

ASSEMBLY THIRD READING
AB 2403 (Elhawary)
As Amended April 13, 2026
Majority vote. Tax Levy

SUMMARY

Creates the commercial production tax credit, administered by the California Film Commission (CFC), for qualified commercial production costs exceeding \$500,000, up to \$15 million total in aggregate credits provided in a given fiscal year.

Major Provisions

- 1) Allows, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, a credit to a "qualified taxpayer" in an amount equal to the following:
 - a) 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 (R&TC) Section 17053.98.1 or 23698.1; and,
 - b) 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, as defined in R&TC Section 17053.98.1 or 23698.1.
- 2) Requires that 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.
- 3) Requires the production of a qualified commercial, if not party to and in compliance with a valid collective bargaining agreement covering the employees of the production, to do all of the following:
 - a) Demonstrate as part of the CFC application process that the production is in compliance with applicable federal, state, and local laws and regulations;
 - b) 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;
 - c) Provide health insurance benefits for all employees; and,
 - d) Provide a defined-benefit pension for all employees.
- 4) Makes ineligible for the credits any commercial that either:
 - a) Is created entirely by means of generative artificial intelligence; or,
 - b) Utilizes generative artificial intelligence, automated technologies, or autonomous vehicles in a manner that replaces or diminishes the job functions customarily performed by a human worker in the production.

- 5) Provides that a commercial is deemed to be created entirely by means of generative artificial intelligence 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 generative artificial intelligence; and,
 - 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.

COMMENTS

- 1) *California's iconic film industry*: California's film and television industry is a key part of the state's cultural identity, as well a key source of tourism revenue. Concentrated in the Los Angeles region, the industry provides work for actors and entertainers and generates production and on-set jobs for union laborers. Despite the industry's importance in the state, the Legislative Analyst's Office (LAO) notes that from 2010 to 2023, California's share of domestic film industry employment decreased from over 54% to 46%, and also underscores that recent disruptions, including the COVID-19 pandemic, the 2023 labor strikes, and the 2025 Los Angeles wildfires, have depressed production activity.

A 2023 report by the CFC found that runaway projects to other locations accounted for \$1.5 billion in production spending loss. Reports on contributions to the Motion Picture Pension Plan suggest that the decline in production has led to a sharp drop in union jobs, particularly in 2022 and 2024, during which reported hours to the Motion Picture Pension Plan dropped by over 34 million. This represents a loss of over 17,000 full-time equivalent jobs.

- 2) *Motion Picture Tax Credits 1.0 through 4.0*: California first established the Motion Picture Tax Credit program in 2009 to compete with similar programs in other states and countries using tax credits to incentivize production relocation. Since then, California has enacted several iterations of the program. SB 132 (Committee on Budget and Fiscal Review), Chapter 56, Statutes of 2023, enacted the Motion Picture Tax Credit 4.0 that reauthorized the Motion Picture Tax Credit program for \$330 million in tax credits to be allocated by the CFC on or after July 1, 2025 and before July 1, 2030, and authorized the state's first refundable credit for business taxpayers. SB 144 (Portantino), Chapter 114, Statutes of 2021, created the similar Soundstage Program, which allows, for taxable years beginning on or after January 1, 2022 and before January 1, 2032, a tax credit for a qualified motion picture produced at a certified studio construction project.

Most recently, AB 1138 (Zbur), Chapter 27, Statutes of 2025, modified the Motion Picture Tax Credit 4.0 and Soundstage Program by expanding the definition of a qualified motion picture and increasing the total amount of credits awarded to further incentivize film and television projects to remain in or relocate to California.

- 3) *Qualified Commercial Production*: Qualified commercial production and eligible expenses, for purposes of the tax credit created by this bill, prohibits the primary use of generative artificial intelligence (GenAI) in the creation of a commercial, especially if it results in the diminishment or replacement of the job function performed by a human worker, and requires 75% of the production costs paid or incurred be costs incurred in California, subject to

verification by CFC. The bill also requires eligible productions to provide wages to employers equal or more than the average weekly rate for similar workers in the same occupation, health insurance benefits for all employees, and provide a defined-benefit pension for all employees.

- 4) *Is this good public policy?* Some critics question the wisdom of enacting industry-specific tax benefits, which tend to pit state against state and encourage a proverbial "race to the bottom". For this reason, the LAO has generally argued that such industry-specific inducements represent poor tax policy. That said, the LAO has also acknowledged that California's adoption of a film tax credit was understandable in light of the actions taken by other states to lure productions away from Hollywood.

In addition, both the film tax credit and the credit proposed by this bill contain many provisions to guard against some of the pitfalls that attend other tax expenditure programs. Unlike most other credits, this credit would be capped annually, allowing the Legislature to weigh the program against other budgetary priorities and determine the state's maximum financial exposure. The credit is also allocated by the CFC which, by most accounts, has done a very good job administering the existing film incentive. In the end, the question is whether this bill's proposed credit will prove sufficient to shore up California's commercial production industry for the medium to long term or whether the state will, in short order, be called upon to provide even more generous incentives in response to the actions of other competing states and nations over which California has no control.

According to the Author

The author has provided the following statement in support of this bill:

AB 2403 creates a commercial production tax credit to bring this work back to California and reinvest in the workers, union jobs, and small businesses who have been left out of existing incentives. Commercial production is often an entry point into the entertainment industry, especially for individuals who have been formerly incarcerated and are working to rebuild their lives and careers. By revitalizing this sector, we are not only strengthening our economy and keeping California competitive but also expanding access to opportunity and advancing a more equitable and inclusive industry.

Arguments in Support

- 1) This 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.

Arguments in Opposition

None on file.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations:

- 1) Ongoing General Fund costs of an unknown but potentially significant amount, possibly in the hundreds of thousands of dollars, for the CFC to hire additional staff to oversee administration of the commercial production tax credit.
- 2) Ongoing annual General Fund revenue loss of approximately \$3.5 million to \$7 million resulting from the tax credit provided to taxpayers according to the California Franchise Tax Board (FTB).

VOTES**ASM REVENUE AND TAXATION: 6-1-0**

YES: Gipson, Sanchez, Carrillo, McKinnor, Quirk-Silva, Michelle Rodriguez

NO: DeMaio

ASM APPROPRIATIONS: 14-0-1

YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

ABS, ABST OR NV: Dixon

UPDATED

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