

Department of Legislative Services  
Maryland General Assembly  
2012 Session

FISCAL AND POLICY NOTE

House Bill 993  
Ways and Means

(Delegate Beidle, *et al.*)

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**Income Tax - Subtraction Modification - Conversion to Individual Unit Utility  
Metering**

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This bill creates a subtraction modification against the State income tax for the expenses incurred by an individual condominium unit owner to convert from master-metering to individual unit-metering for the purposes of calculating electric, gas, or water utilities.

The bill takes effect July 1, 2012 and applies to tax year 2012 and beyond.

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**Fiscal Summary**

**State Effect:** General fund revenues may decrease significantly beginning in FY 2013 due to subtraction modifications claimed against the personal income tax. General fund expenditures increase by \$22,000 in FY 2013 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

**Local Effect:** Potential significant decrease in local revenues beginning in FY 2013 due to subtraction modifications claimed against the personal income tax. Expenditures are not affected.

**Small Business Effect:** Minimal.

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## Analysis

### Current Law:

#### *Income Tax*

No similar State income tax subtraction modification or credit exists. Expenses incurred by an individual to convert the metering method of a principal residence, including a condominium, are generally not deductible. The owner of a condominium that is income-producing property may be eligible to recover certain costs incurred in order to convert the method of metering through specified federal income tax provisions, which typically results in a lower federal, State, and local income tax liability.

#### *Utility Metering*

“Energy allocation system” means a method of determining the *approximate* energy use consumed within a dwelling unit with the use of a measuring device.

“Submetering” means the installation of equipment for the purpose of determining the *actual* use of electricity or gas per residential unit or commercial rental unit.

The Public Service Commission (PSC) authorizes, by regulation, an owner, operator, or manager of an apartment house (including a condominium), office building, or shopping center with a master meter to install submeters for determining the actual use of electricity or gas per unit.

A unit may not be submetered unless all units in that building are submetered. An owner, operator, or manager of an apartment house, office building, or shopping center who installs submetering equipment may not impose any utility costs other than those that PSC authorizes and the gas or electric company actually imposes.

Approval from PSC is required before an energy allocation system may be used by the owner, operator, or manager of an apartment house to determine the amount of gas or electricity used by an individual dwelling unit, if the amount of gas or electricity is determined by means other than by the actual measurement of fuel or electric power consumed by the unit. PSC may approve an energy allocation system upon a demonstration by the owner that the system results in a reasonable determination of the cost of the energy use within a dwelling unit. The owner, operator, or manager may not use the energy allocation system to bill energy costs to tenants of an individual dwelling unit without PSC approval.

**Background:** The Secretary of State reports that 2,544 total condominiums are registered in Maryland. The office estimates that approximately 2,000 of these registrations are active.

When a developer constructs a new apartment building, the developer must select either individual electric and gas meters for each occupancy unit or a master-meter arrangement, where the owner is able to bill tenants for electricity charges. A building owner who selects a master-meter arrangement must determine electric and gas charges for tenants by installing submeters which measure actual energy use and are approved by PSC. However, in apartment buildings, centralized heating, ventilation, and air conditioning systems may offer greater efficiencies than having individual systems for each building occupant. As a result, PSC may authorize an energy allocation system to enable a building owner to bill building occupants for heating and cooling costs.

The purpose of submetering is to encourage effective conservation and efficient use of utilities by fairly allocating cost among the ultimate users within a master-metered apartment house, office building, or shopping center. According to the U.S. Environmental Protection Agency (EPA), submetering is reported to reduce water usage by 20% to 40%.

**State Fiscal Effect:** This bill creates a subtraction modification against the State income tax beginning in tax year 2012 for costs related to converting from master metering to individual unit metering for certain utilities. Accordingly, general fund revenues may decrease significantly beginning in fiscal 2013. However, the amount of the revenue loss cannot be reliably estimated and depends on the amount of eligible expenses claimed by individuals.

The Comptroller's Office reports that it will incur a one-time expenditure increase of \$22,000 in fiscal 2013 to add the subtraction modification to the personal income tax return. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Public Service Commission, Secretary of State, U.S. Environmental Protection Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2012  
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