

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 795 (Senator Ruben, *et al.*)
 Budget and Taxation

Arts in Maryland Fund - Income Tax Checkoff

This bill establishes an Arts in Maryland Fund checkoff on the individual income tax return form. After the Comptroller deducts administrative expenses, the contributions are credited to the fund and distributed by the Maryland State Arts Council (MSAC) as grants to support performing, visual, or creative arts in the State. A maximum of 5% of the funds received by MSAC may be used to promote further donations to the fund. MSAC is required to (1) adopt regulations to implement an Arts in Maryland grant program and establish eligibility criteria for recipients of grants; and (2) report to the General Assembly by August 31 of each year on the administration of the fund.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

Fiscal Summary

State Effect: Minimal net increase in special fund revenues in FY 2006 and beyond. General fund expenditures would increase by \$44,400 in FY 2006 due to one-time tax form changes and computer expenses.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	-	-	-	-	-
GF Expenditure	44,400	0	0	0	0
Net Effect	(\$44,400)	\$0	\$0	\$0	\$0

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The Chesapeake Bay and Endangered Species Fund (CBESF), the Fair Campaign Financing Fund (FCFF), and the Cancer Research Fund (CRF) are the three current checkoffs on the personal income tax form.

Background: In fiscal 2004, approximately \$1.6 million was donated to CBESF and \$183,000 was donated to FCFF. Chapter 392 of 2004 added the CRF checkoff beginning with tax year 2004.

A survey by the Federation of Tax Administrators (FTA) identified 220 checkoff programs available to taxpayers in 41 states and the District of Columbia on state income tax returns filed for tax year 2002. Every state with a broad-based income tax has at least one checkoff program and some states have had to create a separate form just for checkoffs. For example, in tax year 2003 Virginia had 22 checkoffs which added four pages to the personal income tax form. The most common checkoffs are for wildlife protection, political campaigns, and child abuse prevention. According to FTA, Maryland's CBESF checkoff was the largest nonpolitical state checkoff.

Chapter 608 of 2001 authorized the Department of Business and Economic Development (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. The Comptroller's Office does not collect information on the amount of any subtraction modification claimed as a result of residency in an arts and entertainment district. The income subtraction modification for these districts is consolidated together with other subtractions and is listed as a miscellaneous subtraction on the income tax return.

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 10 years. The State Department of Assessments and Taxation advises that no local property tax credits have been claimed to date.

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.

Exhibit 1 lists the nine arts and entertainment districts currently established in the State.

Exhibit 1
Current Arts and Entertainment Districts

<u>Arts and Entertainment District</u>	<u>Location</u>
Cumberland	Allegany County
Cambridge	Dorchester County
Station North	Baltimore City
Highlandtown	Baltimore City
Frederick City	Frederick County
Bethesda	Montgomery County
Silver Spring	Montgomery County
Gateway	Prince George’s County
Hagerstown	Washington County

State Revenues: While the amount of donations cannot be accurately estimated, Legislative Services believes that there will be a minimal net increase in special fund revenues in fiscal 2006 and beyond. Donations to this checkoff would likely divert funds from the existing checkoffs. To the extent that the new checkoff does not divert funds from the existing checkoffs, net special fund revenues will increase by a greater amount.

State Expenditures: The bill would require MSAC to develop, implement, monitor, and report on the administration of the arts in Maryland fund. MSAC reports that it can handle these requirements under existing budgeted resources.

The Comptroller’s Office reports that it would incur a one-time expenditure increase of \$44,400 in fiscal 2006 to add the checkoff to the personal income tax form. This includes data processing changes to the SMART income tax return and processing systems, and systems testing.

Small Business Effect: MSAC advises that the majority of MSAC grantees have operating budgets of less than \$350,000 and are considered small businesses. Small businesses that receive grant money under the bill would benefit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland State Arts Council, Department of Legislative Services

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