

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 646

(Senator Lawlah, *et al.*)

Budget and Taxation

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Income Tax - Subtraction Modification for Security Enhancements in Apartment  
Buildings

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This bill creates a subtraction modification against the State income tax for one-time security expenses at apartment buildings with four or more residential units. Eligible expenses include the one-time costs of installing alarm systems, cameras, gates, lighting, and lock and key systems. Expenses incurred that are necessary to meet any applicable State or local minimum security standard or ordinance do not qualify for the subtraction modification.

The bill takes effect July 1, 2006 and applies to tax year 2006 and beyond.

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Fiscal Summary

**State Effect:** The impact on State revenues cannot be reliably estimated at this time. Under one set of assumptions, State revenues could decrease by approximately \$3.2 million annually beginning in FY 2007. No effect on expenditures.

**Local Effect:** Local income tax revenues and local higher user revenues distributed from the Transportation Trust Fund (TTF) would decrease. Under the assumptions above, local revenues could decrease by \$950,000 annually beginning in FY 2007, which represents \$137,000 in local highway user revenues and \$813,000 in local income tax revenues. No effect on expenditures.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** No similar State subtraction modification or tax credit exists. However, security expenses can be deducted as a business expense, which typically results in a lower federal and State income tax liability.

**Background:** Maryland's crime rates are among the highest in the nation. According to the FBI's *Uniform Crime Report for 2004*, when excluding the District of Columbia, Maryland had the nation's third highest murder rate and the fourth highest robbery rate. The FBI recorded 520 murders in Maryland compared to 390 in Virginia, even though Virginia has over 1.7 million more residents.

The Prince George's County Executive, citing concern over crime at large apartment complexes, recently announced plans to introduce legislation that would require apartment complex owners to submit security plans. To date, no legislation has been introduced or enacted.

The costs of eligible security expenses as proposed by SB 646 vary significantly based on the level of security desired and the size of the apartment complex. The installation of alarm systems can typically cost \$250 for one access point and a total of several thousand dollars at larger complexes. Camera surveillance system costs can range between \$5,000 to \$10,000 at smaller complexes and several hundred thousand dollars at larger complexes. A camera surveillance system recently installed at a large apartment complex located in the region cost approximately \$500,000. Gating costs can vary as well. A security firm recently gated a large apartment complex at a cost of approximately \$170,000.

**State Revenues:** The actual cost of the bill, which cannot be reliably estimated at this time, depends on the number of taxpayers claiming the deduction and the total amount of eligible security expenses expended.

However, *for illustrative purposes only*, State revenues could decrease by approximately \$3.2 million annually beginning in fiscal 2007 based on the following facts and assumptions:

- there are approximately 38,400 apartment complexes with four or more units and 3,200 complexes with 20 or more units;
- 10% of all apartment complexes with four or more units deduct an average of \$10,000;

- 1% of all apartment complexes with 20 or more units deduct an average of \$500,000; and
- businesses claiming the deduction have State income tax liabilities.

This estimate assumes that security expenses at only 10% of eligible apartment complexes will be claimed as deductions in any given year. If the security expenses at additional apartment complexes are claimed as deductions, State and local revenues would decrease accordingly.

State revenues would decrease by a maximum of \$23,750 for a taxpayer claiming the deduction against the personal income tax and \$35,000 for claims against the corporate income tax.

**Small Business Effect:** Small businesses that qualify for the subtraction modification would benefit from the double-benefit of claiming the subtraction modification in addition to deducting security expenses as a deductible business expense.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1128 (Delegate Brown, *et al.*) – Ways and Means.

**Information Source(s):** U.S. Census Bureau, Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2006  
ncs/hlb

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