



MARYLAND ARTS AND ENTERTAINMENT (A&E) DISTRICTS PROGRAM

Maryland's Designated A&E Districts - Tax Incentives Frequently Asked Questions

PROPERTY TAX CREDITS

1. What percent property tax credit is available in an A&E district, how long will it last, and is it consistent over the term offered?
The local jurisdiction may choose any period of up to 10 years for the duration of the property tax credit and any percentage up to 100%, but whatever it chooses must apply to all qualifying taxpayers. For example, there could not be different rates for space for qualifying residing artists than there are for arts and entertainment enterprises. The percentage and the manner in which the credit is applied are noted in the A&E application.
2. Will the property tax credits be granted to new buildings as opposed to buildings that are just renovated? *Yes, as of legislation enacted July 1, 2005. The building must be zoned commercial, manufacturing or industrial.*
3. Will an addition onto a building be considered a renovation?
All plans for additions to buildings for A&E District use will need to be reviewed by the Department Assessments and Taxation (D.A.T.) for use and proportionality of the project to ascertain the eligibility for the property tax credit. Please call Mike Griffin of the Department of Assessment and Taxation (DAT) at (410) 767-1249 for assistance.
4. What is the relationship between the number of years property tax credits may be granted and the designation term? *The statute states that a property tax credit may not be granted for more than 10 years. Each jurisdiction may decide what percentage credit to offer and for how many years, not to exceed ten. Even if the designation of an A&E district expires, the property tax credit continues to be available for a qualified renovated property in the district for the designated term of the credit. The determination of the A&E designation is independent of the possible length of term of the property tax credits.*
5. Can the property tax credit be granted for renovations exclusively for use by an arts and entertainment enterprise?
Yes, a property tax credit may be granted for the increased assessment due to renovations on a manufacturing, commercial or industrial building that is located in an A&E district and is wholly or partially renovated for use by a qualifying residing artist or an A&E enterprise.
6. Is the property tax credit for real estate or personal property?
The property tax credit is for real property only.

7. How substantial must renovations to an A&E enterprise be for the A&E property tax credits to apply? (**Example** – there is a café that renovates space or adds space for a jazz band. How much of the café, space-wise, must be dedicated to jazz band for the property tax credit to apply?)

*In general, for the property tax credits to apply, the entity or café, for example, must meet the definition of an "arts and entertainment enterprise" which is statutorily defined as a for-profit or nonprofit entity dedicated to visual or performing arts. Hence, if at the completion of renovation, the establishment is not dedicated to visual or performing arts, it will not be considered as an A&E enterprise, and therefore, is not eligible for the property tax credit that applies in the A&E Districts Program. The local government or Arts and Entertainment Coordinator will determine the applicant's eligibility while the local assessment office of the Department of Assessments and Taxation will determine the portion of the assessment that is subject to the credit based on the value of the qualifying renovations. **This will be determined on a case-by-case basis.***

8. How is the property tax credit determined?
The State Department of Assessments and Taxation will determine the increased value of the renovated arts related space. Please note that personal property (example: special lighting) and some improvements do not substantially add value to the real property. The local tax credit percentage is applied to the taxes attributable to the amount of the increased value.
9. How are renovations assessed?
The Department of Assessments and Taxation will not be aware of renovations unless a building permit is obtained. If a residential unit were subdivided out of the overall property, then this one property would receive an individual assessment that would reflect the increased value for that particular unit. Otherwise, for renovations that require the use of a building permit and are on units that are not legally subdivided, the assessment will be made on the total building structure's value. Further details may be obtained from your local office of Department of Assessments and Taxation.
10. Will the county be reimbursed half of the property tax credits just as the county is reimbursed in the Enterprise Zone Program?
No, there is no provision for reimbursement by the State. The county and/or municipality property tax credit as well as the admissions and amusement tax exemption reduces county and/or municipality tax revenues.
11. Is the local municipal real property tax affected?
If a municipal corporation applies for an A&E district designation, it must offer the real property tax credit upon approval. If a county applies, it is advisable for the municipal corporation to offer the real property tax credit for the portion of the district lying within the municipal corporation, to improve the chances of the district being approved by the Department of Business and Economic Development. In either case, the local municipal real property tax credit would be affected.

INCOME TAX SUBTRACTION MODIFICATION (INDIVIDUAL ARTISTS)

1. **How does the income tax subtraction modification work?**
The income tax subtraction modification works in the following manner: Qualifying residing artists will not pay any State or local income tax on qualifying income (although they still pay federal tax). Qualifying residing artists will deduct the qualifying income on the tax form before their state and local taxes are

calculated. A copy of this form can be obtained from the Maryland Comptroller's Office (Please see the Contacts section for information) or their website www.comp.state.us.)

2. How does one define a qualifying residing artist?
A qualifying residing artist must own or rent real property within the county or Baltimore City where the A&E District is located and derive income from the sale or performance within the A&E District of an original and creative work that the individual wrote, composed, or executed in the A&E District.
3. Will the income from the sales made by a qualifying residing artist in an A&E district outside of the one in which the artist creates, writes, composes or executes a work of art be counted toward the income tax subtraction modification?
No. Only income derived by an artist from the sale, performance or publication of an artistic work within the district where the artistic work is created and in which the artist conducts a business is eligible for the income tax subtraction modification.
4. Can a qualifying residing artist whose business is organized as a Limited Liability Company (LLC) take the income tax subtraction modification?
Even though an LLC is an entity, it is not an individual and therefore does not meet the statutory definition of a "qualifying residing artist," the state income tax law affords special treatment to a one member LLC. If the LLC has only one member, the LLC may be treated as an individual. Therefore, the LLC may be eligible for the income tax subtraction modification.
5. If most of an artist's income is made inside an A&E district but the artist also makes some Internet sales, can the Internet sales be counted toward the artist's income for the purposes of taking advantage of the income tax subtraction modification?
Income received by an artist from internet, mail order, and catalog sales of an artistic work created within the district qualifies for the income tax subtraction modification as long as the artistic work is also shipped from within the district.
6. For authors who write books, what constitutes a sale and how will it be verified?
Income derived from royalties, licenses, or other future revenues from the sale of reproduction or publishing rights does not qualify for the income tax subtraction modification. Authors who write books will only be allowed to claim the subtraction modification for income derived from books created, written or executed within and sold within the Arts & Entertainment District. Authors are responsible for maintaining receipts, books, accounts, and other documentation to verify their income from sales that qualify for the income tax subtraction modification.
7. What type of documentation is required for an artist to take advantage of the income tax subtraction modification?
Artists should retain invoices, receipts, certificates, photos and any other documentation to substantiate the sale and nature of the work sold.