COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0301S.03C
Bill No.: SCS for SB 8
Subject: Taxation and Revenue - Property; Political Subdivisions; Motor Vehicles
Type: Original
Date: February 21, 2023

Bill Summary: This proposal modifies provisions relating to personal property taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	**(Unknown)**	**(Unknown)**	**(Unknown)**

*Oversight assumes the initial administrative costs to implement the bill for the State Tax Commission (including additional FTE) could reach the $250,000 threshold. Oversight also assumes a potential unknown cost starting in FY 2025 (subject to appropriation) to reimburse local political subdivisions as allowed in §137.115.9(2)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Blind Pension Fund (0621)	$0	Could exceed ($421,078)	Could exceed ($421,078)
Total Estimated Net Effect on Other State Funds	**$0**	**Could exceed ($421,078)**	**Could exceed ($421,078)**

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Local Government	**(Unknown)**	**Unknown, could exceed ($112,400,376)**	**Unknown, could exceed ($112,400,376)**

FISCAL ANALYSIS

ASSUMPTION

Section 137.115.1 Personal Property Assessment Value Percentage

Officials from the **State Tax Commission (STC)** note this has 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 bill would require additional FTE for the State Tax Commission to receive the Manufacturer Suggested Retail Price (MSRP) from a vendor and then configure that data to fit the multiple assessment programs used in the state. The cost of the data is unknown as well as the cost of licensing for each county in the state. The bill does not allow for all currently assessed vehicles to use a previously assessed value in the depreciation schedule so the MSRP would have to be obtained for all new and used vehicles by Vehicle Identification Number. The depreciation schedule ends after 10 years, so approximately fifty percent of the vehicles in the state would no longer be assessed. The current system uses average trade in value listed in the October issue of the National Automobile Dealers Association guide and that value will be less than the starting value of MSRP in most cases which could cause an increase in assessments. The use of a depreciation schedule would require that the vehicle values decrease each year regardless of the true market values.

STC assumes the reduction in assessment percentage from thirty-three and a third percent to thirty-one percent would reduce tax collected on personal property tax collections by approximately $200 million. The bill also requires all of the software used in the counties to meet minimum standards, which could require a cost to some counties for upgrades.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision reduces the personal property assessment value percentage from 33.33% to 31% beginning with tax year 2024.

Based on data published by STC, B&P determined that approximately 19.2% of all property is personal property and the total personal property assessed value for 2021 was $24,686,570,012. B&P then used the 2021 property tax levy audit report to estimate a population weighted statewide local property tax levy. In addition, B&P notes that the Blind Pension Trust Fund has a property tax levy of $0.03 per $100 valuation.

B&P further notes that property taxes are levied for a calendar year, with the taxes owed by December 31st of that year. Therefore, a reduction to a tax year's assessed value will impact collections for the following fiscal year. For example: tax year 2024 reduction will impact FY25 collections.

B&P estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by $421,078 and local property tax collections by $112,400,376 annually beginning in FY25.

Utilizing the STC annual report, **Oversight** arrived at estimates (relatively similar to those of B&P) of a loss of $511,524 to the Blind Pension Fund and approximately $100 million to local political subdivisions. Oversight will use B&P estimates.

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. Section 137.115.1 would starting January 1, 2024, require all personal property to be assessed at 31% of its true value in money. That rate would continue into the future.

This provision is silent on how to handle the collection of the constitutionally created Blind Pension Fund. Per the Constitution, the calculation is based on the 33.3% rate. Therefore, this will have a negative fiscal impact on the Blind Pension Fund.

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

Officials from the **Department of Social Services (DSS)** note tangible personal property that is not livestock; farm machinery; pollution control tools and equipment; grain and other agricultural crops; poultry; and historic motor vehicles, historic aircraft, and aircraft built from kits is currently assessed at 33 1/3 percent of true value. According to the 2022 State Tax Commission Annual Report, the total assessed valuation of tangible personal property that is not livestock; farm machinery; pollution control tools and equipment; grain and other agricultural crops; poultry; and historic motor vehicles, historic aircraft, and aircraft built from kits is $27,716,731,850. However, the reduction in the assessed valuation of motor vehicles from the proposed changes in section 137.115.9 will reduce the total assessed valuation.

According to the State Tax Commission, the proposed change in section 137.115.9 could result in a reduction in tax revenue from motor vehicles of up to 25%. Therefore, FSD estimates the assessed valuation from tangible personal property in the tax collection year 2025 will be $22,551,883,126 [$27,716,731,850 – ($20,659,394,897*0.25)].

Tangible personal property that is not livestock; farm machinery; pollution control tools and equipment; grain and other agricultural crops; poultry; and historic motor vehicles, historic aircraft, and aircraft built from kits is currently assessed at 33 1/3 percent of true value. Therefore, the $22,551,883,126 in these types of tangible property tax assessments is currently 33 1/3% of the true value of personal property, which means the true value of the these types of personal property assessed is $67,662,415,620 ($22,551,883,126/.3333).

The proposed reduction in assessments of tangible personal property that is not livestock; farm machinery; pollution control tools and equipment; grain and other agricultural crops; poultry; and historic motor vehicles, historic aircraft, and aircraft built from kits will affect the BP fund as follows:

Calendar Year	True Value of Tangible Personal Property*	Assessment Rate, as amended per year	Amended Assessed Value of Tangible Personal Property*	BP Fund Collections Tangible Personal Property Tax*	Reduction in Collections for the BP Fund
2024	$67,662,415,620	33 1/3%	$22,551,883,126	$6,765,565	$0
2025	$67,662,415,620	31%	$20,975,348,842	$6,292,605	$472,960

*Not Livestock, Farm Machinery, Poultry, and Pollution Control Tools and Equipment

Therefore, FSD estimates that the fiscal impact to the BP fund as a result of this legislation would be $1,594,455 in FY 2024 and $2,022,415 ($1,549,455 + $472,960) in FY 2025 and ongoing.

If the state chooses to continue funding BP payments at the current level, a general revenue pickup would be needed to replace lost BP fund revenue resulting from this legislation. The current BP payment to each participant is $750 per month. If enacted, monthly payments would be reduced by $36 in FY 2024 and $48 in FY 2025 without the replacement of funding.

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 lowest.

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 or 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.

Based on information provided by the Office of the State Auditor, **Oversight** notes, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities, which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

Oversight notes the proposed reduction in the percentage at which personal property is assessed could reduce the maximum allowed revenue growth (relative to current law) which could impact all taxing entities. Therefore, Oversight will show B&P's estimated impact for all local political subdivisions on the fiscal note.

Section 137.115.9 Motor Vehicle Property Tax Assessment Method

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would change the assessment method for motor vehicles. B&P notes that the Blind Pension Trust fund levies a $0.03 per $100 valuation property tax. B&P does not have enough information to estimate the potential revenue impact to the Blind Pension Trust Fund or local revenues. B&P defers to STC for the administrative impact.

Officials from the **Department of Revenue (DOR)** note this provision changes how the assessment rate will be determined for motor vehicles. Property tax assessments are handled by county assessors and the State Tax Commission. This provision does not impact the Department and DOR defers to the State Tax Commission and the counties for their estimated fiscal impact.

Officials from the **Department of Social Services (DSS)** assume the Blind Pension (BP) is funded from 0.03% of each $100 assessed valuation of taxable property. Assessing vehicles based on a depreciation table until the vehicle is nine years old and removing vehicles over nine years from assessment could impact the amount received for the BP fund.

According to the 2022 State Tax Commission Annual Report, $20,659,394,897 of the $135,215,666,531 total assessed valuation for the State of Missouri comes from vehicles including recreational vehicles. Therefore, approximately $6,197,818 [($20,659,394,897/100)*0.03] is collected in the BP fund from motor vehicle tax revenue.

Motor vehicles are currently assessed based on a recommended guide of information for determining the true value of motor vehicle and includes vehicles that are older than nine years old in the assessment. According to the State Tax Commission, the proposed change to assess vehicles based on a depreciation table until the vehicle is nine years old could result in a reduction in tax revenue from motor vehicles of up to 25%. Therefore, FSD estimates that tax revenue from motor vehicles collected in the BP fund could decrease up to $1,549,455 ($6,197,818*0.25) beginning in FY 2026.

Oversight notes this provision could impact the assessed value of personal property over time. Therefore, Oversight will show an unknown gain or loss in property tax revenue to local political subdivisions beginning in FY 2025.

Oversight notes section 137.115.9(2) would allow political subdivisions to receive reimbursement from the state, subject to appropriations, 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 2025.

Oversight assumes the initial administrative costs to the State Tax Commission to implement the proposal could reach the $250,000 threshold. Oversight will show this starting in FY 2024.

Oversight notes the Department of Social Services estimates this proposal could reduce revenues to the Blind Pension Trust Fund beginning in FY 2026. Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DSS to show the loss in property tax revenue for the Blind Pension Fund.

<u>Responses regarding the proposed legislation as a whole</u>

Officials from the **City of Kansas City** assume this legislation would have a negative fiscal impact on Kansas City in lost revenue of $2.2 million in the first year after the legislation takes effect and $1.2-1.3 million in the subsequent two years.

Officials from the **City of Springfield** anticipate a potential negative fiscal impact of an undetermined amount from this bill, if sufficient funds to reimburse political subdivisions for tax revenues below the allowable amount is not appropriated.

Officials from the **Newton County Health Department** assume the proposal will have no fiscal impact on their organization.

Officials from the **Howell County Assessor** assume if the purpose of this legislation is to reduce taxes on citizens, it will only move the tax burden over to real property and increase the burden residential property carries at this time and potentially may cause more harm to homeowners. The assessed values are not the problem with personal property; it is the levy setting process.

In Howell County, the personal property this targets is 67% of the total personal property assessed value and generated $3,410,920 of local funding in 2022. Statewide it is 21% of total assessed value generating $1,987,103,270 of local funding. This proposal does not offer any method of replacement as required by law. Reducing the assessment rate will cause programming expense to all counties that may cost $1,000 to $5,000 per county.

Officials from the **Lincoln County Assessor** assume the cost for computer updates could be high and possibly need state funding to implement the updates. In addition, tax revenue losses may shift burden to the real property owners.

Officials from the **Hazelwood School District** assume it appears that there is a revenue replacement mechanism; however, it is subject to appropriations. Therefore, if such funds were not appropriated, then district would simply lose such revenue. This potentially puts districts in the position of cutting personnel and programs until it is clear that there is an appropriation.

Officials from the **Cole Camp Ambulance District** assume the proposal will have no fiscal impact on their organization.

Officials from the **Office of Administration** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary.

Oversight notes this proposal applies to tax years beginning with January 1, 2024. The next assessment cycle would not occur until calendar year 2025 with impacted revenues occurring in FY 2026 (December 2025).

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 listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Cost – State Tax Commission – §137.115.9(1) – Software/programming costs and FTE/other administrative costs p. (7)	(Unknown)	(Unknown)	(Unknown)
Cost – §137.115.9(2) – Potential cost for reimbursement to local taxing entities p. (5-6)	$0	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**

BLIND PENSION FUND			
Revenue Loss - §137.115.1 – Reduction in property taxes from reduction in personal property assessed valuation percentage pg. (3)	$0	Could exceed ($421,078)	Could exceed ($421,078)
Revenue change - §137.115.9 – change in property taxes from change in personal property assessed valuation method p. (5-6)	$0	(Unknown) to (Unknown)	(Unknown) to (Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**Unknown, could exceed ($421,078)**	**Unknown, could exceed ($421,078)**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
Costs – Counties – §137.115 - to administer the changes in assessment from this proposal p. (6)	(Unknown)	(Unknown)	(Unknown)
Loss – §137.115.1 - Loss of property tax revenues from reduction in personal property assessed value percentage p. (3)	$0	Could exceed ($112,400,376)	Could exceed ($112,400,376)
Revenue change - §137.115.9 – change in property taxes from change in personal property assessed valuation method p. (5-6)	$0	(Unknown) to (Unknown)	(Unknown) to (Unknown)

Revenue Increase - §137.115.9(2) – Potential reimbursement to local taxing entities from the state (subject to appropriation) p. (5-6)	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**(Unknown)**	**Unknown, could exceed ($112,400,376)**	**Unknown, could exceed ($112,400,376)**

FISCAL IMPACT – Small Business

Oversight assumes there could be an impact to small businesses because taxing jurisdictions may be able to increase the levy to all other property owners to make up for the lost revenue. Small businesses that own personal property could see a reduction in property taxes.

FISCAL DESCRIPTION

Current law requires that personal property be assessed at 33.3% of its true value in money. Beginning January 1, 2024, this act requires that personal property be assessed at 31% of its true value in money.

Current law requires assessors to use the trade-in value published in the October issue of the National Automobile Dealers' Association Official Used Car Guide to determine the true value of motor vehicles for the purposes of property tax assessments. This act instead requires assessors to use the manufacturer's suggested retail price from the year of manufacture of the vehicle and apply the ten-year depreciation table provided in the act to determine the true value in money. When the manufacturer's suggested retail price data is not available from an approved source or the assessor deems it not appropriate for a vehicle, the assessor may obtain a manufacturer's suggested retail price from a source that he or she deems reliable and shall apply the depreciation schedule provided by the act.

Subject to appropriations, a political subdivision that receives less than the allowable amount of total real and personal property tax revenues due to the provisions of the act shall be eligible for reimbursement from the state in an amount equal to the amount by which such revenues are below the allowable amount.

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

Department of Revenue
Office of Administration - Budget and Planning
Office of Administration
State Tax Commission
Department of Social Services
City of Kansas City
City of Springfield
Newton County Health Department
Howell County Assessor
Lincoln County Assessor
Hazelwood School District
Cole Camp Ambulance District

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