

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 208 (Senator Ruben)
 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, 2006 and applies to tax year 2006 and beyond.

Fiscal Summary

State Effect: Minimal net increase in special fund revenues and expenditures in FY 2007 and beyond. General fund expenditures would increase by approximately \$32,900 in FY 2007 due to one-time tax form changes and computer expenses.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	-	-	-	-	-
GF Expenditure	(32,900)	0	0	0	0
SF Expenditure	-	-	-	-	-
Net Effect	\$32,900	\$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 2005, donations to each of the checkoffs were CBESF (\$1.2 million), CRF (\$416,200), and FCFF (\$116,100).

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. 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.

Chapter 175 of 2005 expanded eligibility of tax benefits provided to certain artists by: (1) extending eligibility of the subtraction modification to artists that own or rent property in the county in which an arts and entertainment district is located; and (2) expanding the type of buildings in an arts and entertainment district for which a local property tax credit may be claimed to buildings that are constructed or renovated to be capable of use by a qualifying residing artist. Chapter 175 also clarified that in order to claim the subtraction modification a resident must write, compose, or execute the artistic work in the arts and entertainment district.

Exhibit 1 lists the 12 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
Denton	Caroline County
Frederick City	Frederick County
Bethesda	Montgomery County
Silver Spring	Montgomery County
Wheaton	Montgomery County
Gateway	Prince George’s County
Hagerstown	Washington County
Berlin	Worcester 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 2007 and beyond. Donations to this checkoff would likely divert funds from the existing checkoffs. In fiscal 2004, donations totaled approximately \$1.6 million to CBESF and \$183,000 to FCFF. In fiscal 2005, donations to these checkoffs decreased by a total of \$480,141, which is close to the amount donated to CRF checkoff in its first

year (\$416,200). 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 approximately \$32,900 in fiscal 2007 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: SB 795 of 2005, an identical bill, was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 6, 2006
m/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510