

**SFA**

BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

House Bill 4276 (as reported without amendment)

Sponsor: Representative Lloyd F. Weeks

House Committee: Taxation

Senate Committee: Finance

Date Completed: 9-25-90

**RATIONALE**

Application of the property tax to liquified petroleum gas (LPG) tanks used by homeowners and farmers has been a subject of some controversy in recent years. For safety reasons, LPG tanks must be located away from the structures that they serve, and be installed above the ground. In the vast majority of cases, LPG tanks are owned by the LPG distributor and leased to the customer. Because the tanks are owned by the distributor and not the homeowner, some assessors have taxed the tanks as the personal property (inventory) of the distributor. Presumably, this personal property tax is passed through to the homeowner. Some people feel this has caused an inequitable application of the tax between persons who use LPG heating systems and people who use other types of energy, such as fuel oil.

It has been argued that while a fuel oil tank (which most often is located within or buried next to a structure) is taxed as part of the real property assessment applied to a home's heating system, an LPG tank is subject to the personal property tax in addition to the real property assessment applied to the heating system of the home it serves. It is claimed, therefore, that a homeowner with an LPG tank pays not only the usual portion of the property tax generated by the value of his or her home's heating system, but also the personal property tax that has been assessed to the LPG distributor and passed through to the homeowner. Further, some have claimed, the tax has been applied to LPG tanks by some assessors and not by others, meaning that the tax reputedly has been unevenly applied across the State. It has been suggested that a solution to the concerns surrounding the application of the property tax to LPG tanks

would be to exempt the tanks from taxation when used by homeowners or farmers.

**CONTENT**

The bill would amend the General Property Tax Act to exempt from personal property taxes liquefied petroleum gas tanks located on residential or agricultural property and used to store LPG for residential or agricultural use.

The bill contains a January 1, 1990, effective date.

MCL 211.9

**FISCAL IMPACT**

The bill would result in an indeterminate revenue loss of local property taxes. No direct data exist on the value of LPG tanks in the State. Based on data from a recent survey by the Michigan LP Gas Association, the bill would result in a potential loss of local property tax revenue of \$3 million to \$4 million per year, if all residential tanks were subject to the property tax. The same survey, however, found that in 1987 only 10% of residential LPG tanks were currently being taxed, generating an estimated \$410,000 in local property taxes.

**ARGUMENTS****Supporting Argument**

The bill would put LPG tanks on an equal footing with fuel oil tanks regarding the assessment of property taxes. While LPG tanks are taxed as personal property to the distributor (with the cost passed on to the homeowner), in

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addition to the normal real property assessment applied to a home's heating system, fuel oil tanks simply are taxed as part of a home's heating system. Why should two identical homes that differ only in their heating systems be taxed in different manners? Since LPG distributors and fuel oil distributors are often in competition in rural areas for the same business, the bill would remove a disadvantage now felt by LPG companies.

#### **Opposing Argument**

The bill represents a further erosion of the property tax base, benefitting in particular LPG companies at the expense of local units and school districts that depend upon property taxes for their main source of revenue. The personal property tax is most often a business property tax, as has been pointed out in this instance: it does not treat one resident more harshly than another.

**Response:** Companies pass taxes along to consumers. If a product is more expensive than another because it is taxed more heavily than the other, then the consumer will probably end up paying for that extra expense.

#### **Opposing Argument**

By exempting LPG tanks, the bill would set a bad precedent for local units that rely upon property taxes generated by the personal property tax. There are several other industries that pay personal property taxes on equipment that serves homes: cable television companies pay taxes on cable equipment installed in houses; phone companies pay property taxes on equipment leased to homeowners; natural gas companies pay taxes for meters and gas lines leading into houses; and electric companies pay taxes on lines and hook-ups. If the bill passed, each of these industries could request that the equipment upon which they pay personal property taxes also be exempted from the tax.

Legislative Analyst: G. Towne

Fiscal Analyst: G. Olson

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