

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1516
Ways and Means

(Delegate Hixson, *et al.*)

Budget and Taxation

Economic Development - Arts and Entertainment Districts - Qualifying Residing Artists

This bill broadens the definition of “qualifying residing artist” for an arts and entertainment district to mean an individual who (1) owns or rents residential real property in the State; (2) conducts a business in *any* arts and entertainment district; and (3) derives income from the sale or performance within *any* arts and entertainment district of an artistic work that the individual wrote, composed, executed, either alone or with others, in *any* arts and entertainment district.

The bill takes effect July 1, 2014, and is applicable to all taxable years beginning after December 31, 2013.

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2015 to the extent that additional and/or larger subtraction modifications are taken by qualifying residing artists under the bill. The amount cannot be reliably estimated at this time.

Local Effect: Local revenues decrease beginning in FY 2015 to the extent that additional and/or larger subtraction modifications are taken by qualifying residing artists under the bill. The amount cannot be reliably estimated at this time.

Small Business Effect: Minimal.

Analysis

Current Law: A “qualifying residing artist” means an individual who (1) owns or rents residential real property in the county where the arts and entertainment district is located; (2) conducts business in the arts and entertainment district; and (3) 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 alone or with others, in the arts and entertainment district.

Upon application from an eligible local government, the Secretary of Business and Economic Development may designate an area as an arts and entertainment district only if the area is a contiguous geographic area that is wholly within a priority funding area. An arts and entertainment district is a developed district of public and private uses that (1) is distinguished by resources that play a vital role in community development and contribute to the public through interpretive, educational, and recreational uses and (2) ranges in size from a portion of a political subdivision to a regional district with a special coherence.

Background: Chapter 608 of 2001 authorized the Department of Business and Economic Development (DBED) to establish arts and entertainment districts within a county or municipality. Counties and municipalities 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.

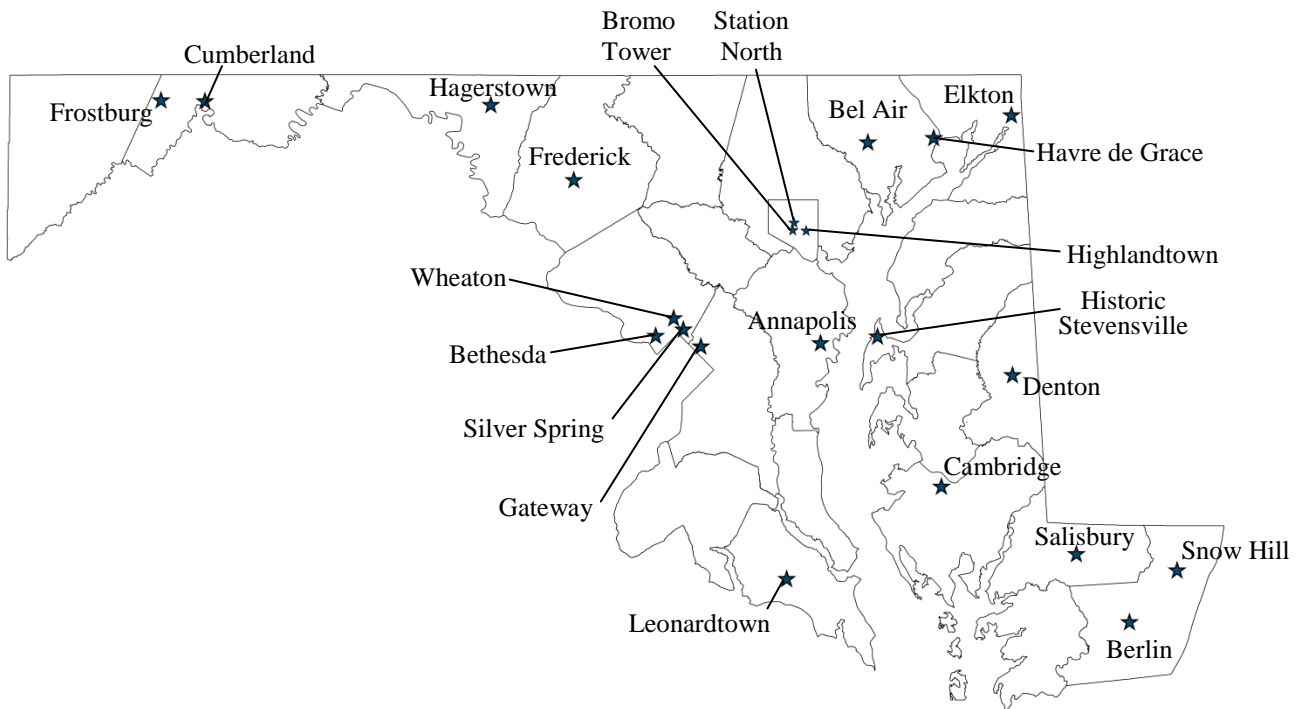
Several tax benefits are available in arts and entertainment districts:

- qualifying residing artists may claim a subtraction modification on State and local income taxes for the income derived within the district from the publication, production, or sale of artistic work created by the qualifying artist;
- a county or municipality may grant, by law, a property tax credit against the 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 to be capable for use by a qualifying artist or an arts and entertainment enterprise; and
- a county or municipality may exempt from the admissions and amusement tax gross receipts from any admissions or amusement charge levied by an arts and

entertainment enterprise or qualified residing artist in an arts and entertainment district.

The arts and entertainment district program is administered by DBED. There are currently 22 designated arts and entertainment districts. DBED notes that the process for designation requires public and community support, a substantial application submission, and committee review. The process exists to identify areas where there is significant community support and potential for success. The locations of current arts and entertainment districts are shown in **Exhibit 1**.

Exhibit 1
Arts and Entertainment Districts in Maryland
March 2014



Source: visitmaryland.org; Department of Legislative Services

State Revenues: General fund revenues decrease beginning in fiscal 2015 to the extent that additional and/or larger subtraction modifications are taken by qualifying residing artists who do not have to reside in the same county or do business in the same arts and entertainment district under the bill. The amount cannot be reliably estimated at this time.

DBED advises that there were approximately 1,400 artists registered under the program in 2012 and that 110 subtraction modifications totaling \$864,000 of qualifying income were taken in that year. Assuming an average State tax rate of 4.75%, the subtraction modifications resulted in an estimated general fund revenue reduction of \$41,000 in tax year 2012, or an average of \$373 per subtraction modification.

For illustrative purposes only, assuming the bill triples the number of subtraction modifications taken in each year (an additional 220) and an average general fund revenue decrease of \$373 per subtraction modification, general fund revenues decrease by approximately \$82,000 annually beginning in fiscal 2015. Actual revenue decreases may vary from this estimate, depending upon the number and value of the subtraction modifications claimed under the bill.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed under the bill. The amount cannot be reliably estimated at this time. *For illustrative purposes only*, under the same assumptions as above, local revenues decrease by approximately \$52,000 annually beginning in fiscal 2015.

It is unclear to what extent, if any, expanding the definition of qualifying residing artist further reduces local revenues due to potential local property tax credits and potential local exemptions from the admissions and amusement tax available under current law in arts and entertainment districts.

Additional Information

Prior Introductions: None.

Cross File: SB 1054 (Senator Pugh) - Budget and Taxation.

Information Source(s): Department of Business and Economic Development,
Department of Legislative Services

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ncs/rhh

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