SENATE RULES COMMITTEE AB 1377

Office of Senate Floor Analyses

(916) 651-1520 Fax: (916) 327-4478

THIRD READING

Bill No: AB 1377
Author: McKinnor (D), et al.
Introduced: 2/21/25
Vote: 27

SENATE REVENUE AND TAXATION COMMITTEE: 4-0, 7/9/25
AYES: McNerney, Ashby, Grayson, Umberg
NO VOTE RECORDED: Valladares

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/29/25
AYES: Caballero, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 64-5, 6/2/25 - See last page for vote

SUBJECT: Income taxes: credits: motion picture credit

SOURCE: Author

DIGEST: This bill removes the option for applicants to make a good faith effort to meet the diversity goals in their diversity work plans to receive an additional 4% Motion Picture and Television Production Tax Credit amount, effective in the 2025 taxable year.

ANALYSIS:

Existing law:

1) Allows various income tax credits and deductions, as well as sales and use tax exemptions.

2) Enacts a tax credit against the Personal Income and Corporation Taxes for producing qualified motion pictures with a minimum production budget of at least $1 million at a certified studio construction project, in which the qualified taxpayer claiming a credit must have at least 50% ownership or a ten-year lease

with the soundstage, using most of the same definitions and requirements from the motion picture production credit detailed below (SB 144, Portantino, Chapter 114, Statutes of 2021). The California Film Commission (CFC) can allocate $150 million in credits for qualified motion pictures, but cannot allocate more than $12 million in total or $750,000 per episode.

3) Enacts a tax credit against the Personal Income and Corporation Taxes for qualified motion picture production in California, directing CFC to allocate $750 million in credits each fiscal year starting in 2025-26 and continuing through 2029-30 (SB 132 Committee on Budget & Fiscal Review, Chapter 56, Statutes of 2023; SB 132, Committee on Budget & Fiscal Review, Chapter 17, Statutes of 2025; AB 1138, Zbur, Chapter 27, Statutes of 2025); CFC can allocate credits to "qualified motion pictures" that:

   a) Have 75% of the motion picture shooting days take place in California, or have 75% of the production budget incurred within the state for services or the purchase or rental of property;

   b) Commence principal photography after the date CFC approves its application, but before 180 days after the date of approval, and finish within 30 months from the date when the application was approved by the CFC, with some exceptions;

   c) Obtain a copyright from the United States Copyright Office; and

   d) Provide a workplace diversity plan checklist.

4) Provides that a qualified motion picture includes:

   a) A feature with a minimum production budget of at least $1 million; however, no more than $120 million in qualified expenditures count for purposes of generating the credit.

   b) An independent film, defined as a motion picture that is produced by a company that is neither publicly traded, nor more than 30% owned by publicly traded companies.

   c) A television series that relocated to California, defined as one that had 75% of the principal photography of the most recent season conducted outside the state.

   d) A live action or animated series produced in California with a run time of 20 minutes or more on average, with a minimum budget of $1 million per episode.

   e) Animated films produced in California with a $1 million budget or more.

   f) A large-scale competition show produced in California with a minimum budget of $1 million per episode.

   g) A pilot for a new live action or animated series with a run time of 20 minutes or more on average, produced in California with a minimum budget of $1 million per episode.

5) Provides that the amount of the tax credit is equal to either:

   a) 35% of the qualified production expenditures for films, television series, pilots, or independent films, or

   b) 40% of the qualified expenditures for relocating television.

6) States that qualified expenditures are amounts paid or incurred to purchase or lease tangible personal property, pay wages and fringe benefits, or contract for services performed in the state during production in California.

7) Excludes from qualified expenditures any amounts paid to writers, directors, music directors, music composers, music supervisors, producers, or performers, other than background actors.

8) Requires applicants to file an application with the CFC that includes specified information, including data regarding the diversity of the workforce employed by the applicant, and, if applicable, a summary of the applicant's voluntary programs to increase the representation of minorities and women in the job classifications.

9) Allows credit "uplifts" for productions when they incurred qualified expenditures for:

   a) Filming outside the Los Angeles zone (5%), as defined;

   b) Visual effects expenditures, where at least 75% or a minimum of $10 million is paid or incurred in California (5%); and

c) Local-hire labor for feature films, new TV series, recurring TV series, pilots, and miniseries (10%), as well as independent films or relocating TV series (5%).

10) Directs CFC to increase the total credit amount allocated to an applicant by up to 2% of the initial credit amount for qualified productions that employ trainees from a Career Pathways Program.

11) Requires CFC to include on a tax credit application the diversity of the workforce employed by the applicant, including the ethnic and racial makeup of the individuals employed by the applicant during the production of the qualified motion picture, to the extent possible.

12) Precludes CFC from allocating credits unless applicants supplied aggregate data for individuals whose wages cannot generate credits (such as actors, writers, and directors), including their gender, ethnic, and racial makeup.

13) Under the soundstage and general production credit, limits the overall credit amount to 96%, unless the qualified taxpayer chooses to submit a diversity work plan, and CFC determines that the applicant has met or made a good-faith effort to meet the diversity goals in its diversity work plan.

14) Requires CFC to certify an additional 4% when the qualified taxpayers submit the following to CFC:

a) A diversity work plan within 30 days after receiving a credit allocation letter, which must be consistent with the diversity work plan checklist to address diversity and be broadly reflective of California's population in terms of race, ethnicity, gender, veteran status, disability status, and ZIP code for members of the workforce whose wages are excluded from qualified expenditures.

b) A statement of the diversity goals the motion picture will seek to achieve in terms of qualified wages, and for individuals whose wages are excluded from qualified wages.

c) A plan of what strategies the motion picture will employ to achieve its diversity goals.

d) An interim assessment, and a final assessment, of whether it is meeting its diversity work plan.

15) Directs CFC to approve or reject diversity work plans to the extent allowed by state and federal law.

16) Requires CFC to also annually report diversity data supplied by applicants, commencing June 30, 2027, including an assessment of whether the diversity work plan goals are met for productions that submitted a final assessment.

17) Requires assessments to include accounts of diversity work plans submitted, interim assessments submitted, and final assessments submitted, as well as diversity checklist information.

18) Requires CFC to submit each assessment to the Legislature.

19) Directs CFC to adopt rules and regulations implementing voluntary programs designed to increase the representation of minorities and women in certain job classifications and to establish the Career Pathways Training program.

20) Requires CFC to identify a fiscal agent with direct relationships to industry skills training programs to manage the funds; and engage labor-management jointly administered training programs with skills training focused on the entertainment industry to implement the Program with CFC approval and oversight.

21) Requires applicants receiving a credit allocation letter under the current credit program to make a financial contribution to fund the Program for individuals from underserved communities to receive training for careers in the industry of 0.5% of the credit amount, which CFC can increase in 0.25% increments up to 1% after January 1, 2028.

22) Directs the Program to work with nonprofit organizations that have an established record of training and job placement in the entertainment industry, focus on training individuals from traditionally underserved communities, and offer training courses focused on skilled, technical positions that would be eligible for qualified wages if performed on a qualified motion picture as well as administrative- and industry-related technical occupations or soft skills training for the motion picture industry.

    a) Require CFC to expand the number of nonprofit organizations that partner with the Career Pathways Program to provide access to the widest cross-section of Californians, including historically disadvantaged and underrepresented individuals seeking training and employment opportunities in motion picture and television production.

b) Direct CFC to establish an application process for these nonprofit organizations, with applications submitted to the fiscal agent as part of a request for proposal process.

c) Set forth a series of requirements for CFC to initiate and sequence the request for proposal process.

d) Direct CFCs to approve Career Pathways Programs, and requires them to meet all of the following requirements:

   i) Be conducted by a nonprofit organization that has an established record of training and job placement in the entertainment industry.

   ii) Be focused on training individuals 18 years or older from traditionally underserved communities.

   iii) Offer training courses focused on one or more of the following:

      (1) Skilled, technical positions that would be eligible for qualified wages if performed on a qualified motion picture.

      (2) Administrative- and industry-related technical occupations.

      (3) Soft skills training.

This bill:

1) Amends the soundstage and 4.0 credits in the Personal Income and Corporation Tax laws to delete the option for applicants to show a good faith effort for CFC to certify an additional 4% credit amount. Instead, the 4% augmentation would be contingent on a finding by the CFC that the qualified taxpayer has met the diversity goals in its diversity work plan.

2) Applies commencing in the 2025 taxable year.

3) Makes conforming changes.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- The Franchise Tax Board (FTB) notes that the revenue impact of this bill is unknown. To calculate the magnitude of its potential impact to the General Fund, FTB would need to know (1) the frequency of taxpayers meeting the diversity workplan goal, and (2) the amount of additional credits allocated. FTB assumes that the motion picture credit will be fully allocated each year, and assumes that if taxpayers meet the requisite diversity plan requirements, they would generate more credits than they would have otherwise. The annual impact would likely be less than $100,000.

- The California Film Commission (CFC) indicates that it would incur annual General Fund costs of $919,000 to support five positions to implement the provisions of the bill. Additionally, CFC estimates a one-time General Fund cost of $150,000 to update forms and contract for external consulting and software services to support to tutorial and educational materials (See Staff Comments).

SUPPORT: (Verified 8/30/25)

California Arts Advocates
California Federation of Labor Unions, AFL-CIO
Entertainment Union Coalition
Five Individuals

OPPOSITION: (Verified 8/30/25)

None received

ARGUMENTS IN SUPPORT: According to the author, "AB 1377 builds on the important work of expanding the state's film and television tax credit program by requiring studios who opt-in to participate in optional diversity, equity, inclusion and accessibility tax credits to actually complete the plans that the studios themselves develop and submit to the California Film Commission. It's simple math. If a studio chooses to apply for additional DEIA tax credits, they actually need to do the work they are committing to do. Currently, studios only have to demonstrate a good faith effort to accomplish diversity goals in order to receive these additional tax credits. And frankly, just a good faith effort is not good enough. It is a false choice for anyone to say that California has to choose between retaining and growing jobs in the film and television industries and increasing the diversity of its workforce. The film industry can and must do both."

ASSEMBLY FLOOR: 64-5, 6/2/25
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Davies, Elhawary, Fong, Gabriel, Garcia, Gipson,

Jeff Gonzalez, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: DeMaio, Ellis, Patterson, Sanchez, Tangipa
NO VOTE RECORDED: Castillo, Chen, Dixon, Flora, Gallagher, Hadwick, Hoover, Lackey, Macedo, Ta

Prepared by: Colin Grinnell / REV. & TAX. / (916) 651-4117
8/31/25 16:55:41

****** END ******