



**House
Legislative
Analysis
Section**

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WATER CONDITIONER EXEMPTION

**House Bill 4407 with committee
amendments
First Analysis (3-28-95)**

**Sponsor: Rep. Terry Geiger
Committee: Tax Policy**

THE APPARENT PROBLEM:

Representatives of companies that rent or lease out water conditioning systems to residential customers are requesting an exemption for those systems from the personal property tax. The companies are required now to report on and pay taxes on water conditioning systems in each local unit in which they are installed. (The companies say that homeowners who purchase systems do not owe property taxes on them.) Industry representatives complain that this tax is an administrative burden (and a burden to local officials) all out of proportion to the tax collected.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act to provide an exemption from personal property taxes for water conditioning systems used for residential dwellings.

MCL 211.9

FISCAL IMPLICATIONS:

There are conflicting estimates of the loss to local units of government from this bill. Representatives of the Michigan Water Quality Association, the water conditioning system trade association, in testimony before the House Tax Policy Committee, estimated the loss of revenue at \$40,000 to \$50,000 (with \$100,000 an outside estimate). A representative from the Michigan Township Association estimated the loss of revenue at \$134,486 (with \$7,906 lost to townships) based on a survey of about 50 townships. (Testimony on 3-23-95)

ARGUMENTS:

For:

The personal property tax on water conditioning systems poses an administrative burden for

companies that lease or rent them to residential customers. A small company might have units installed in 15 to 20 different local units of government and then have to report to and pay taxes to each unit. The administrative headaches to the industry and to local officials are not worth the small amounts of revenue derived from this source. The personal property tax is due when residences lease or rent systems from companies; homeowners who buy them do not have to pay the tax.

Against:

A representative of townships has estimated the loss to local units of government from this exemption at over \$134,000. This is not inconsequential. If companies report properly, it is not a difficult tax to administer. (Of course, if they don't fulfill reporting requirements, it is a very hard tax to administer for local units, particularly small units of government.) The fact that a tax can be difficult to administer is not, in and of itself, a good criterion for providing a blanket exemption. Even if there are instances where a company's cost of compliance is greater than its tax, that is not by itself justification for a blanket exemption. Furthermore, it is not fair to say that taxes are only due if water conditioning systems are rented or leased. A system that is purchased is taxed as part of the value of the property. The handbook that guides assessors indicates that an automatic water softener adds \$770 to the value of a home.

Response:

Inquiries by one legislative staffer indicated that assessors do not in fact add value to residential property because of a water softening or conditioning system.

POSITIONS:

The Michigan Water Quality Association supports the bill. (3-23-95)

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The Michigan Townships Association is opposed to the bill. (3-23-95)

The Michigan Municipal League is opposed to the bill. (3-23-95)