

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 902 (Senators Ruben and Hoffman)
Budget and Taxation

Tax Benefits - Arts and Entertainment Districts - Qualified Residing Artist

This emergency bill expands eligibility for specified tax benefits applicable to arts and entertainment districts by providing that an individual who derives income from the sale or performance within the district of an artistic work that the individual wrote, composed, or executed, either solely or with one or more individuals, may receive the benefits without a residency requirement.

Under current law a qualified residing artist is defined as an individual who: (1) owns or rents residential real property in an arts and entertainment district and conducts a business in the arts and entertainment district; and (2) derives income from the sale or performance within the arts and entertainment district of an artistic work that the individual wrote, composed, or executed, either solely or with one or more other individuals.

Fiscal Summary

State Effect: Potentially significant general fund revenue decrease due to the subtraction modification against the State income tax beginning in FY 2003. Administrative costs associated with the bill could be handled with the Department of Business and Economic Development's (DBED) existing budgeted resources.

Local Effect: Potential revenue decrease due to the subtraction modification against the State income tax and the expanded eligibility for the exemption from the admissions and amusement tax.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Chapter 608 of 2001 authorized DBED to establish arts and entertainment districts within a county or municipal corporation. Counties and municipal corporations must apply to DBED to have an area designated as an arts and entertainment district. The district must be wholly within a priority funding area and a designated neighborhood. Chapter 608 expanded the permissible uses of the Maryland Economic Development Assistance Fund to allow DBED to use the fund to provide financial assistance to arts and entertainment enterprises and arts and entertainment projects.

Chapter 608 also created a subtraction modification under the Maryland income tax for the amount of income derived from the publication, production, or sale of artistic work that is created by a “qualifying residing artist,” who owns or rents residential property in the district and conducts business in the district.

Chapter 608 provided for a property tax credit against the county or municipal corporation property tax imposed on a manufacturing, commercial, or industrial building that is located in an arts and entertainment district, and is wholly or partially renovated for use as housing for qualifying residing artists. The property tax credit cannot be granted for more than ten years.

Finally, under Chapter 608, a county or municipal corporation may exempt from the admissions and amusement tax gross receipts any admissions or amusement charge levied by an “arts and entertainment enterprise” or qualified residing artist in an arts and entertainment district.

Background: In January 2002 DBED designated four arts and entertainment districts across the State. They are the Gateway Arts and Entertainment District in Prince George’s County, the Hagerstown Arts and Entertainment District In Washington County, the Silver Spring Arts and Entertainment District in Montgomery County, and the Station North Arts and Entertainment District in Baltimore City.

The next group of arts and entertainment districts are expected to be designated by June 1, 2002.

DBED is authorized to designate up to six arts and entertainment districts each year.

State Revenues: The bill expands the definition of qualified residing artist by removing the requirement that artists live and work in an arts and entertainment district. As a result, artists may live anywhere in the State and market their products or performances in any arts and entertainment district in the State and still be eligible for an income tax subtraction modification. Therefore, the bill could increase the revenue loss associated

with subtraction modification for the amount of income derived from the publication, production, or sale of artistic work compared to current law beginning in fiscal 2003. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of qualifying residing artists, the income of qualifying residing artists from sales or performances within a district, and the size and number of districts created.

In addition, the bill could allow nonresident artists who earn income from sales or performances in Maryland to exclude this income, which would otherwise be attributable to Maryland, when they file their nonresident income tax return.

Data provided by the Department of Labor, Licensing, and Regulation indicates that there were approximately 33,000 artists in Maryland in 1998. This figure is projected to increase to 40,000 by 2008. The mean wages for various professions in the arts range from \$24,000 to approximately \$70,000. These figures do not include self-employed artists.

Because arts and entertainment were just recently designated by DBED, there is no income tax data upon which to base a reliable estimate as to the effect of the bill. However, depending on the number of qualified residing artists who claim the subtraction modification, the revenue loss could eventually be significant.

Local Revenues: Revenues for local jurisdictions where qualified residing artists live would decline by about 2.8% of the total subtraction taken against the State income tax beginning in tax year 2002.

Revenues could also decline because the exemption from the admissions and amusement tax would apply to more individuals under the bill.

Small Business Effect: To the extent that artists are small businesses, they would be able to apply the subtraction modification to any income derived in an arts and entertainment district.

Additional Information

Prior Introductions: None.

Cross File: HB 1451 (Delegate Pitkin) – Economic Matters.

Information Source(s): Department of Business and Economic Development, Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

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