COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0301S.01I
Bill No.: SB 8
Subject: Taxation and Revenue - Property; Political Subdivisions
Type: Original
Date: January 13, 2023

Bill Summary: This proposal reduces the assessment percentage of personal property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2074)
General Revenue*	$0	$0	$0 or (Unknown)	$0 or (Unknown)
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**

*Oversight assumes the state reimbursement to political subdivisions authorized in 137.115.1(5) could exceed the $250,000 threshold. This reimbursement is subject to state appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2074)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2074)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2074)
Total Estimated Net Effect on FTE	**0**	**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 2024	FY 2025	FY 2026	Fully Implemented (FY 2074)
Local Government	**$0**	**$0**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Reduction in the Assessment Percentage of Personal Property

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would reduce the assessment percentage for personal property each year, starting with tax year 2024 and ending tax year 2073. B&P notes that the assessment percentage for personal property is currently 33.3%. The reduction in the assessment percentage will be by an amount that would offset increases in assessed valuation of real property each tax year. In other words, the revenues generated under the personal property tax would be reduced by an amount to offset any revenue gains from increased real property values.

B&P notes that the reduction in the assessment percentage must only offset the increase in the real property assessed value, up to the consumer price index (inflation) between the two years. Therefore, if housing prices increased by 7%, but CPI only increased by 2%, the reduction in personal property would offset the 2% inflation limit.

B&P further notes that Section 137.115.1(4) states that the state assessment under Article III, Section 38(b) of the Missouri Constitution shall remain at 33.3%. Article III, Section 38(b) of the Missouri Constitution applies to the Blind Pension Trust Fund and the state property tax levy of $0.03 per $100 valuation. Therefore, this proposal will not impact TSR or the Blind Pension Trust Fund.

B&P notes that under this proposal, county assessors would have to maintain two sets of calculations for personal property. One for the reductions on local assessments as required under this proposal and another for the Blind Pension Trust Fund state assessment. B&P defers to local jurisdictions for more specific impacts.

Subdivision (5) would allow political subdivisions to receive reimbursement from the state, subject to appropriation, if the reduction in the personal property tax assessment rate results in lower total property tax collections within that political subdivision than the constitutionally allowable amount.

Officials from the **State Tax Commission** assume this proposal has an unknown fiscal impact. Assessment reductions will impact negatively the revenue for school districts, counties, cities and other taxing jurisdiction who are supported by property taxes. SB 8 clearly requires the assessor to determine the true market value and assessed value for real and personal property. The bill also requires the approximately 3,000 political subdivisions to adjust the assessment percentage used to calculate the assessed value of personal property based on the amount of tax collected the previous year for real property. The political subdivisions are responsible for adjusting levies to comply with the Hancock amendment based on the assessments provided by the assessor so it is unclear how the percentage reduction in assessed value is to be calculated. It is unknown if the reduction in the percentage is to happen before or after the levy rollback. It is also unclear whether the adjustment is to be based on taxes collected or taxes billed by the collector. Several counties and political subdivisions see very little growth in real property assessments each year, so the effect of this bill would be minimal, while counties with large growth could see large reductions in personal property tax collections.

Officials from the **Department of Revenue (DOR)** note current law requires that personal property be assessed at 33.3% of its true value in money as of January 1st of each calendar year. This proposal would require the assessor to use a different formula for determining personal property tax. Starting January 1, 2024, the assessor would need to annually reduce such percentage such that the amount by which the revenue generated by taxes levied on such personal property is reduced is substantially equal to one hundred percent of the growth in revenue generated by real property assessment growth.

This reduction in the rate is to continue through December 31, 2073, at which time the rate will remain the same for each year going forward. Additionally, if a political subdivision receives less tax revenues for a calendar year, they can seek reimbursement from the state.

Property tax assessments are handled by county assessors and the State Tax Commission. This provision does not impact DOR and the department defers to the State Tax Commission and the counties for their estimated fiscal impact.

DOR notes this proposal does say that in order for the assessors to calculate the amount owed to the constitutionally created Blind Pension Fund they are to use the 33.3% rate. Therefore, this will not have a fiscal impact on the Blind Pension Fund.

Officials from the **Gasconade County Assessor** indicated this proposal would have a fiscal impact on their county but did not provide additional details.

Officials from the **Lincoln County Assessors Office** assume the county would incur software costs to enact the proposed adjustment of property values of an indeterminate amount.

Oversight assumes this proposal reduces the percentage at which personal property is assessed effectively reducing the assessed value of personal property over time. Oversight notes the revenue growth in property tax is determined by the following method:

Last year's revenues plus an allowance for growth equal to either:
- Inflation;
- Growth in total assessed value, or;
- 5%, whichever is lower.

Oversight assumes **if** the growth in total assessed value is the lower of the three options, then any reduction in the percentage at which personal property is assessed would reduce the maximum allowed revenue growth (relative to current law). For example:

	Assessed Value Real	Assessed Value PP	Total Assessed Value	Revenue Growth Factor	Maximum Allowed Revenue
Base Year (Assumed)	$4,250,000,000	$750,000,000	$5,000,000,000	-	$6,240,000
Current Law (Next Year)	$4,377,500,000	$772,500,000	$5,150,000,000	3.0%	$6,427,200
Next Proposed (Next Year)	$4,377,500,000	$702,272,727*	$5,079,772,727	-1.4%	$6,240,000

Oversight applied a 3% growth in real and personal property. To calculate the proposed assessed value, Oversight reduced the 33% currently applied to personal property values by the growth in real property (33% - 3% = 30%).

*Using the $750,000,000 assessed value for personal property, Oversight calculated the full value of personal property:

Full Value of Personal Property *.33 = $750,000,000
Full Value of Personal Property = $750,000,000/.33
Full Value of Personal Property = $2,272,727,273

Using the full value of personal property, Oversight applied a growth rate of 3% and calculated the different assessed values below.

$2,272,727,273 x 1.03	$2,340,909,091	Total PP Value w/Growth
$2,340,909,091 x .33	$772,500,000	Assessed Value PP (Current Law)
Or		
$2,340,909,091 x (.33-.03)	$702,272,727	Assessed Value PP (Proposed Law)

Oversight notes, in the example above, the proposal functionally eliminates the allowable increase in revenues attributable to growth. Revenues become fixed in time. However, Oversight notes the maximum allowed revenue would be lower than what could have been achieved under current law.

Alternatively, **if** inflation or 5% is the lower option for determining the maximum allowed revenue, the calculation of revenue growth may not be limited by the reduction in assessed personal property. However, **Oversight** notes property tax revenues are designed to be revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Therefore, this proposal may result in a higher tax rate relative to current law thus distributing more of the tax burden to real property owners (as personal property assessed values decrease).

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum and some are at a fixed rate. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law), rather it would result in an actual loss of revenue.

Oversight will show a range of impact of $0 (the tax burden is shifted to real property owners or no growth in real property) to an unknown loss in property tax revenue for local political subdivisions.

Oversight notes the next assessment cycle would not occur until calendar year 2025 with impacted revenues occurring in FY 2026 (due in December 2025). Oversight will show the impact to local political subdivisions beginning in FY 2026.

Oversight notes section 137.115.1(4) requires assessors to continue to assess personal property at 33.3% for purposes of Article III, Section 38(b) of the Missouri Constitution. Therefore, Oversight assumes this proposal will not impact the Blind Pension Fund.

Oversight notes section 137.115.1(5) would allow political subdivisions to receive reimbursement from the state, subject to appropriation, if the reduction in the personal property tax assessment rate results in lower total property tax collections within that political subdivision than the constitutionally allowable amount. Oversight is unable to determine the quantity of local political subdivisions for which this could occur or the amounts that would be reimbursed, therefore, Oversight will show an unknown negative impact to the general revenue fund beginning in FY 2026.

Ultimately, **Oversight** is uncertain how language of the proposal would be applied, but assumes counties could incur additional costs administering these adjustments (i.e. computer programming changes or additional staff). In addition, Oversight received a limited number of responses from taxing entities 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 approval to publish a new fiscal note.

Officials from the **Department of Social Services** and the **Office of the Secretary of State** 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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2074)
GENERAL REVENUE FUND				
Cost – §137.115.1(5) – Potential cost for reimbursement to local taxing entities	$0	$0	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2074)
LOCAL POLITICAL SUBDIVISIONS				
Costs – §137.115.1(4) - Local taxing entities – to administer the changes in assessment	$0	$0	(Unknown)	(Unknown)
Loss – §137.115.1(4) - Loss of property tax revenues from reduction in personal property assessed value	$0	$0	$0 or (Unknown)	$0 or (Unknown)
Revenue Increase - §137.115.1(5) – Potential reimbursement to local taxing entities from the state	$0	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT – Small Business

There could be a fiscal impact to small businesses if tax rates are adjusted relative to changes in assessed value.

FISCAL DESCRIPTION

Current law requires that personal property be assessed at 33.3% of its true value in money. This act requires political subdivisions to annually reduce such percentage such that the amount by which the revenue generated by taxes levied on such personal property is reduced is substantially equal to one hundred percent of the growth in revenue generated by real property assessment growth, as defined in the act. Annual reductions shall be made until December 31, 2073. Thereafter, the percentage of true value in money at which personal property is assessed shall be equal to the percentage in effect on January 1, 2073.

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 Revenue
Department of Social Services
Office of the Secretary of State
Gasconade County Assessor
Lincoln County Assessor

Julie Morff
Director
January 13, 2023

Ross Strope
Assistant Director
January 13, 2023