

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4081S.01I
Bill No.: SB 715
Subject: Taxation and Revenue - Property; Counties; Political Subdivisions
Type: Original
Date: January 25, 2022

Bill Summary: This proposal authorizes a property tax credit for certain senior citizens.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue*	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
Total Estimated Net Effect on General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown

*If taxing jurisdictions adopt a property tax credit as described in the bill, this may result in a potential reduction in the state's Senior Property Tax Credit program, thereby increasing state income tax collections. Oversight does not anticipate the savings to reach the \$250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	0	0	0

- ☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- ☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** have determined an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The legislation allows a taxing district to exempt taxpayers sixty-five years or older from increases in the rate of property tax. Such exemption shall either be approved by the governing body of the taxing district or approved by the voters in the local taxing district. The agency would not have data to determine how many of the 1,061,775 Missourians over sixty five who meet the proposed criteria and eligibility or how many of the 2,900 taxing jurisdictions may choose to grant the exemption from increases in the rate of property tax.

Officials from **Office of Administration - Budget and Planning (B&P)** assume this proposal would grant a property tax credit on the homestead of individual age 65 and older. Qualifying individuals must own their home and have income that does not exceed \$65,000 if filing single, head of household, or married filing separate and \$130,000 if married filing combined.

A taxing jurisdiction must receive voter approval before granting the property tax credit. The property tax credit would be equal to the difference between the property tax liability in the current tax year versus the property tax liability the year in which the qualifying individual turned 65. The property tax credit amount must be included on the individual's property tax bill.

B&P notes that this proposal would become effective on August 28, 2022. Further, it would require public votes in all jurisdictions with a property tax levy. B&P assumes that the first potential public votes would not occur until April 2023. Therefore, B&P assumes that any potential property tax credits would not be granted until tax year 2023 at the earliest.

B&P further notes that a county assessor handles property taxes assessments and billings. However, within that county may be multiple different property tax levy districts with multiple different boundaries. Some districts within a county may approve the property tax credit, while other districts do not. In addition, the county assessor would be responsible for calculating two assessments per qualifying property each year: one assessment for the current tax year and one assessment for the tax year that the qualifying individual turned 65.

B&P also notes that this could be problematic when qualifying individuals move between taxing jurisdictions. In these instances, the county assessor would have to determine the market and assessed value of the real property when that individual turned age 65 as well as the prevailing property tax levy rates at the time in order to determine the property tax liability that all future credits would be based on.

Therefore, this proposal could create a significant administrative burden on county assessors.

This proposal requires voter approval and will therefore not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** assume this proposal would freeze any increase in the assessed valuation rates of any property taxes levied on any property owned by an individual who has attained an age of at least sixty-five years and who does not have income in excess of \$65,000 if single or \$130,000 if married filing combined. This proposal does not completely eliminate what is currently owed, but would slow the rate of growth of property taxes collected in the future.

This proposal would require each political subdivision wanting to freeze the property tax of these seniors to hold an election. It is assumed the first available election that local political subdivision could put this on the ballot would be the April 2023 municipal election. The Department will assume this would start October 1, 2023, the second quarter after passage of this proposal. This would change the property tax rate during the middle of a tax year.

If no local political subdivisions adopt an ordinance, this proposal will have no fiscal impact. Should any local political subdivisions choose to adopt the ordinance then that local political subdivision would receive less property tax and the state may be impacted.

The only property tax collected by the State is for the Blind Pension Fund. The Missouri Blind Pension Fund is a fund for payment of pensions for the blind. The tax, or collection for the fund, consists of 3 cents on each \$100 valuation of taxable property in the State of Missouri. Should the valuation of property hold the same, then this could result in future lost revenue.

The state may also have impact to the Senior Property Tax Credit. Some seniors paying property tax are eligible to receive the senior property tax credit. Claims for the credit are based on the actual amount of property tax paid. Freezing the property tax rates will result in a savings of future lost revenue (due to increasing property tax rates).

The Department is unable to determine how much of the total valuation of real property in tax year 2020 is attributed to properties owned by individuals who would qualify for this future real property tax freeze. The Department is also not able to predict if any political subdivisions will adopt this proposal or when they may adopt it; and therefore the impact of this proposal is unknown.

Officials from the **Department of Social Services** and the **Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Officials from the **St. Louis County Department of Public Health** state their budget receives its funding from property taxes. Any reduction in property taxes would result in the department having to reduce or eliminate critical health services, such as primary health care, that their residents need and rely upon. The amount of revenue loss for years 2023, 2024 and 2025 is unknown.

Officials from the **Newton County Health Department, Jackson County Election Board, Platte County Election Board** and the **St. Charles Community College** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight assumes this proposal would grant qualifying individuals tax credits for the increases in property taxes.

Oversight notes, per Article III Section 38(b) of the Missouri Constitution, the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)*.03). Oversight notes this proposal does not appear to alter a property's assessed value. Therefore, Oversight assumes this proposal would not impact the Blind Pension Fund.

However, **Oversight** notes the Blind Pension Fund receives increased property taxes from increases in assessed value. For example:

Assessed Value Year 1 = \$100,000

Blind Pension Tax Liability = $(\$100,000 / 100) * .03 = \30

Assessed Value Year 2 = \$110,000

Blind Pension tax liability = $(\$110,000 / 100) * .03 = \33

For purposes of this fiscal note, **Oversight** assumes qualifying tax payers would still pay the increases due to the Blind Pension Fund. If this assumption is incorrect, this could potentially change the fiscal impact as presented in this fiscal note.

Based on Demographic Characteristics for Occupied Housing Units from the United States Census Bureau, Oversight notes there are 517,775 owner occupied housing units where the age of the householder is 65 years of age or older. Oversight is uncertain how many of these homeowners would have qualifying income or how many taxing districts would approve the tax credits. Therefore, Oversight will show a range of impact of \$0 (not voter approved) to an unknown loss in revenue to local political subdivisions.

In addition, **Oversight** assumes there could be costs to implement and monitor individual credits for local taxing entities which approve a property tax credit. Oversight will show a range of impact of \$0 (no subdivision ordinance or voter approval) to an unknown cost to local political subdivisions for implementation.

The proposal states property tax credits be submitted for a vote in each jurisdiction. Oversight assumes the first available election could be April 2023. Oversight assumes there could be election costs for local taxing entities occurring in FY 2023.

Alternatively, a jurisdiction could adopt an ordinance authorizing the credits. **Oversight** assumes the earliest tax credits could be granted is calendar year 2022 with impacted revenues occurring in FY 2023 (December 2022).

Oversight will show a range of impact of \$0 (not ordinance or voter approved) to an unknown savings to General Revenue from a reduction in Senior Property Tax Credit due the issuance of local property tax credits. Oversight does not anticipate the savings to exceed \$250,000.

Oversight received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in Oversight's database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
<u>Savings</u> - reduction in Senior Property Tax Credits due the issuance of local property tax credits - §137.103 - p.5	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Costs</u> – vote on implementing property tax credits - §137.103 - p.6	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Costs</u> – implementation and monitoring of property credits - §137.103 - p.5	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Revenue Loss</u> – from property tax credit - §137.103 - p.5	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act authorizes a taxing jurisdiction to grant a property tax credit to eligible taxpayers residing in such taxing district, provided such taxing jurisdiction has adopted an ordinance authorizing such credit, or a petition in support of such credit is submitted to and approved by the voters, as described in the act.

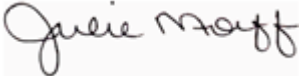
Eligible taxpayers are defined as residents who 1) are at least 65 years of age; 2) are the owner of record of or have a legal or equitable interest in a homestead; 3) have an income of less than \$65,000 if filing single, married filing separate, or head of household, or \$130,000 if filing married combined; and 4) are liable for the payment of real property taxes on such homestead.

The amount of the property tax credit shall be equal to the difference between the real property tax liability on the homestead in a given year minus the real property tax liability on such homestead in the year in which the eligible taxpayer turned 65.

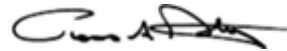
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Social Services
Department of Revenue
Office of the State Auditor
St. Louis County Health Department
Newton County Health Department
St. Charles Community College



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January 25, 2022



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