SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2403 (Elhawary) - Income tax: credits: commercial production

Version: July 2, 2026
Policy Vote: REV. & TAX. 4 - 0, PUB. S. 5 - 0
Urgency: No
Mandate: Yes
Hearing Date: August 3, 2026
Consultant: Robert Ingenito

Bill Summary: AB 2403 would authorize a tax credit under the Personal Income Tax Law and the Corporation Tax Law for commercial production companies that produce commercials in California.

Fiscal Impact:

- The Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of $2.9 million in 2026-27, $6.9 million in 2027-28, and $8.3 million in 2028-29. FTB's administrative costs would be minor and absorbable.
- The California Film Commission (CFC) indicates that it would incur annual costs of $672,000 to implement the provisions of the bill (General Fund).

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed $94 billion annually.

California generally allows tax credits to reduce a taxpayer's liability on a dollar-for-dollar basis. With limited exceptions, including the Motion Picture and Television Production Tax Credit, business tax credits are nonrefundable. Current law also limits the use of most business tax credits to $5 million annually through the 2030 taxable year, after which credits generally are limited to the greater of $5 million or 75% of tax liability. Taxpayers whose credits are limited may irrevocably elect to receive refundable credits in future years for the disallowed amounts.

California first established the Motion Picture and Television Tax Credit Program in 2009 to discourage film and television productions from relocating to other states offering financial incentives. Since then, the Legislature has extended and expanded the program through four iterations. Most recently, SB 132 (Committee on Budget and Fiscal Review, Chapter 56, Statutes of 2023) established the Film and Television Tax Credit 4.0 Program, authorizing the California Film Commission (CFC) to allocate $330 million in refundable tax credits annually from 2025-26 through 2029-30. In 2025, AB 1138 (Zbur) expanded eligibility and increased the annual allocation to $750 million.

Separately, SB 144 (Portantino, Chapter 114, Statutes of 2021) created a tax credit for productions filmed at newly constructed or renovated certified soundstages through the 2031 taxable year.

Commercial advertising productions are not eligible for the Film and Television Tax Credit Program. According to the Assembly Committee on Arts, Entertainment, Sports, and Tourism, California's post-production sector employs more than 12,000 workers at over 1,800 firms but has lost nearly 1,900 direct jobs since 2005 while national employment in the sector has grown. FilmLA also reports that commercial production activity has remained well below historical levels, making tax incentives offered by other states increasingly attractive. Unlike California, states including New York, Georgia, Illinois, and Texas provide tax incentives for commercial productions, either through standalone commercial production credits or broader film incentive programs.

Proposed Law: This bill, for taxable years 2027 through 2031 among other things, would do the following:

- Allow a credit against the personal income tax and corporation tax to a qualified taxpayer that produces qualified commercials, as defined, in the state in an amount equal to 20 percent or 30 percent of the qualified production costs in excess of $500,000 that are attributable to the production of a qualified commercial, as specified.

- Exclude any commercial that is created entirely by generative artificial intelligence, as specified, or that utilizes generative artificial intelligence, automated technologies, intelligence or autonomous vehicles in a manner that replaces or diminishes the job functions customarily performed by a human worker in the production.

- Require the qualified commercial to adhere to specified labor standards.

- Require CFC to establish an application process and allocate the credits on or after July 1 each year, in accordance with certain requirements.

- Limit the aggregate amount of credits that may be allocated for a fiscal year under these provisions to $15 million, and require specified certifications under penalty of perjury.

Related Legislation: AB 2319 (Schultz) 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. The bill is currently pending in this Committee.

Staff Comments: CFC estimates it would require five additional positions to administer the increased application workload, review and certify eligible productions, and oversee credit allocations. CFC estimates ongoing General Fund costs of $672,000 annually for eight fiscal years (2026-27 through 2033-34). Although the program would sunset on January 1, 2032, administrative workload would continue for several years thereafter as productions complete postproduction activities and CFC verifies eligibility before awarding previously allocated credits.

Any local government costs resulting from the mandate in this measure are not state-reimbursable because the mandate only involves the definition of a crime or the penalty for conviction of a crime.

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