

**Department of Legislative Services**  
Maryland General Assembly  
2005 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 1006  
Ways and Means

(Delegate Hixson, *et al.*)

Budget and Taxation

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**Arts and Entertainment Districts - Tax Benefits**

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This bill expands the eligibility criteria for specified tax benefits available in arts and entertainment districts. The bill alters the definition of qualifying resident artist by expanding eligibility to artists that own or rent real property in the county where an arts and entertainment district is located. Under current law, eligibility is restricted to owning or renting residential property in the arts and entertainment district. The bill also clarifies that in order to qualify, a resident artist must write, compose, or execute artistic work *in an arts and entertainment district*. The bill expands the type of buildings in an arts and entertainment district for which a property tax credit may be granted by county and municipal governments to buildings that are constructed or renovated to be capable of use by a qualifying residing artist or an arts and entertainment enterprise. Finally, the bill establishes a method for calculating property tax credits that may be granted by county and municipal governments in an arts and entertainment district.

The bill takes effect June 1, 2005. The income tax provisions apply to tax year 2005 and beyond and the property tax provisions apply to tax year 2006 and beyond.

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**Fiscal Summary**

**State Effect:** Potential decrease in general fund revenues beginning in FY 2006. Expenditures would not be affected.

**Local Effect:** Potential local government revenue decrease due to the expanded eligibility for the subtraction modification against the State income tax and the local property tax credit.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** Eligibility for tax credits in arts and entertainment districts is restricted to individuals who own or rent residential property and operate a business within the district. The individual must also derive income from the sale or performance within the district of an artistic work that the individual wrote, composed, or executed, either solely or with other individuals.

**Background:** 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 also 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 (SDAT) 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.

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**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

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**State Fiscal Effect:** The bill expands the definition of qualified residing artist by expanding eligibility to include residency in the county, as opposed to residency in the arts and entertainment district. As a result, artists may live anywhere in the county where an arts and entertainment district is located 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 2006. 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 county or district, and the size and number of districts created.

**Local Fiscal Effect:** Revenues for local jurisdictions where qualified residing artists live could decline by about 3.1% of the total subtraction taken against the State income tax beginning in tax year 2005, which will impact revenues in fiscal 2006.

In addition, local government property tax revenues could decrease if more properties are eligible for the credit as a result of the expanded eligibility criteria provided by the bill. However, the amount of any decrease cannot be reliably estimated at this time. As noted, no property tax credits have been claimed to date.

**Small Business Effect:** To the extent that artists are small businesses, more businesses could potentially qualify for the tax benefits provided to qualified resident artists in arts and entertainment districts.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 794 (Senator Ruben, *et al.*) – Budget and Taxation.

**Information Source(s):** State Department of Assessments and Taxation, Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

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