
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair

2025 - 2026 Regular

Bill No:	AB 2403	Hearing Date:	6/24/26
Author:	Elhawary	Tax Levy:	Yes
Version:	4/13/26 Amended	Fiscal:	Yes
Consultant:	Summers		

INCOME TAX: CREDITS: COMMERCIAL PRODUCTION

Authorizes a credit under the Personal Income Tax Law and the Corporation Tax Law for commercial production companies that produce commercials in California.

Background

Tax expenditures. California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts tax incentives to compensate taxpayers for incurring certain expenses, such as child adoption, or to influence certain behavior, such as charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something they would otherwise not do, but for the tax benefit. The Department of Finance is required to publish annually a list of tax expenditures, which currently totals around \$94.2 billion in forgone general fund revenue.

Credits. Tax credits reduce the amount of tax owed by a taxpayer on a dollar-for-dollar basis. Credit amounts that exceed the taxpayer's current tax year liability can either be refunded to the taxpayer or carried forward to reduce tax in future years. However, except for the Earned Income Tax Credit, the Young Child Tax Credit, the Foster Youth Tax Credit, and the Motion Picture and TV Production Credit, all credits against California Personal Income and Corporation Tax are nonrefundable.

Credit Limitation. In 2024, the Legislature limited the total of all business credits, with some exceptions, including credit carry forwards, to \$5,000,000 in the 2024, 2025, and 2026 taxable years, unless the Director of Finance determines that General Fund money over the multiyear forecast is sufficient *without* the revenue impact of the net operating loss suspension and credit limitation (SB 167 and SB 175, Committee on Budget & Fiscal Review). Taxpayers can make an irrevocable election to receive an annual refundable credit claimed in future tax years for business credits equal to credit amounts not claimed due to the limitation.

In his 2026-27 May Revision to the Governor's Budget, Governor Newsom proposed to permanently limit tax credit use to \$5 million or 50% of liability, whichever is greater, effective in the 2027 taxable year and thereafter. This week, the Legislature approved SB 122 (Committee on Budget & Fiscal Review), which extends the current temporary limitation while maintaining the refundable credit election until the 2030 taxable year, with some modifications, after which time credits are limited to 75% of liability or \$5 million, whichever is greater.

Motion picture and television production tax credit. The Legislature enacted the Motion Picture, Television, and Commercial Industries Act of 1984, creating the California Film

Commission (CFC) to coordinate state and local government efforts to cultivate a successful environment for the film industry. Today, the Governor, the Senate Pro Tempore, and the Speaker of the Assembly appoint CFC's 26 members from the film industry, private sector, and state and local governments.

The Legislature enacted a tax credit for qualified motion picture production in California, commonly known as "Film and TV Tax Credit 1.0," directing CFC to annually allocate \$100 million in credits until the 2012-13 fiscal year (SBx3 15, Calderon and ABx3 15, Krekorian, 2009). In 2011, the Legislature extended the program until 2014-15 (AB 1069, Fuentes), and again until 2016-17 (AB 2026, Fuentes, 2012; and SB 1197, Calderon, 2012).

In 2014, the Legislature enacted "Film and TV Tax Credit 2.0," increasing the amount of credit CFC allocates to \$330 million in credits each fiscal year through 2019-20 (AB 1839, Gatto). The Legislature designed Film and TV Tax Credit 1.0 and 2.0 in very similar ways, but 2.0 contained several key differences in credit mechanics, including higher credit percentages – known as "uplifts" – for certain categories of expenditures, among other changes. In 2018, the Legislature enacted "Film and TV Credit 3.0," authorizing CFC to allocate \$330 million in tax credits each fiscal year from 2020-21 to 2024-25 (SB 878, Committee on Budget & Fiscal Review).

In 2021, the Legislature enacted SB 144 (Portantino, 2021), allocating an additional \$150 million in film tax credits for productions filmed at new or renovated soundstages. When a taxpayer constructs or renovates a soundstage, they automatically qualify for production credits, notwithstanding the allocation process for the general credit. Taxpayers can claim credits beginning in the 2022 taxable year and until the 2031 taxable year. SB 144 directs CFC to identify and certify qualified soundstage construction projects, thereby making taxpayers eligible for the credit. According to its 2023 progress report, CFC has certified thirteen soundstages – eight newly constructed and five renovated – with a combined size of over 200,000 sq. ft.

In 2023, the Legislature enacted "Film and TV Credit 4.0," which authorizes CFC to allocate \$330 million annually for an additional five years, starting in 2025-26 and ending in 2029-30 (SB 132, Committee on Budget & Fiscal Review). SB 132 also makes the credit California's first refundable business entity tax credit, which allows firms with no income or sales tax liability to receive a cash refund from the state.

In 2025, Governor Newsom proposed to increase the total annual California Film and Television Tax Credit 4.0 award cap from \$330 million to \$750 million for fiscal years 2025-26 through 2029-30. The Senate Committee on Revenue & Taxation and Budget and Fiscal Review Subcommittee #4 held a joint oversight hearing to assess the Governor's proposal on March 26, 2025. In June, the Legislature enacted SB 132 (Committee on Budget & Fiscal Review, 2025), which, among other provisions, increases the cap on 4.0 credits from \$330 million to \$750 million for fiscal years 2025-26 through 2029-30.¹

2026 State Executive Orders on AI. On May 21, 2026, Governor Gavin Newsom signed Executive Order N-6-26, directing California to prepare workers, small businesses, and

¹ For a description of the aspects of the credit not related to Career Pathways and diversity requirements, as well as the changes made by AB 1138, please see the Committee and Senate Floor Analysis of AB 1138 here: https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202520260AB1138

communities for the economic disruption that artificial intelligence will bring to the workforce.² The order directs the various state agencies to:

- Empower workers and help them share in the gains made from AI adoptions.
- Track and understand the impact of AI on the workforce, filling the gaps of knowledge and providing clear and concrete data.
- Respond to possible employment and workforce disruption by reviewing state policies and updating guidance.
- Develop stronger public policy and support programs for using AI to advance the public good.

The order supplements the Governor's March 2026 executive order, N-5-26, which strengthened civil rights and privacy in California's procurement of AI technology and expanded California's adoption of AI to improve government services.³ The order also commits to expanding California's use of GenAI to help deliver improved state services, including a new AI-directed tool to help Californians navigate available programs and benefits by life event, such as starting a business or finding a job.

Film and commercial production in California. According to the Assembly Committee on Arts, Entertainment, Sports, and Tourism, based on data provided by CVL Economics, California's post-production sector, which includes editing, visual effects (VFX), sound design, music scoring, color grading, and finishing, employs over 12,000 workers at more than 1,800 firms statewide. However, between 2005 and 2025, the state lost approximately 1,874 direct jobs in the sector. This decline occurred while overall U.S. post-production employment grew by approximately 10%.

Like their film and TV counterparts, Los Angeles based commercial producers are seeing fewer work opportunities. FilmLA's Q1 2026 Los Angeles Production Report shows that commercial production recorded 794 shoot days in the first quarter of 2026, a 35.5% increase from Q4 2025 but essentially flat year over year compared to 796 shoot days in Q1 2025.⁴ FilmLA cautioned, however, that the commercial production sector has been hard hit over the past five years, and that long-term weakness makes out-of-state incentives particularly attractive for commercial filming.

Other states use different approaches to attract commercial production: New York operates a standalone commercial production credit, allocating up to \$7 million annually with a 20% credit for Downstate production and a 30% credit for Upstate production. In contrast, states such as Georgia and Texas include commercials within broader film or moving-image incentive programs rather than creating a separate commercial-only credit.⁵

Under the Film and TV Tax Credit 4.0, commercial advertising is excluded from eligibility for the credit. As a result, commercial production companies have an incentive to take their

² <https://www.gov.ca.gov/2026/05/21/governor-newsom-signs-first-of-its-kind-executive-order-to-prepare-workers-and-businesses-for-potential-ai-disruption/>

³ <https://www.gov.ca.gov/2026/03/30/as-trump-rolls-back-protections-governor-newsom-signs-first-of-its-kind-executive-order-to-strengthen-ai-protections-and-responsible-use/>

⁴ <https://filmla.com/encouraging-signs-for-la-area-filming-as-select-production-categories-begin-trending-upward/>

⁵ <https://esd.ny.gov/commercial-tax-credit-program>; <https://dor.georgia.gov/film-tax-credits>;
<https://gov.texas.gov/film/page/tmiiip>.

productions out of state to reduce costs and utilize other state tax credits, thereby reducing production activity in California that provides jobs and boosts the state's economy.

The Association of Independent Commercial Producers wants to authorize a standalone commercial production credit to provide more targeted financial support for California commercial production businesses due to the gap left by the Film and TV Tax Credit 4.0 for this sector.

Proposed Law

AB 2403 authorizes, under the Personal Income Tax Law and Corporation Tax Law, a credit for commercial production companies that produce commercials in California, to be allocated by the CFC to applicants on or after July 1, 2027, and before July 1, 2032, in four or more allocation periods per fiscal year (FY), in an amount equal to the following:

- 20% of “qualified production costs” in excess of \$500,000 for the production of a “qualified commercial” filmed *inside* the Los Angeles zone; and,
- 30% of “qualified production costs” in excess of \$500,000 for the production of a “qualified commercial” filmed *outside* the Los Angeles Zone.

The measure specifies that the aggregate amount of credits that may be allocated by CFC per FY to \$15 million, plus any amount unallocated in any prior FY.

Regarding production costs, the bill:

- Requires that at least 75% of the production costs incurred in the filming or recording of the qualified commercial be costs incurred in California.
- Defines “qualified production costs” as all expenditures made in California directly attributable to the production of a qualified commercial, but does not include either of the following:
 - Costs for a story, script, or scenario to be used for a 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.

Regarding the application process, the bill:

- Requires the CFC to establish an application process that accepts submissions between January 1 and April 1 of the calendar year succeeding the year in which the production of the qualified commercial occurred;
- Requires, as part of the application process, a certification under penalty of perjury that the production is not created entirely by means of GenAI and that the labor standards described above are satisfied.
- Permits CFC to require the submission of payroll records, benefit contribution reports, copies of applicable collective bargaining agreements, and attestations from payroll service providers to verify compliance with the provisions of this bill.

Regarding labor standards, the bill 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:

- Demonstrate as part of the CFC application process that the production is in compliance with applicable federal, state, and local laws and regulations;
- 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;
- Provide health insurance benefits for all employees; and,
- Provide a defined-benefit pension for all employees.

Regarding the use of GenAI, the bill:

- Specifies that the credit shall not be allowed for a commercial that either: 1) is created entirely by means of generative artificial intelligence; or, 2) utilizes generative artificial intelligence (GenAI), automated technologies, or autonomous vehicles in a manner that replaces or diminishes the job functions customarily performed by a human worker.
- Defines “Generative artificial intelligence” as a computational system or model capable of generating text, images, 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 the expressive output.
- Provides that a commercial is deemed to be created entirely by means of GenAI if both of the following are satisfied:
 - All principal expressive elements, including, but not limited to, script, dialogue, visual imagery, animation, performances, voices, music, and sound design, are generated by GenAI; and,
 - 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.
- Provides that a commercial is not deemed to be created entirely by means of GenAI if:
 - Use of AI-assisted processes in preproduction, production, or postproduction, provided that natural persons exercise principal creative control;
 - Incorporation of artificial intelligence for technical, logistical, or efficiency purposes that do not replace principal creative roles performed by natural persons; and,
 - Use of GenAI, 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 bill also defines several terms, makes other technical and conforming changes, and contains legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

No estimate.

Comments

1. Purpose of the bill. According to the author, “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.”

2. “Windfall” or “but for” tax benefit? Tax expenditures produce two different outcomes. The first outcome is a “windfall,” in which the tax expenditure rewards behavior that would have occurred even without the tax benefit. The second outcome is a “but for tax benefit,” where a particular activity would not have occurred without the incentive created by the tax expenditure. Here, the credit is intended to influence where commercials are produced by making California more competitive with jurisdictions that provide a commercial production incentive. Additionally, unlike an upfront reservation model, AB 2403 requires applicants to apply after the qualified commercial has already been produced. Because credit allocation is not guaranteed, the credit may encourage “but for” behavior to the extent producers are willing to assume the risk that no credit will ultimately be awarded. This structure reduces the likelihood that the credit alone will drive production decisions, since a taxpayer must commit to producing the commercial without certainty that the tax benefit will be available. However, the credit may operate as a windfall to the extent it is claimed for commercials that would have been filmed in California regardless of the incentive, due to client needs, talent availability, locations, agency relationships, or existing production infrastructure. On balance, this credit may serve as a “but for” tax benefit for some productions while serving as a “windfall” for others.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a credit against personal income tax, AB 2403 will result in the State General Fund receiving less revenue. As a result, the state will have to reduce spending or increase taxes to offset the loss. Additionally, because Proposition 98 establishes a minimum funding guarantee for K-14 education in California, which generally represents roughly 40% of the state’s General Fund revenues, every dollar of General Fund loss results in approximately 40 cents less of funding for K-14 education.

4. Do positive economic effects of the credit offset lost revenue? Experts disagree on this question. At the 2025 Joint Oversight Hearing of the Senate Committee on Revenue & Taxation and Budget & Fiscal Review Subcommittee #4: “Assessing the Governor’s Proposal to Further Expand the Motion Picture and TV Production Tax Credit,” the Legislative Analyst’s Office (LAO), the California Budget and Policy Center, and the Los Angeles County Economic Development Commission (LAEDC) spoke to the economic and fiscal effects of the Governor’s proposal to increase the credit authorization amount.

LAEDC estimated the total economic impact from the 169 productions that were allocated 2.0 tax credits is \$7.4 billion in production in exchange for a total of \$915 million in tax credits.⁴ LAEDC stated that at least \$24.40 in output, \$16.14 in gross domestic product, \$8.60 in wages, and \$1.07 in initial state and local tax revenue resulted from every dollar of tax credit allocated.

Among other findings, LAO stated that there is good evidence that the credit increases production activity and the size of the industry, but the credit does not pay for itself:⁶

⁶ <https://srev.senate.ca.gov/system/files/2025-03/film-tax-credit-022825-lao.pdf>

Film tax credits generally have a negative overall effect on state revenues. Evidence from academic research and state evaluations in places such as Georgia and New York find that every \$1 of credit allocated returns significantly less than \$1 in state revenue. One notable outlier to this pattern is a report from the Los Angeles County Economic Development Corporation, who claim to find a small fiscal benefit associated with the film tax credit. The Los Angeles County Economic Development Corporation estimates, however, very likely are overstated. These estimates ignore some of the important offsetting factors discussed above, specifically that some productions receiving the credit would have filmed here anyway and revenues lost to the film tax credit could have been used to fund other economically beneficial programs.

The economic effects of commercial production credit may differ from those of a general film production credit because commercial production work is typically shorter in duration and more mobile, meaning the credit may affect a larger number of smaller projects, crew calls, and vendor transactions, but may also generate less sustained employment per project than a feature film or TV series.

5. Equity. AB 2403 may advance social equity by supporting commercial production work, which can provide more frequent entry-level and short-duration employment opportunities compared to longer-form film and TV projects. Commercial production can serve as an entry point into the entertainment industry, including for individuals who have been formerly incarcerated and are rebuilding their lives and careers. However, the equity benefits are indirect because the credit is claimed by commercial production companies, not workers, and the bill contains no explicit diversity requirements, such as a diversity workplan as utilized in the Film 4.0 tax credits. The Committee may wish to consider whether including diversity requirements in hiring would improve the bill's equitable outcomes.

6. Defining AI and GenAI. California statutes define "artificial intelligence" in several code sections using substantially the same formulation: "an engineered or machine-based system that varies in its level of autonomy and that can, for explicit or implicit objectives, infer from the input it receives how to generate outputs that can influence physical or virtual environments."⁷ The definition is substantively similar to definitions used by other jurisdictions and international organizations, including the OECD-style definition of an AI system as a machine-based system that infers from inputs how to generate outputs that can influence physical or virtual environments.⁸ California statutes also define "generative artificial intelligence" or "GenAI" in multiple statutes, using a substantially identical definition: "artificial intelligence system that can generate derived synthetic content, including text, images, video, and audio, that emulates the structure and characteristics of the system's training data."⁹ AB 2403 does not contain a definition for artificial intelligence and uses a definition for GenAI that departs from existing state law definitions in several meaningful ways. The Committee may wish to consider whether using consistent definitions for AI and GenAI would provide greater clarity for taxpayers and agency enforcement.

⁷ GOV 11549.64; GOV 84514; GOV 11546.45.5; CIV 3110, PUC 2874; HSC 1339.75; PEN 311; EDC 33328.5; INS 10123.135; HSC 1367.01

⁸ <https://www.lexology.com/library/detail.aspx?g=c8036129-62d4-4098-bd25-1e6af3c0face>

⁹ CIV 3110; HSC 1339.75; GOV 11549.64

7. Section 41. Section 41 of the Revenue and Taxation Code requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve and detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). A bill that would authorize a new gross income exclusion is exempt from the requirement that the bill contain detailed performance indicators and data collection reporting if the Legislature determines there is no available data to collect and report (AB 3289, Committee on Revenue and Taxation, 2024). To satisfy these requirements, AB 2403 states that the specific goal of this credit is to:

- Maintain and expand motion picture and TV productions, and the quality of the jobs they provide, in California.
- Keep California's Film Tax Credit competitive with production incentives offered by other states and other countries.
- Increase the competitiveness of the tax credits allowed by this bill, relative to previous California motion picture tax credit programs.

The detailed performance indicators for these goals are:

- The qualified taxpayers and taxpayer identification numbers, including taxpayer identification numbers of each partner or shareholder, as applicable, of the qualified taxpayer.
- The tax credit amounts allocated to each qualified taxpayer by the CFC.
- The number of production days in California the qualified taxpayer represented in its application would occur.
- The number of California jobs that the qualified taxpayer represented in its application would be directly created by the production.
- The total amount of qualified expenditures expected to be spent by the production.

To aid the Legislature in determining whether this act meets the goals, purposes, and objectives, AB 2403 directs CFC to annually provide the LAO and the FTB with a list of qualified taxpayers and the tax credit amounts allocated to each qualified taxpayer. The measure further directs CFC to annually post on its website the following:

- A table which includes all of the following information:
 - A list of qualified taxpayers and the tax credit amounts allocated to each qualified taxpayer by the CFC.
 - The number of production days in California the qualified taxpayer represented in its application would occur.
 - The number of California jobs that the qualified taxpayer represented in its application would be directly created by the production.
 - The total amount of qualified expenditures expected to be spent by the production.
- A narrative staff summary describing the production of the qualified taxpayer, as well as background information regarding the qualified taxpayer.

8. Related legislation. Also set to be heard at the Committee's June 24th hearing is AB 2319, which would enact the California Postproduction Tax Credit program, authorizing a credit under the Personal Income Tax Law and the Corporation Tax Law, for qualified expenses relating to the postproduction of a qualified motion picture in California.

9. Double-referred. The Senate Rules Committee ordered a double referral for AB 2403: first to the Committee on Revenue and Taxation and second to the Committee on Public Safety.

10. Committee amendments. The Committee could amend AB 2403 in the following ways:

- Provide that CFC shall not allocate to any one qualified taxpayer, a credit amount that in the aggregate exceeds 20% percent of the aggregate amount available for allocation for that fiscal year.
- Clarify that qualified production costs outside the Los Angeles zone must be within the State of California.
- Specify that if qualified production costs attributable to a single qualified commercial are incurred both inside and outside the Los Angeles zone, the qualified commercial shall be treated as filmed inside the Los Angeles zone if 50% or more of the qualified production costs incurred in the state are attributable to costs incurred inside the Los Angeles zone.
- Allow excess credit exceeding the taxpayer’s tax liability to be carried forward seven years.
- Specify that a deduction otherwise allowed under this part for any amount paid or incurred by the qualified taxpayer that is the basis for the credit allowed by this bill shall be reduced by the amount of the credit allowed.
- Specify that an expenditure that is the basis for the credit allowed by this section shall not be the basis for any other credit allowed under this part.
- Revise the definition of GenAI to utilize the existing definition used in state law, which is “an artificial intelligence system that can generate derived synthetic content, including text, images, video, and audio that emulates the structure and characteristics of the system’s training data.”
- Revise the definition of “Qualified commercial” means an advertisement that satisfies the requirements of subdivisions (c), (d), and (e) and is produced in whole or in substantial part within the state for public distribution through any audiovisual media, communications platform, network, or technology, whether now existing or hereafter developed.
- Define “production costs” to mean any costs for tangible property used and services performed directly and predominantly in the production (including pre-production and post-production) of a qualified commercial.
- Remove references to “autonomous technologies” throughout.
- Define “autonomous vehicles” to have the same meaning as defined in Vehicle Code 38750.
- Make other technical and conforming changes.

Assembly Actions

Assembly Revenue & Taxation Committee:	6-1
Assembly Appropriations Committee:	14-0
Assembly Floor:	73-3

Support and Opposition (6/18/2026)

Support: Association of Independent Commercial Producers (Sponsor)
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 received.

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