

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1318 (Delegate Pitkin)

Ways and Means

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**Arts and Entertainment Districts - Income Tax and Sales and Use Tax**

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This bill authorizes the governing body of a county or Baltimore City to establish arts and entertainment districts, which must be wholly within priority funding areas. Only one district may be established in each county. A subtraction modification is created for the individual income tax for qualifying residing artists, who are residents of and conducting businesses in the district, in the amount of income derived from the publication, production, or sale of an artistic work that the artist created. In addition, artistic works sold by a qualifying residing artist within a district are exempt from the sales tax.

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**Fiscal Summary**

**State Effect:** Indeterminate effect on general fund revenues. Expenditures would not be affected.

**Local Effect:** Indeterminate effect on revenues. Expenditures would not be affected.

**Small Business Effect:** Meaningful.

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**Fiscal Analysis**

**State Revenues:** If local governments authorized arts and entertainment districts, general fund revenues could decline an indeterminate amount. The revenue loss would depend on the income of qualifying residing artists from sales or performances within the districts, which in turn depends on the number and size of the districts and the number of qualifying residing artists. In any case, the revenue loss would not begin until tax year 2000 because the Comptroller must be notified of the establishment of an arts and entertainment district by July 1 of the year prior to the applicability of the subtraction modification (the bill is effective October 1, 1998).

General fund revenues would also decline due to the sales tax exemption. This loss depends

on the value of artistic work sold by (although not necessarily created by) qualifying residing artists.

General fund revenues could increase through increased income and sales tax collections if restaurants, theaters, and other businesses are started as a result of this bill. Revenues would only increase if these are new businesses, and are not businesses transferred from elsewhere in the State. The amount of this increase, if any, cannot be reliably determined.

The net effect of this bill is indeterminate.

**Local Revenues:** Local revenues would decline by about 55% of any State revenue loss through the local income tax.

Local property tax revenues could increase an indeterminate amount. To the extent that non-productive real property becomes productive or property is used more intensively for commercial purposes, assessments and therefore property tax revenues could increase.

**Small Business Effect:** Qualifying residing artists are those individuals who reside in an arts and entertainment district and conduct a business in the district. Thus, the benefits of this bill would go directly to owners of presumably small businesses. The exemption from State and local income taxes of any income derived from the production or sale within the district of artistic work created by the individual would increase after-tax income from such sales by about 8.7%. The sales tax exemption could allow the artist to increase the price of the artistic works or could induce more sales if the price is not increased, therefore increasing income, but any such effect is expected to be minimal.

The creation of the arts and entertainment district could cause an increase in the number of restaurants, theaters, and similar businesses. Some portion of the new businesses, if any, could be small businesses.

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**Information Source(s):** Department of Business and Economic Development, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

**Fiscal Note History:** First Reader - March 18, 1998

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