SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 842 (as reported with amendments)
Sponsor: Senator Norman D. Shinkle
Committee: Finance

Date Completed: 6-1-88

RATIONALE

Under the General Property Tax Act some assessors in the State tax Liquified Petroleum Gas (LPG) tanks used for residences as personal property. The tax is levied on the owner of a tank: reportedly, because new tanks are expensive and have to periodically be recertified, tanks are usually owned by the companies that sell the gas. There are those who contend that this practice is unfair tax treatment, and places LPG companies at a competitive disadvantage with companies that deal in fuel oil. Fuel oil tanks are often buried or placed in the basement of a house, and are therefore unobservable by assessors, but LPG tanks are usually somewhere in a users yard in plan sight. Some people feel that LPG tanks should be exempted from the personal property tax to give them equal tax treatment with oil tanks.

CONTENT

The bill would amend the General Property Tax Act to exempt from personal property taxes LPG tanks used to store LPG for residential property use.

The bill would take effect January 1, 1989.

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 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 levying of personal property taxes. Because LPG tanks are usually in plain sight they are assessed as personal property to the owner of the tank, while buried or indoor fuel oil tanks are not seen and are therefore not taxed. 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, benefiting 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

The contention that fuel oil tanks are not taxed may not be true. There are those who claim that fuel oil tanks either buried or placed indoors are taxed as being part of the real property because they add value to the property when the property is sold. There are also those who contend that hook-ups for natural gas are taxed as part of the real property. If this is so, then exempting LPG tanks would actually be creating an inconsistent tax treatment of heating systems, rather than eliminating inconsistent taxation.

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S.B. 842 (6-1-88)