

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 411 (Montgomery County Delegation)

Ways and Means

**Montgomery County - Arts and Entertainment Districts - Income Tax
and Sales and Use Tax
MC 916-99**

This bill authorizes the governing body of Montgomery County to establish an arts and entertainment district, which must be wholly within a priority funding area. A subtraction modification is created for the individual and corporate income tax for “qualifying resident artists” and “qualifying arts organizations” in the amount of income derived from the sale or performance of an artistic work. In addition, artistic works sold by a qualifying resident artist or qualifying arts organization within a district are exempt from the sales tax.

Fiscal Summary

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

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

Small Business Effect: Potential meaningful.

Fiscal Analysis

State Revenues: If Montgomery County authorized an arts and entertainment district, general fund tax revenues could decline an indeterminate amount. The revenue loss would depend on the income of qualifying resident artists and arts organizations from sales or performances within the district, which in turn depends on the size of the district and the number of qualifying entities. In any case, the revenue loss would not begin until tax year

2001 because the county is required to notify the Comptroller 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, 1999).

Since about 25% of corporate income tax revenues are distributed to the Transportation Trust Fund, special fund revenues could also decline by an indeterminate amount.

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 resident artists and arts organizations.

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.

The Department of Legislative Services is aware of 1 state, Rhode Island, that has enacted similar legislation. During the 1996 - 1997 legislative session, legislation was enacted to exempt resident artists whose principal place of business is within a defined area located in Providence from the sales and use tax and the personal income tax. According to the Rhode Island Taxing Division, to date, no individual has applied for the artist exemption certificate. The following legislative session, the exemption was extended to include art galleries within the district. Since that time, 2 art galleries have applied for the exemption.

Local Revenues: Montgomery County revenues would decline by about 60% of any State revenue loss through the local income tax. This would be offset by any increases due to new businesses.

Montgomery County property tax revenues could increase an indeterminate amount. To the extent that nonproductive 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 resident artists are those individuals who reside in an arts and entertainment district and conduct a business in the district. The sales tax exemption could increase demand for the artistic work of qualifying artists. Qualifying arts organizations could include art galleries, live theaters, or certain gift shops. Thus, the benefits of this proposed bill would go directly to owners of presumably small businesses in

the form of, possibly, increased sales and increased after-tax income.

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.

Information Source(s): Montgomery County, Rhode Island Taxing Division,
Department of Legislative Services

Fiscal Note History: First Reader - February 15, 1999
dmm/jr

Analysis by: Lina Walker

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510