

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 626
Ways and Means

(Prince George's County Delegation)

**Prince George's County - Property Tax Credit for Restaurants in Arts and
Entertainment Districts PG 412-07**

This bill requires Prince George's County to grant a five-year property tax credit against the county property tax on specified restaurants constructed or substantially renovated on or after July 1, 2007 and located in an arts and entertainment district. The amount of the credit decreases from 50% to 10% of the tax imposed over the life of the credit. Eligible restaurants must exhibit for sale artistic works of qualifying residing artists of the arts and entertainment district.

The bill takes effect June 1, 2007 and applies to all taxable years beginning after June 30, 2007.

Fiscal Summary

State Effect: None.

Local Effect: Prince George's County revenues could decrease beginning in FY 2008 depending on the number of restaurants qualifying for the property tax credit. Under one set of assumptions, property tax revenues could decrease by \$10,200 in FY 2008. No effect on county expenditures. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Current Law: Prince George's County is not required to grant property tax credits for restaurants located in an arts and entertainment district.

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 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.

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 who 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 14 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
Station North	Baltimore City
Highlandtown	Baltimore City
Denton	Caroline County
Elkton	Cecil County
Cambridge	Dorchester County
Frederick	Frederick County
Bethesda	Montgomery County
Silver Spring	Montgomery County
Wheaton	Montgomery County
Gateway	Prince George's County
Hagerstown	Washington County
Berlin	Worcester County
Snow Hill	Worcester County

Local Fiscal Effect: As shown in Exhibit 1, there is one arts and entertainment district in Prince George's County, known as the Gateway Arts District. It includes the municipalities of Mount Rainier, Brentwood, North Brentwood, and Hyattsville, except for properties located within the Prince George's Plaza and West Hyattsville Transit Districts.

To be eligible for the property tax credit, restaurants must display, for sale, works of qualifying artists who reside in the arts and entertainment district. The credit may be claimed for five taxable years and is equal to 50% of the county tax in the first year, 40% in the second year, 30% in the third year, 20% in the fourth year, and 10% in the fifth year.

Given that the bill does not require a minimum number of artistic works be displayed, a minimum amount of time displayed, or that any artwork actually be sold; it is likely that any qualifying restaurant would opt to display artwork and claim the credit.

The State Department of Assessments and Taxation (SDAT) has identified five restaurants in the four municipalities that could qualify for the tax credit. In addition, there may be additional restaurants in properties that have another primary classification such as shopping center, office building or retail establishment. **Exhibit 2** shows the total assessed value of the five restaurants for fiscal 2008 through 2010 and corresponding property tax revenue decrease, assuming that all the restaurants display works of qualifying artists in order to take advantage of the property tax credit.

Prince George's County provides a tax differential for property located within municipalities to compensate municipalities for providing services in lieu of similar county services and to address the effect of double taxation in municipalities (when residents pay both county and municipal property taxes). For example, while the county's fiscal 2007 property tax rate is \$0.96 per \$100 of assessed value in unincorporated areas, the rate is lower within municipalities: \$0.937 in Brentwood; \$0.802 in Hyattsville; \$0.803 in Mt. Rainier; and \$0.949 in North Brentwood. Since most of the existing properties identified by SDAT are located in Hyattsville, the county property tax rate for that city is used to calculate the potential revenue loss associated with the proposed tax credit. It is assumed that the property tax credit would not apply to property tax rates imposed by the Maryland-National Capital Park and Planning Commission or the Washington Suburban Transit Commission.

Exhibit 2
Potential Effect of HB 626
FY 2008-2010

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Total Assessment	\$2,552,232	\$3,070,564	\$3,588,600
County Tax Rate (per \$100)	\$0.802	\$0.802	\$0.802
Tax Amount	\$20,469	\$24,626	\$28,781
Amount of Credit	50%	40%	30%
Revenue Decrease	(\$10,234)	(\$9,850)	(\$8,634)

Source: State Department of Assessments and Taxation; Department of Legislative Services

In addition, there are 403 commercial properties in the 4 municipalities, of which 89 are vacant and could potentially be used for restaurants in the future. SDAT has not been able to separate out the accounts in the two transit districts which are a part of Hyattsville and not in the arts and entertainment district. To the extent that other properties become restaurants, Prince George's County property tax revenues would decrease accordingly.

Small Business Effect: Small business restaurants that qualify for the credit would benefit by having a reduction in county property taxes. Other small businesses, such as restaurants currently located in an arts and entertainment district, bars, or microbreweries not located in a district that compete against businesses able to qualify for the credit could be negatively impacted by the bill as a result of being at a competitive disadvantage resulting from being assessed a higher tax burden.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Prince George's County, Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2007
ncs/hlb

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