

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 875 (Delegate Pitkin. *et al.*)

Ways and Means

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

This bill authorizes a county and Baltimore City to establish an arts and entertainment district. The district must be wholly within a priority funding area and a designated neighborhood. A subtraction modification is created for the individual income tax for qualifying residing artists, who are residents of and conducting business 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.

Fiscal Summary

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

Local Effect: Indeterminate effect on the revenues of participating jurisdictions. Expenditures would not be affected.

Small Business Effect: Potential meaningful.

Fiscal Analysis

State Revenues: If arts and entertainment districts are authorized, general fund revenues could decline by an indeterminate amount. The revenue loss would depend on the number of districts created, the income of qualifying residing artists from sales or performances within the district, which in turn depends on the size of the district and the number of qualifying residing artists. In any case, the revenue loss would not begin until tax year 2001 because the counties are 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).

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 proposed bill is indeterminate.

The Department of Legislative Services is aware of 1 state, Rhode Island, that has enacted similar legislation. The Rhode Island legislation was enacted during the 1996-1997 legislative session; it exempts 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 artist has applied for an exemption certificate.

Local Revenues: Revenues for local jurisdictions that designate arts and entertainment districts would decline by about 55% of 5% any subtraction taken against the personal income tax.

The participating jurisdictions' 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 residing 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. 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): Prince George's County, Department of Legislative Services

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