



Bill Analysis

Author: Committee on Budget and Fiscal Review

Sponsor:

Related Bills: See Legislative History

Bill Number: SB 186

Amended: August 28, 2026

SUBJECT

Motion Picture Credit – Carryover Extension for Active Participants

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporate Tax Law (CTL), do the following:

- Extend the carryover period for the Motion Picture Credit 2.0 and 3.0 and allow usage in the extended years if the taxpayer is considered an active participant in the Motion Picture Credit 4.0;
- Exempt the sale of the Motion Picture Credit 2.0, 3.0 and 4.0 from the temporary \$5 million business credit limitation (attributable to an independent film) and provide the same exemption for the new limitation starting in 2030; and
- Made changes to Motion Picture Credit 4.0, related to the refundability of the credit.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

The August 28, 2026, amendments removed intent language related to the Budget Act of 2025 and replaced it with the provisions in this analysis.

This is the Franchise Tax Board's (FTB) first analysis of the bill.

REASON FOR THE BILL

The reason for this bill is to expand usage of the Motion Picture Tax Credits.

ANALYSIS

Motion Picture Credit 2.0 and 3.0 Carryover Period Extension

This bill would, under the PITL and CTL for credit carryovers beginning on January 1, 2025, modify the carryover period for Motion Picture Credit 2.0 and Motion Picture Credit 3.0, to provide that any unused credit could be carried over by the qualified taxpayer for 15 years until the credit is exhausted.

Under the PITL, a qualified taxpayer may claim the credit or apply the credit carryover for any of the 10th through 15th taxable years following the taxable year in which the credit was allowed, if the qualified taxpayer, an entity directly or indirectly owned by the qualified taxpayer or an entity directly or indirectly owned by an entity that directly or indirectly owns the qualified taxpayer, was an “active participant”.

Under the CTL, a qualified taxpayer may claim the credit or apply the credit carryover for any of the 10th through 15th taxable years following the taxable year in which the credit was allowed, if the qualified taxpayer, under the CTL, an affiliated corporation of the qualified taxpayer, an entity directly or indirectly owned by the qualified taxpayer or an affiliated corporation of the qualified taxpayer, or an entity directly or indirectly owned by an entity that directly or indirectly owns the qualified taxpayer, was an “active participant”.

“Active participant” is defined as an entity or individual that, for the taxable year for which the credit is being claimed or credit carryover is being applied, has an outstanding credit allocation under Motion Picture Credit 4.0, for which a credit certificate has not yet been issued, or has been issued a credit certificate for the taxable year.

The new carryover provision would be applicable to all Motion Picture Credit 2.0, and Motion Picture Credit 3.0 credit carryovers beginning on January 1, 2025, including the ones for which the original credit carryover period expired.

Motion Picture Credit 2.0, 3.0, and 4.0 Business Credit Limitation Exemption

For taxable years beginning on or after January 1, 2027, and before January 1, 2030, this bill would exempt the portion of credit sold under Motion Picture Credit 2.0, 3.0, and 4.0 from the \$5 million dollar business credit limitation.

Additionally, for taxable years beginning on or after January 1, 2030, this bill would exempt the portion of credit amounts sold under Motion Picture Credit 2.0, 3.0. and 4.0 from the 70% or \$5 million dollar business credit limitation.

Motion Picture Credit 4.0 Refundability Modifications

Under the PITL and CTL, this bill would modify the following defined terms:

- “Annual refundable amount” is modified from 20% to 50%, rounded to the nearest cent, of the total refundable amount.
- “Total refundable amount” is modified from 90% to 95% of the credit amount that exceeds the “tax” in the first taxable year of the refundable period.
- “Refundable period” is modified to mean the first taxable year that the credit certificate is issued to the qualified taxpayer by the California Film Commission (CFC) and the succeeding taxable year, instead of the succeeding four taxable years.

Effective/Operative Date

This bill, providing for an appropriation relating to the Budget Bill, would be effective immediately upon enactment. The revisions to Motion Picture Credit 2.0, 3.0, and 4.0 would be specifically operative for taxable years beginning on or after January 1, 2026, except the extended carryover provisions in Sections 17039.4, 23036.4, 17039.6 and 23036.6 would be operative for credit carryovers beginning on January 1, 2025. The exemption from the business credit limitation for Motion Picture Credits sold would be specifically operative for taxable years beginning on or after January 1, 2027, and January 1, 2030, as applicable.

*Federal/State Law**Federal Law*

No comparable provision in federal law.

State Law

For taxable years beginning on or after January 1, 2020, and January 1, 2025, for Motion Picture Credits 3.0 and 4.0, respectively, 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.

For Motion Picture Credit 4.0, the credit, under the PITL and CTL, allows a qualified taxpayer an option to make a one-time irrevocable election to receive a refundable tax credit. The qualified taxpayer would apply the credit against the tax liability in the first year and evenly distribute 90% of the remaining credit amount equally over the subsequent four taxable years.

For taxable years beginning on or after January 1, 2016, Motion Picture Credit 2.0 is available to qualified taxpayers who had qualified expenditures related to the production of a qualified motion picture within California. The credit amount is in the amount of either 20% or 25% of qualified expenditures. Current law provides that any unused Motion Picture Credit 2.0 amounts has a carryover period of nine years.

The credit allowed to a qualified taxpayer is limited to the amount specified in the credit certification issued by the CFC.

State law, under the PITL and the CTL, amended the existing motion picture credits to add an additional credit for taxable years beginning on or after January 1, 2022, and before January 1, 2032, equal to 20% or 5%, or as modified by up to 4%, of the qualified expenditures paid or incurred by a qualified motion picture produced at a certified studio construction project in California. New credits are allocated based on the assumption that the motion picture meets the diversity goals provided in the diversity workplan.

A qualified motion picture that receives a motion picture credit under the existing provisions is not eligible for an allocation under the new credit provisions. However, any television series, relocating television series, recurring television series, or any new television series based on a pilot for a new television series that is no longer eligible for the motion picture and film credit are eligible to apply for an allocation under the existing credits.

Credit Limitations - Temporary

For taxable years beginning on or after January 1, 2024, and before January 1, 2030, under the PITL and CTL, business credits are limited to \$5 million. The carryover period for credits subject to the limitation is extended by the number of taxable years the credit or the carryover of a credit was not allowed. The election to apply film credits against the sales and use tax, as well as the alternative minimum tax credit and the Low Income Housing Credit (LIHC) are not subject to the credit limitation.

For purposes of the PITL credit limitation only, the \$5 million credit limit also does not apply to the credits relating to earned income, young child, foster youth, household and dependent care, elective tax under the Small Business Relief Act (SBRA), adoption costs, renters, personal exemption, joint custody head of household and for care of dependent parent, senior head of household, excess contributions of unemployment compensation, and the LIHC.

Business credits, as limited, are required to be applied against the tax due before the credits excluded from the definition of business credits. For purposes of the CTL credit limitation, the \$5 million credit limit applies to all credits, except the LIHC.

For taxable years beginning on or after January 1, 2027, under the PITL and CTL, any annual refundable credit claimed against the tax during the business tax credit limitation period is not included in the tax credits subject to the \$5 million limitation under both the PITL and CTL. In addition, for taxable years beginning on or after January 1, 2027, under the PITL and CTL, if a refundable election is made for Motion Picture Credit 4.0, the refundable amount and the credit amount are excluded from the \$5 million business tax credit limitation, and is allowed for taxable years beginning on or after January 1, 2027.

Credit Limitation - Permanent

For taxable years beginning on or after January 1, 2030, under the PITL and CTL, business credits are limited to the greater of 70% of the applicable tax or next tax of \$5 million. Credit amounts that exceed the credit limitation may be carried over.

The following credits are excluded from the credit limitation:

- LIHC.
- Any annual refundable credit amount included in an election pursuant to Sections 17039.5 or 23036.5.
- Any amount of refundable motion picture credit, related to the one-time election under Motion Picture Credit 4.0.
- Alternative minimum tax credit.

The amounts included in an election under RTC section 6902.5 that apply to film credits against qualified sales and use tax are also excluded from the credit limitation.

For purposes of the PITL, the business credit limitation does not apply to the credits relating to earned income, young child, foster youth, household and dependent care, elective tax under the SBRA, adoption costs, renters, personal exemption, joint custody head of household and for care of dependent parent, senior head of household, and excess contributions of unemployment compensation.

Business credits, as limited, are required to be applied against the tax due before the credits excluded from the definition of business credits.

Annual Refundable Credit Election

For taxable years beginning on or after January 1, 2024, and before January 1, 2030, a taxpayer is able to elect to receive an annual refundable credit amount equal to 20% of the credit amount that would have otherwise been allowed to reduce the taxpayer's tax in the taxable year of the election but for the \$5 million credit limitation in each taxable year of the refundable period. The refundable period is the first five consecutive taxable years beginning the third taxable year after the taxable year

that the taxpayer made an election. The annual refundable credit amount is allowed as a credit against the tax for the taxable year, and the excess, if any, is credited against other amounts due, if any, and then the balance, if any, is refunded to the taxpayer during the refundable period.

If a taxpayer makes both the Motion Picture Credit 4.0 refundable election and the annual refundable credit election, then the total amount of refundable credits allowed pursuant to both elections could not exceed the allowed film and motion picture credit.

Motion Picture Credit 4.0 Refund Election

For taxable years beginning on or after January 1, 2025, the Motion Picture Credit 4.0, under the PITL and CTL, allows a qualified taxpayer an option to make a one-time irrevocable election to receive a refundable tax credit. The qualified taxpayer would apply the credit against the tax liability in the first year and evenly distribute 90% of the remaining credit amount equally over the subsequent four taxable years.

Any amount of refundable motion picture credit 4.0 over the \$5 million business credit limitation, is allowed in the first taxable year beginning on or after January 1, 2027.

For taxable years beginning on or after January 1, 2027, if a refundable election is made for Motion Picture Credit 4.0, the refundable amount and the credit amount are excluded from the \$5 million business tax credit limitation.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 2319 (Schultz, et al., Chapter 343, Statutes of 2026), under the PITL and CTL, for taxable years beginning on or after January 1, 2027, allowed a tax credit to a qualified taxpayer for qualified expenditures for the post-production of a qualified motion picture in California.

AB 2403 (Elhawary, et al., 2025/2026) under the PITL and the CTL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, would have allowed a credit to a qualified commercial production company that produces a qualified commercial in the state and is allocated a credit by the CFC in an amount equal to 20% or 30%, as applicable, of qualified production costs in excess of \$500,000, as specified. This bill was held in the Senate Appropriations Committee without further action.

AB 1138 (Zbur, et al., Chapter 27, Statutes of 2025), under the PITL and CTL, for purposes of the Motion Picture Credits 3.0 and 4.0, modified the definitions of "independent film," "qualified motion picture," and "qualified taxpayer," modified the credit percentage amounts allowed for a qualified motion picture, and for the purposes of a certified studio construction project, modified the qualified taxpayer requirement. This bill also removed the requirement that a credit exceed the qualified taxpayer's tax liability in order to assign any portion of the credit. Additionally, this bill, under CTL, for purposes of the Motion Picture Credits 1.0 and 2.0, allows credit assignment by a disregarded single-member limited liability company (SMLLC) for credits assigned and claimed on a timely filed tax return filed with the FTB on or before January 1, 2025.

SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 17, Statutes of 2025), for purposes of the Motion Picture Credit 4.0, increased the aggregate amount of credits that may be allocated annually by the CFC from \$330 million to \$750 million for the 2025-2026 fiscal year through the 2029-2030 fiscal year. The change made by this provision was also made by chaptered bill AB 1138 (Zbur, et al., Chapter 27, Statutes of 2025).

SB 863 (Senate Committee on Revenue and Taxation, Chapter 462, Statutes of 2025), under the CTL, allowed a credit assignment of the 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.

SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 56, Statutes of 2023) allowed a new Motion Picture Credit 4.0 for taxable years beginning on or after January 1, 2025, to a qualified taxpayer for qualified expenditures to produce a qualified motion picture in California. In addition, a qualified taxpayer could make a one-time irrevocable election in the first taxable year to be paid a refund at a discounted rate, spread equally over 5 years. This bill also, for Motion Picture Credit 3.0, revised the definitions of "recurring television series" and "diversity plan," increased the certification period for a certified studio construction project to 5 years, and made other nonsubstantive changes.

SB 144 (Portantino, et al., Chapter 114, Statutes of 2021) amended the existing motion picture credit under the PITL and CTL, to provide for an additional credit for expenditures related to the production of a qualified motion picture at a certified studio construction project. This bill also added new provisions relating to the certification procedures of a project that are administered by the CFC.

SB 871(Senate Committee on Budget and Fiscal Review, Chapter 54, Statutes of 2018) allowed a new Motion Picture Credit 3.0 for taxable years beginning on or after January 1, 2020, to a qualified taxpayer for qualified expenditures to produce a qualified motion picture that is a certified studio construction project in California.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This bill would not significantly impact FTB's costs.

ECONOMIC IMPACT

Revenue Estimate

In accordance with the bill provisions, staff defers to the Department of Finance (DOF) to determine the revenue impact of this bill

Revenue Discussion

The amount and timing of the tax credit is subject to the credit certification issued by the CFC for each qualified taxpayer. Staff defers to the DOF for the estimated revenue loss for this credit.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Senate Floor Analysis, dated August 31, 2026

Support

None on file.

Opposition

None on file.

ARGUMENTS

Senate Floor Analysis, dated August 31, 2026

Proponents

None on file.

Opponents

None on file.

LEGISLATIVE CONTACT

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