accordance with, a valid collective bargaining agreement governing the employees whose work may be affected.

The production of a qualified commercial would have to satisfy all following, unless the production is a part of, and in compliance with, a valid collective bargaining agreement:

1. Demonstrate as part of the application process, that the production is in compliance with federal, state and local laws and regulations.
2. Provide wages for employees in California that are equal to or more than the average weekly wage rate for similar workers in the same occupation.
3. Provide health insurance benefits for all employees.
4. Provide a defined-benefit pension for all employees.

The production of a qualified commercial must additionally comply with the following requirements:

1. At least 75% of the production costs paid or incurred directly and predominantly in the actual filming or recording of the qualified commercial are costs incurred in California.
2. The total qualified production costs of a qualified production company are greater than $500,000 total during the calendar year.

The bill specifies that any deduction allowed for any amount paid or incurred by the qualified taxpayer, that is the basis for this credit, would be reduced by the amount of the credit allowed. Furthermore, the credit allowed would be in lieu of any other credit that the taxpayer may claim with respect to qualified production costs.

Additionally, any unused credit could be carried over for six years until exhausted, whichever occurs first.

The credit would be repealed on December 1, 2032.

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. "Generative artificial intelligence" means an artificial intelligence system that can generate derived synthetic content, including text, images, video, and audio that emulate the structure and characteristics of the system's training data.
3. "Qualified commercial" means an advertisement that is produced in whole or in substantial part within the state for public distribution through any audiovisual medial, communications platform, or technology, whether now existing or hereafter developed. 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 any of the following:

1. 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.
2. A production involving sexually explicit conduct subject to the recordkeeping requirements or Section 2257 of Title 18 of the United States Code.
3. A commercial of more than 3 minutes in length, unless specifically exempted by the CFC or a valid collective bargaining agreement governing employees whose work may be affected. This limitation does not apply to a package of commercials if each commercial is independently not more than 3 minutes in length.

"Qualified commercial production company" means a person that meets both of the following requirements:

1. 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.
2. 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.

“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.

“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 applications; to allocate credits to applicants in four or more allocation periods per fiscal year on or after July 1, 2027, and before July 1, 2032; to require certification under penalty of perjury that the production is not created entirely by means of GAI and that labor standards are satisfied; and to adopt regulations to implement this credit.

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. Additionally, the CFC cannot allocate to any one qualified taxpayer an amount of credit that exceeds 20% of the total amount available for allocation.

The bill would require the CFC to adopt regulations to implement and administer the credit. Specifically, the bill would require the CFC regulations to establish a process to notify the FTB of the credit amounts allocated and the taxpayers receiving each allocation.

Section 41

This bill would require the CFC to report to the Legislative Analyst’s Office and the FTB, a list of the qualified taxpayers and the tax credit amount allocated to each qualified taxpayer by the CFC.

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, and before January 1, 2032.

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

None noted.

Technical Considerations

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

In RTC 17053.98.2(g)(3) and 23698.2(g)(3), subdivision (g) is referenced in determining the aggregate amount available for allocation, however subdivision (i) establishes the aggregate amount available. To correct the cross-reference error, it is recommended that the bill be amended to reference subdivision (i).

In Sec. 3 of the bill in subdivision (a) the term "exemptions" is used but should be replaced with "credits."

For purposes of Section 41, the bill includes a reporting requirement that is not incorporated into the relevant RTC section. For clarity and ease of reference, it is recommended that the bill be amended to include these provisions in the relevant code sections.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 2319 (Schultz, 2025/2026) would, under the PITL and CTL, for taxable years beginning on or after January 1, 2027, allow a tax credit to a qualified taxpayer for qualified expenditures for the post-production of a qualified motion picture in California. This bill is currently in the committee process and has been referred to the Senate Appropriations Committee.

AB 1138 (Zbur, Chapter 27, Statutes of 2025), under the PITL and CTL, 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), under the PITL and the CTL, 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", increased 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), under the PITL and the CTL, 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 Single Member Limited Liability Companies 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 anticipates minimal costs to implement this bill.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2403 as Amended July 2, 2026
Assumed Enactment after June 30, 2026

($ in Millions)

Fiscal Year	Revenue
2026-2027	-$2.9
2027-2028	-$6.9
2028-2029	-$8.3

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 percent, or $10 million, would be used by taxpayers with positive tax liability to offset with the credit. Of this amount, it is estimated that 65%, or approximately $6.5 million, would be claimed in the year generated and the remaining credit would be used over the subsequent six years or until exhausted.

To arrive at the offsetting tax effect of expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately $14.5 million in qualified expenses in taxable year 2027.

Applying an average tax rate of 6.2% results in an offsetting revenue gain of $90,000. The resulting net revenue loss, for taxable year 2027, would be $5.6 million.

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

Senate Revenue and Taxation Committee Report, dated June 19, 2026

Support

Association of Independent Commercial Producers
Academy Films
Anonymous Content
Arts and Sciences Department, LLC
Assembly Required
Believe Media, Inc.
Biscuit Filmworks, LLC
Bob Industries, LLC
Bodega Studios
California League of United Latin American Citizens
Canada Los Angeles, Inc.
Cast & Crew LLC
Caviar LA, LLC
Chelsea Pictures
Division7, LLC
Entertainment Union Coalition
Epoch Media Group, LLC
Furlined, LLC
Gravy Films, Inc.
GreaterGood Content
Huffman Creative
Hungry Man, Inc.

Iconoclast Content, Inc.
Independent Media, Inc.
Invisible Collective, LLC
Lord Danger, LLC
Lovesong, LLC
Magna Studios, Inc.
Minted Content, Inc.
National Action Network Sacramento
Nightcall Productions, LLC
Object & Animal USA
LLC Park Pictures, LLC
Partizan Entertainment
PDSI, Inc., dba Payday
Prettybird, LLC
Raleigh Film and Television Studios
Raucous Content, Inc.
RESET Content, LLC
Ridley Scott Associates Films
Serial Pictures, LLC
Sibling Rivalry Films
Skunk Partners, LLC
Slim Pictures, Inc.
Smuggler
Somesuch, Inc.
Something Ideal, LLC, dba m ss ng p eces
Space Cadet, Inc.
Stink Films
Streetlights
Superprime
Supply & Demand, Inc
The Directors Bureau
The Ebell of Los Angeles
The MR Casting, LLC
The Sweet Shop Films
The Team Companies
Thinking Machine Films
Tool of North America
Two52, Inc.
Untitled, Inc.
Versatile Studios
Ways & Means
World War Seven Studios, LLC
Four Individuals

Opposition

None on file.

ARGUMENTS

Assembly Floor Analysis, dated May 20, 2026

Proponents

The bill is supported by the Entertainment Union Coalition, which notes, in part:

> Commercial production has long been a cornerstone of California's creative workforce. Television commercials provide steady high-wage employment for many of our members, as well as a broad network of local vendors.
>
> While California maintains the most experienced production workforce and infrastructure in the world, we are one of the few major production centers without a dedicated commercial production tax credit. Over the past decade, California has experienced a significant decline in commercial production. This erosion reflects the increasing mobility of commercial production and the competitive incentives offered in other places. As a result, jobs and local spending continue to migrate elsewhere.
>
> The Entertainment Union Coalition's support was predicated on AB 2403 containing the following requirements: 75% of the production is to shoot in California, AI protections for workers, limits on what can be called a "commercial," and importantly strong labor standards. Working with the AICP we secured all of these provisions in the legislation. We have some remaining open issues that are important to EUC members, and we look forward to continued efforts to address them with AICP.

Opponents

None on file.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov