

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2409-01
Bill No.: SJR 28
Subject: Constitutional Amendments; Taxation and Revenue - Property
Type: Original
Date: April 8, 2019

Bill Summary: This proposal exempts personal property over ten years old from property tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (\$7,800,000)	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0 or (\$7,800,000)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Blind Pension (0621)	\$0	\$0 or could exceed (\$3,148,387)	\$0 or could exceed (\$3,148,387)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or could exceed (\$3,148,387)	\$0 or could exceed (\$3,148,387)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0 or could exceed (\$97,550,341)	\$0 or could exceed (\$97,550,341)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal requires voter approval; therefore, neither Total State Revenue nor the calculation under 18(e) would be impacted.

This proposal would exempt all personal property greater than 10 years old from property tax. B&P is unable to determine the amount and value of property in Missouri that would qualify under this proposal; however, B&P assumes that it may be a significant amount. Therefore, B&P estimates that his proposal may have a significant negative impact to the Blind Pension Trust Fund.

This proposal may also have a significant negative impact on school districts, counties, and local political subdivisions.

Officials at the **Department of Revenue (DOR)** assume this proposal exempts from taxation all personal property in excess of ten years old. According to the "State Tax Commission Annual Report – 2017," the total assessed valuation for tax year 2017 for Personal Property Tax equals \$20,226,071,288. In Missouri, personal property includes cars, trucks, boats, aircraft, farm equipment and machinery and some commercial equipment. According to Department data, out of the 6,108,372 registered personal property in Missouri, 3,240,709 are in excess of ten years old, which is 53 percent. The Department notes that aircrafts and some farm equipment are not registered with the Department of Revenue.

The State Tax Commission states that once an item has been calculated to its "Assessed Value" that the amount can be multiplied by the applicable tax rate (which would be based on location) in order to calculate the amount of tax levied or owed.

Tax-rates.org states that Missouri's counties collect, on average, 0.91% of a property's assessed fair market value as property tax.

The Department multiplied the total assessed valuation for tax year 2017 for Personal Property Tax by the average percent assessed in Missouri on property to estimate the total decrease to revenues of Missouri's localities. The Department estimates that the revenues of Missouri local jurisdictions could decrease by \$97,550,341 ($\$20,226,071,288 \times 53\% \times .91\%$) each fiscal year, beginning in FY 2021.

ASSUMPTION (continued)

The amount collected in the Blind Pension Fund in Fiscal Year 2017 was \$31,614,445, as reported in the Missouri Department of Revenue's Financial and Statistical Report – Fiscal Year 2017. Missouri Tax Commission reports that approximately 18.79% of the Total Assessed Valuation of Property for Tax Year 2017 is attributed to Tangible Personal Property. The Department estimates that the Blind Pension Fund could decrease by \$3,148,387 each fiscal year ($\$31,614,445 \times 18.79\% \times 53\%$).

Officials at the **Office of the Secretary of State (SOS)** assume each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY 2019, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the

ASSUMPTION (continued)

cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2019. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled statewide primary election is in August 2020 and the next scheduled general election is in November 2020 (both in FY 2021). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2020.

Officials at the **State Tax Commission** reported the total elimination of the personal property tax would result in a loss of \$1.3 billion - \$1.5 billion in annual revenue to the over 2,800 local taxing jurisdictions (school districts, cities, counties etc). This proposal exempts personal property over ten years old, the agency does not have the data to determine how many or percentage of assets fall within this criteria. This proposal would have an unknown negative fiscal impact on local taxing jurisdictions as it removes an unknown amount of personal property from current taxation.

Officials at the **Clay County Assessor** assume this would result in a loss of \$50 million in tax revenue. The County has a lot of equipment and vehicles over 10 years old.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other county assessors were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov

Oversight notes the following classifications of personal property:

Class	Assessment Rate
Class I: Grain (crops)	½ of 1% of market value
Class II: Livestock	12% of market value
Class III: Farm machinery	12% of market value
Class IV: Vehicles	33 1/3% of market value
Class V: Manufactured Housing	19% of market value
Class VI: Historic vehicles	5% of market value
Class VII: All other property	33 1/3% of market value

ASSUMPTION (continued)

Oversight notes that DOR’s estimate of fiscal impact is limited to simply the number of vehicles, trailers, boats, etc. that are registered with their department and the age breakout of this property. It doesn’t take into account the value of the property, which usually decreases as it ages. However, Oversight has no information regarding the age breakout of the Missouri Tax Commission’s 2017 total assessed valuation for Tangible Personal Property of \$20.2 billion, plus personal property of centrally assessed companies, another \$1.06 billion (total of \$21.3 billion).

For comparison, Oversight will show the potential impact if 5%, 10%, and 20% of the above personal property were no longer subject to personal property tax.

Percentage of assessed valuation for personal property for property in excess of 10 years old	Assessed valuation - as a percentage of \$21.29 billion	Personal property taxes (assuming levy of \$7.00 per \$100 assessed valuation)
5%	\$1,064,483,736	\$74,513,862
10%	\$2,128,967,472	\$149,027,723
20%	\$4,257,934,944	\$298,055,446

As stated above, Oversight doesn’t have information on how to break out the total assessed valuation of property to that which is older than ten years; therefore, Oversight will reflect DOR’s estimate (of a total of \$100.7 million combined state and local) and state the actual amount “could exceed” DOR’s estimate.

Oversight will assume the reduction in property taxes (assuming taxing entities are not able to shift the tax burden onto property not yet ten years old by raising the tax levy) will begin for calendar 2020 (to be paid in FY 2021).

<u>FISCAL IMPACT - State Government</u>	FY 2020 (6 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Transfer Out - Local Election Authorities</u> the cost of the special election if called for by the Governor	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>

FISCAL DESCRIPTION

Current constitutional provisions provide a list of the types of property that shall or may be exempted from property taxation. This constitutional amendment, if approved by the voters, exempts all personal property in excess of ten years old.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Clay County Assessor
Department of Revenue
Office of Administration Division of Budget and Planning
Office of the Secretary of State
State Tax Commission



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April 8, 2019

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