



City of Havre de Grace Arts & Entertainment District
Frequently Asked Questions

Question. What are the benefits of the A&E district?

1. Income Tax subtraction

For *qualifying residing artists* in the A&E district

2. Exemption from the Admissions and Amusement Tax

Exemption from the Admission and Amusement Tax gross receipts from any admissions or amusement charge levied by an *arts and entertainment enterprise* or *qualifying residing artist* in the A&E district

3. Real Property Tax Credits

- a. Is located within the A&E district
- b. Was before renovation, a manufacturing, commercial, or industrial building
- c. Is wholly or partially constructed or renovated for use by a *qualifying residing artist* or *arts and entertainment enterprise*
- d. The real Property tax credits will be in the following amount over a ten year period
 - i. 100% in the first and second year
 - ii. 80% in the third and fourth year
 - iii. 60% in the fifth and sixth year
 - iv. 40% in the seventh and eight year
 - v. 20% in the ninth and tenth year

Question. What is a qualifying residing artist?

An individual who:

- a. Owns or rents residential real property in Harford County **and**
- b. Conducts a business in the A&E district **and**
- c. Derives income from the sale or performance within the A&E district of an artistic work that the individual created, wrote, composed, or executed, either solely or with one or more individuals, in the arts and entertainment district.

Question. What is an Arts and Entertainment Enterprise?

A for profit or not for profit entity dedicated to the visual or performing arts.

Question. What is qualifying artistic work?

An original and creative work that is CREATED, WRITTEN, COMPOSED, or EXECUTED and falls into one of the following categories:

1. A book or other writing
2. A play or performance of a play
3. A musical composition or the performance of a musical composition
4. A painting or other picture
5. A sculpture
6. Traditional or fine crafts
7. The creation of a film or the acting within a film
8. The creation of a dance or the performance of a dance
9. The creation of original jewelry, clothing, or clothing design

NOT INCLUDED is:

- The creation or execution of artistic work for industry-oriented or industry-related production
- Tailoring services
- Clothing alteration
- Jewelry repair

Question: "A magazine (sells advertising) of stories, poems, essays etc; is the magazine itself considered an `artistic work'?"

a. TG § 10-207(v)(1) provides that in that subsection, "artistic work" has the meaning stated in Article 83A, § 4-701 of the Code, which is "an original and creative work, whether written, composed, or executed, that falls into one of the following categories; 1. A book or other writing; ..."

b. "Would the individual owner/publisher be able to take the income tax subtraction modification on income earned from the magazine?"

Because the magazine does not fit the definition of "artistic work" under TG § 10-207(v)(1), the individual owner/publisher cannot claim the income tax subtraction modification provided under TG § 10-207(v)(2) for income earned from the magazine.

c. "Do Individuals paid for the stories they submit qualify for an income tax subtraction modification from them ?"

An individual author who is not an employee of the magazine would qualify for an income tax subtraction modification under TG § 10-207(v)(2) in the amount of the payment from the magazine for the author's original writing submitted to the magazine if:

- (i) The author conducts a business in the arts and entertainment district in which the author created the original writing (by submitting the author's original writing for sale to the magazine from within that arts and entertainment district); and
- (ii) The author owns or rents residential property in the county where that arts and entertainment district is located.

Question: "If an individual lives in the county and has a company in the district that reproduces another artist's work, does the income from the sales of the reproductions qualify for the modification?"

TG § 10-207(v)(2) provides that the income eligible for the subtraction modification is the amount of income derived from the publication, production, or sale of an artistic work that the artist wrote, composed, or executed in the arts and entertainment district. TG § 10-207(v)(1) provides that in that subsection, "artistic work" has the meaning stated in Article 83A, § 4-701 of the Code, which is "an original and creative work, whether written, composed, or executed, that falls into one of the following categories:..."

A reproduction is not an original work; therefore, a reproduction is not an "artistic work" for the purposes of TG § 10-207. Income from the sale of a reproduction is not income derived from the sale of an "artistic work";

therefore, income from the sale of a reproduction does not qualify for the subtraction modification under TG § 10-207(v)(2).

Question: "If a qualifying artist creates within the district, then sells wholesale to galleries around the country by internet or catalog sales from a sales "center" within the District does that qualify?"

COMAR 03.04.11.02(F) provides that income received by a qualifying artist from internet, mail order, and catalog sales of artistic work created by the artist within the district that is shipped from within the district qualifies for the subtraction.

Arts & Entertainment District Property Tax Credits

A county or municipal government may grant by law a property tax credit against county and municipal property taxes for up to 10 years for a qualified property in an Arts and Entertainment District. It is up to the local governments to determine in their ordinances the amount and duration of the credit. The early A&E districts followed the "Enterprise Zone Credit" model to grant credits on the difference between the new assessment on the property after renovations or construction and a base year assessment the year before the improvements are made. The examples listed below illustrate how the credit works under this type of credit provision.

Example 1:

An artist (painter) purchases a new studio/loft condominium residence in a former federal government office building converted into artists' residences and work space in the Silver Spring A&E District. The artist pays \$405,000 for the unit, and the property has a new full market value of \$385,000 according to the Department's assessment. The unit had a base year assessment in the prior year before the improvements were made of \$55,000. The artist will receive a property tax credit equal to the local taxes on \$330,000 of eligible assessment (\$385,000 assessment minus a \$55,000 base year assessment). The actual tax savings to this artist in Silver Spring are \$3,191.10 (\$330,000 assessment times a local tax rate of 0.967).

Example 2:

A developer buys a commercial building in Havre de Grace previously used as a shoe manufacturing facility for \$150,000. The existing assessment is \$90,000 on the land and \$60,000 on the improvements. Because of local fire regulations, the predominantly wood structure is demolished.

The developer then builds a new mixed-use facility that will be used for an artist supply store, a coffee house with a space for performing artist, and office space for a small graphic arts firm. For ease of discussion, each of the three respective uses occupy one-third of the total usable space. The Department places a new total full market value on the building and the land of \$750,000.

If all of the uses were qualified under the law as an A&E purpose, a credit would be granted on \$660,000 of assessment (\$750,000 total assessment minus \$90,000 base year assessment on the land). The reason why the credit is granted on the newly constructed premises is because of the change in the law in the 2005 session and because the particular property was zoned for commercial use at the time of demolition.

Based on three different uses in the new building, here is how the new credits will actually be applied. One-third of the total assessment equals \$250,000, and this amount is eligible because of its use as an artist supply store. The second section of the building is used as a coffee shop with a performing artist space but only \$25,000 of assessment represents the value of the performing artist space. The final one-third of the

building to be occupied by a graphic arts firm is not eligible for any A&E credit because "industry-related" uses are excluded under the law at Article 83A. § 4-701(a)(2)(iii).

The total amount of A&E credit for this mixed-use building would be granted on \$242,000 of assessment (\$250,000 for the supply store; \$25,000 for the small performing artist space, and the deduction of \$33,000 of base assessment from the total \$90,000 base year assessment on the land). Multiplying the \$242,000 of eligible assessment times the local tax rate of \$0.967 equals \$2,340.14 in actual tax savings.

Examples Prepared by: State Department of Assessments and Taxation - 6-27-06

For further information contact:

Meghan Simmons (410) 939-1800 or via e-mail meghans@havredegracemd.com