COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1046S.01I
Bill No.: SJR 18
Subject: Taxation and Revenue - Property; Constitutional Amendments
Type: Original
Date: February 7, 2023

Bill Summary: This proposal replaces the property tax on real property with a sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*/**	$0 or (More than $10,000,000)	$0 or Could exceed $79,049,535	$0 or Could exceed $79,049,535
Total Estimated Net Effect on General Revenue	**$0 or (More than $10,000,000)**	**$0 or Could exceed $79,049,535**	**$0 or Could exceed $79,049,535**

*The potential fiscal impact of "(More than $10,000,000)" would be realized **only** if a special election were called by the Governor to submit this joint resolution to voters.
**The potential savings to the General Revenue Fund is from Senior Property tax credits no longer being issued if this joint resolution is adopted by voters.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Blind Pension Fund*	$0	$0 or Less than ($32,115,506)	$0 or Less than ($32,115,506)
Total Estimated Net Effect on <u>Other</u> State Funds	**$0**	**$0 or Less than ($32,115,506)**	**$0 or Less than ($32,115,506)**

*If approved by voters ("$0 or"), the blind pension fund's proceeds would come from a sales tax instead of $0.03 property tax levy.
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	**$0***	**$0 or (Unknown, Significant)**	**$0 or (Unknown, Significant)**

*Transfer out and transfer in net to zero **if** the Governor calls a special election.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would replace the annual real property tax with an upon transfer sales tax. B&P notes that this would go to a public vote in November 2024. B&P further notes that if voter approved, this proposal would become effective in December 2024. However, the language in Article X, Section 4(e) would prohibit property taxes starting January 1, 2024.

It is unclear how this timing difference would be resolved. Under current law and practice, property tax bills are sent to taxpayers in October and November of a tax year, with an annual due date of December 31. By the time this proposal became voter approved and effective, it is possible that some taxpayers would have already received a property tax bill and made their annual tax payment. It is unclear if those payments would then have to be refunded by the county collector.

In addition, this proposal would become effective at the time annual tax payments are made. B&P assumes that such payments would automatically stop upon the effective date of this proposal. However, it will take time for county collectors to set up a system to collect the property sales tax. The abrupt stop to a large source of revenues, with no transition time to replace the funding, could create significant problems for political subdivisions that rely on property taxes.

Officials from the **Department of Revenue (DOR)** note this is a joint resolution that would be required to go to the vote of the people in November 2024. Should the proposal not be adopted this would not have a fiscal impact. Should the people adopt this proposal it would eliminate residential property tax and replace it with a sales tax on residential property.

Article X, Section 4(e).1 Class 1 Property Tax

B&P notes this provision would prohibit the property tax levy on all property in class 1 beginning January 1, 2024. B&P notes that class 1 property includes:

- Subclass 1: residential real property
- Subclass 2: agricultural and horticultural real property
- Subclass 3: utility, industrial, commercial, railroad, and other real property

Based on data published by the U.S. Census Bureau, aggregate real residential property taxes in Missouri were $3,573,996,000 during tax year 2021. B&P does not have enough information to determine total real property taxes paid for subclasses (2) and (3). Therefore, this proposal could reduce total real residential property tax collections by greater than $3,573,996,000 annually, beginning in FY25.

DOR notes starting January 1, 2024 this proposal in Section 4(e).1 would no longer allow a county or political subdivision to authorize or collect a tax on class 1 property (which is real property). Real property includes residential property, agricultural and horticultural property, and utility, industrial, commercial, railroad and other real property. The State Tax Commission reports that in 2021 $8,957,388,739 was paid in property tax. Of that $1,589,040,762 (17.74%) was personal property tax and the remaining was real property amounting to $7,368,347,977 that would be exempt under this proposal.

This would result in a loss of the $7.3 billion annually.

Residential property tax is calculated by using the appraised value of the property and multiplying that by the applicable percentage to get the assessed value. The assessed value is then multiplied by the local property tax rate to determine the amount owed. Property tax is owed by December 31st each year.

DOR administers the Senior Property tax credit that gives seniors a tax credit for the amount of residential property tax paid or the amount of property tax paid as part of their rent. When residential property tax is eliminated by this proposal, this would result in a savings to the state from these credits no longer being able to be claimed. Here is the amount claimed each of the last three years.

Tax Year	Number of Filers	Amount Claimed
2019	149,941	$86,159,181
2020	142,947	$82,894,597
2021	131,235	$79,049,535

DOR will show the savings are the amount paid out for tax year 2021.

Article X, Section 4(e).2 Sales Tax on Transfer of Real Property

B&P notes this provision would allow a county to impose a sales tax upon the transfer of a real property title starting January 1, 2024. The sales tax rate shall be equal to the combined sales tax rate at the location of the real property. Taxpayers are granted four options for paying the newly levied sales tax:

- 100% due upon the transfer of the property title; or
- 10% due upon the transfer of the property and 18% each year for five years; or
- 10% due upon the transfer of the property and 9% each year for ten years; or
- 10% due upon the transfer of the property and 6% each year for fifteen years.

This section also requires financial intuitions that service mortgages with an escrow account to make one payment for all sales tax due by the required due date. B&P notes that this would mean that a bank with escrow accounts would make the yearly sales tax payment for an escrow account holder.

DOR notes starting January 1, 2024, in lieu of that residential property tax a county shall impose a sales tax on the sale of any residential property at a rate equal to the total combined rate of sales tax on the property at that time per Section 4(e).2. Therefore, a county can assess a sales tax that includes the state sales tax rate (4.225%) plus their local rate, plus the rate of any of their special taxing jurisdictions. The total amount assessed on the residential property would be collected and distributed by the county in the same manner that they distributed their former residential property tax.

DOR notes that property tax is currently paid annually to the county, while this provision appears to make a one-time payment (for length of homeownership) to the county.

The combined sales tax rates vary around the state. All include the 4.225% state sales tax rate. However, each county and city may also have a sales tax. Additionally, there are ambulance districts, fire protection districts, TDD, CID and several other political subdivisions that can assess a sales tax. Here are just three examples that show the variance in sales tax rates.

Jefferson City MO – 7.9750%
Roscoe MO – 4.7250%
St. Clair MO – 10.4750%

In Jefferson City, under the new provision found in Section 4(e).2 a home sold would be assessed a sales tax of 7.9750%. That would include the 4.225% state rate, 1.5% Cole County rate and 2.25% imposed by the City. Therefore, if a person sold a home for $163,300 (average of prices in MO) they would owe $13,023 in sales tax under this proposal.

This proposal establishes different payment schedules (equal payments over a period of years) for the payment of this sales tax. However, it does state that any financial institution that is a mortgage servicer will be required to make one payment and not be allowed to pay over time.

<u>Blind Pension Fund</u>
This proposal does not make clear if the constitutionally created Blind Pension Fund (Article III, Section 38(b)) would still be allowed to assess their property tax on all properties. The Missouri Blind Pension fund receives $.03 for each $100 valuation of taxable property in the state of Missouri. Nor does it make clear if the counties would distribute any of the sales tax to replace the Blind Pension Fund payments should they be prohibited from assessing their property tax. Failure to collect or replace the Blind Pension Fund payment would result in a loss to the Fund. DOR defers to the Department of Social Service for the fiscal impact.

<u>Article X, Section 4(e).3 Sales Tax on Mortgage Balance</u>

B&P notes this provision would allow a county to impose a sales tax upon the remaining mortgage balance for all real property sold before January 1, 2024. The sales tax rate shall be equal to the combined sales tax rate at the location of the real property. Taxpayers are granted four options for paying the newly levied sales tax:

- 100% due on 12/31/2024; or
- 20% due each year for five years; or
- 10% due each year for ten years; or
- 6.7% due each year for fifteen years.

This section also requires financial intuitions that service mortgages with an escrow account to make one payment for all sales tax due by the required due date. B&P notes that this would mean that a bank with escrow accounts would make the yearly sales tax payment for an escrow account holder.

DOR notes this provision would require all counties to collect a sales tax on any property that was purchased prior to January 1, 2024 and that had a mortgage as of that day. The sales tax would be on the outstanding balance of the mortgage on January 1, 2024. According to the U.S. Census Bureau the total number of owner-occupied housing units in Missouri is 1,637,374. Of those only 635,811 do not have a mortgage and would be exempt from this sales tax. The remaining 1,001,563 have a mortgage and would have to pay this sales tax. DOR notes that while this provision does set up a process by which a homeowner could pay this tax over a period of time, it does add language that if a financial institutions serves as the mortgage servicer, then the payment is due in one lump sum on the first due date (December 31, 2024). DOR notes that Section 191.1603 defines a financial institution in statute. DOR is not sure how many mortgage service providers are not financial institutions.

There does not appear to have a requirement for a taxpayer to self-report their outstanding balance or for a financial institution to report on their borrowers. It is unclear how the assessor would know if a mortgage was on a property or what remains on the outstanding balance.

DOR notes this provision creates a tax on property in class 1 per Section 4(e).3. However, Section 4(e).1 prohibits counties from authorizing or levying a tax on property in class 1. This provision conflicts with the first and DOR is unsure how it would be implemented.

Additionally, per Chapter 144 RSMo, DOR is charged with the collection and distribution of all sales taxes. This proposal wants this sales tax collected by the counties. The Department is unsure how this would work and if it would have any financial impact on DOR.

<u>**Article X, Section 26 Sales Tax Exemption for Real Property**</u>

B&P notes this provision would exempt sales tax on real property from the current prohibition on expanding sales tax.

<u>Revenue Impacts</u>

Based on data published by the U.S. Census Bureau 25.9% of homes in Missouri were sold within the first five years of ownership during 2021, while 16.2% of homes in Missouri were sold after 31 or more years of ownership. Table 1 shows the length of homeowner tenure in Missouri in 2020.

Table 1: Number of Homes Sold in Missouri during 2021, by Length of Ownership

Length of Homeownership	% of Homes	# of Homes Sold
< 5 years	25.9%	404,901
5 - 10 years	15.7%	244,352
11 - 20 years	26.4%	412,701
21 - 30 years	15.7%	244,968
31+ years	16.2%	253,452

Based on additional data published by the U.S. Census Bureau, the median home price in Missouri during 2021 was $171,800. B&P notes that the population weighted state + local sales tax rate in Missouri is 8.295% (4.225% state rate + 4.07% population weighted local rate). Therefore, B&P estimates that the sales tax due for the median Missouri priced home would be $14,251 ($171,800 x 8.295%). However, as shown in the above paragraph, the majority of homes are not sold within even the first ten years of ownership.

Assuming all taxpayers paid the sales tax at the time of transfer; B&P estimates that over the first five years, this proposal could reduce statewide property tax revenues by $12,099,735,849. B&P notes that it is highly unlikely that even a majority of taxpayers pay the full tax payment at the time of title transfer, given the repayment options allowed. B&P further notes that this estimate loss is <u>only</u> from the sales of residential real property. This does not include any potential impact from subclass (2) or (3) property. Table 2 shows the estimated revenue impact from the sale of residential property from this proposal.

Table 2: Estimated statewide revenue impact over first 31+ years of implementation for residential real property

Proposal	Proposed Sales Tax
Collections over first 5 years	$5,770,244,151
Collections over first 10 years	$9,252,504,503
Collections over first 20 years	$15,133,906,454
Collections over first 30 years	$18,624,945,422
Collections over first 31+ years	$22,236,889,874

Current Law	Current Property Tax
Collections over first 5 years	$17,869,980,000
Collections over first 10 years	$35,739,960,000
Collections over first 20 years	$71,479,920,000
Collections over first 30 years	$107,219,880,000
Collections over first 31+ years	$142,959,840,000
Difference between Proposed and Current	Estimated Impact
Collections over first 5 years	($12,099,735,849)
Collections over first 10 years	($26,487,455,497)
Collections over first 20 years	($56,346,013,546)
Collections over first 30 years	($88,594,934,578)
Collections over first 31+ years	($120,722,950,126)

B&P further notes that the above estimates do not include the sales tax levied on real property purchased prior to January 1, 2024 given the concerns noted above.

Property Tax Credit
B&P notes that per Sections 135.010 to 135.035, low-income seniors and disabled individuals are allowed a property tax credit (PTC) against property taxes paid on their primary residence. As this proposal would eliminate property taxes, B&P assumes this would in turn result in the elimination of the PTC. During tax year 2021, 131,235 individuals received $79,049,535 in state property tax credits. Therefore, B&P estimates that this proposal could increase GR by $79,049,535 beginning with FY25 (for tax year 2024 property tax claims).

Responses regarding the proposed legislation as a whole

Officials from the **Department of Revenue** note that this proposal would go to the voters on November 5, 2024 and be certified and effective on December 5, 2024. However, this proposal is back dating the start to January 2024 and requiring the first sales tax on mortgages to be due by December 31, 2024. The Department notes that many people would have already paid their residential property tax for the year (since the deadline is December 31st each year) before finding out it would not be owed. This may cause problems for the county offices that would then need to refund back their payment for those with no mortgages or apply it to the sales tax owed.

Property tax is assessed by the county assessors and overseen by the State Tax Commission. The Department defers to them for the actual fiscal impact to the counties and local political subdivisions.

Officials from the **Department of Social Services** assume this proposed constitutional amendment would not result in a fiscal impact to the division of legal services (DLS). DLS neither administers nor litigates issues related to property tax assessments. Therefore, no additional resources would be required by the special counsels, hearings, litigation, investigations, or human resources. DLS defers to the Family Support Division for any fiscal impact the proposed constitutional amendment may have on the Blind Pension program.

Officials from the **Department of Social Services** also note Section A. Section 26, Article X of the Constitution of Missouri is amended to add Section 4(e) which requires a county to impose a sales tax on the sale of property in class 1 at a rate equal to the total combined rate of sales taxes in effect at the location of the property effective January 1, 2024. Taxes on properties purchased prior to January 1, 2024, will pay a sales tax amount calculated based on the sales tax rate and the amount remaining on the mortgage for the property. Mortgagers will be required to pay sales tax in one payment from escrow accounts. The amendment specifies time limits by which the sales tax must be paid and tax payers can choose one of the installment plans specified in the law.

Section 38(b), Article III of the Missouri Constitution requires Blind Pension (BP) to be funded from taxes collected from the valuation of all taxable property to be levied and collected as other taxes. BP is funded from 0.03% of each $100 assessed valuation of taxable property. Replacing taxes on real property with a sales tax will eliminate real property taxes collected for the BP fund.

According to the Missouri Department of Revenue State Tax Commission Annual Report for 2021, $103,582,249,226 of the $128,268,819,238 Total Assessed Valuation for the State of Missouri comes from real property taxes. Therefore, real property taxes comprise 80.75% ($103,582,249,226/ $128,268,819,238= 0.8075) of the total taxable property in Missouri. Property Tax income for the BP fund in SFY 2022 was $39,771,524 or approximately $39.8 million (rounded up). 80.75% is real property revenue; therefore, the total real property revenue for BP is $32,115,506 ($39,771,524 * 0.8075= $32,115,505.63 round up). In SFY 2022, an average of 3,647 BP recipients received a cash grant from the BP fund. The BP cash grant amount for SFY 2023 is $750 per person per month. Pursuant to Section 209.040 subsection 6, RSMo, the Department of Social Services shall submit to the General Assembly a projected estimate of the monthly pension payment for each upcoming fiscal year.

Based on the current BP cash grant amount, FSD assumes that this amount will decrease by approximately $750 to $0 per month, or the additional amount needed for the BP fund will have to be funded by General Revenue or a designated revenue stream.

Therefore, DSS assumes the fiscal impact to FSD is a loss of up to $32,115,506 annually beginning in SFY 2025.

Officials from the **State Tax Commission** have determined this proposal will have 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 constitutional amendment, if approved by the voters, replaces the yearly tax levy on real property with a one-time sales tax at the time of sale or the tax is assessed on the remainder of a loan on a specific date. For counties with limited property sales it would have an immediate negative effect on revenues for the taxing districts. It is not clear how inherited property would be handled. It is also assumed that property improvements or increased property value would not be captured for the taxing districts and would not need any assessment.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Officials from the **County Employees' Retirement Fund (CERF)** assume that this proposal would have a negative fiscal impact to the County Employees' Retirement Fund. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. The proposed SJR, by replacing the current system of property taxation with a sales tax, would reduce the moneys that fund CERF. In FY2021, (the most recent year for which CERF has complete information), the CERF received total fee revenues of $35,587,162. The following amounts received were tied to the collection of property taxes:
2021 Collector Late Property Tax Penalties: $15,397,498 (43% of fee revenue)
2021 Delinquent Land List Fees: $1,636,387 (4% of fee revenue)
Total: $17,033,885 (47.8% of fee revenue)

CERF notes that the amount of these revenues fluctuates from year to year. However, for purposes of responding to Fiscal Oversight, CERF will assume that the SJR would result in revenue losses of $17,033,885 for 2024, 2025, and 2026.

Unless those fees are replaced with other sources, it likely has severe implications for CERF's sustainability including the possibility that the plan assets might be depleted.

Officials from **Office of the Secretary of State** 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 $10 million based on the cost of the 2022 primary and general election reimbursements.

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.

For the FY24 petitions cycle, the SOS estimates publication costs at $70,000 per page. This amount is subject to change based on number of petitions received, length of those petitions and rates charged by newspaper publishers.

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, the SOS reserves the right to request funding to meet the cost of the 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 2024. 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 2024 and the next scheduled general election is in November 2024 (both in FY 2025). 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 (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2024.

Officials from the **City of Kansas City, Kansas City Employees' Retirement System, Kansas City Supplemental Retirement Plan,** and the **Kansas City Firefighter's Pension System** each note they are unable to estimate the sales tax revenue from the sale of properties in any given year, but believe that the proposal would have a negative fiscal impact to change from a stable tax like property tax to sales tax given the volatility in the economy and real estate market. They estimate that property sales would have to exceed approximately 16% of the City's current estimated market value to generate revenues comparable to current property tax revenues.

Officials from the **Sheriff's Retirement System** assume the proposal will have no fiscal impact on their organization.

Officials from the **Hannibal Rural Fire Protection District (HANR), Rock Community Retirement Plan,** and the **City of Springfield** each assume this proposal would have a negative impact on their respective district/city of an indeterminate amount.

Officials from the **Kansas City Public School Retirement System** and the **Public Education Employees' Retirement System,** each assume the proposal will have no fiscal impact on their respective organizations.

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

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight will estimate the effects of this proposal with a single residential property example utilizing the property tax rate and sales tax rate for the Springfield, Missouri area.

<u>Current Law</u>
Market Value = $100,000
Assessed Value = $19,000
Springfield, MO Property Tax Rate = 5.3825 per 100 dollars of assessed value
Tax Due = $1,023 (annually)

<u>Proposed Law - Transfer of Property</u>
Sales Price = $100,000
Springfield, MO Sales Tax Rate = 8.1000%
Tax Due = $8,100 (potentially over 15 years)
Scenarios:
Annual Tax Due = $810 (first year) and $486 for the remaining 14 years
Annual Tax Due = $810 for ten years
Annual Tax Due = $810 (first year) and $1,823 for the remaining 4 years
Annual Tax Due = $8,100 (first year) and $0 thereafter

<u>Proposed Law - Mortgage Remainder</u>
If 80% of value held in mortgage:
Market Value: $100,000
Mortgage Remaining: $80,000
Springfield, MO Sales Tax Rate = 8.1000%
Tax Due = $6,480
Scenarios:
Annual Tax Due = $648 (first year) and $417 for the remaining 14 years
Annual Tax Due = $648 for ten years
Annual Tax Due = $648 (for first year) and $1,458 for the remaining years
Annual Tax Due = $6,480 and $0 thereafter

Oversight assumes real property tax would be eliminated with the implementation of this proposal beginning in calendar year 2025 (with revenues being realized in December 2025 or FY 2026). After 15 years, only properties that transfer would be assessed a sales tax, which is a subset of the total real property units in Missouri.

Per the State Tax Commission, the property tax burden for 2022 was $9,462,396,528.

- Residential accounted for 52.50%

- Commercial accounted for 20.31%
- Centrally Assessed accounted for 4.70%
- Agricultural accounted for 1.45%
- Motor Vehicles accounted for 15.29%
- Other Personal Property accounted for 5.76%
- Surtax accounted for 3.37%

Oversight assumes there would be a loss of approximately 78.96% or $7,471,508,299 (less the Blind Pension estimate) in property tax revenues for local political subdivisions.

Oversight notes, per the US Census Bureau, there are 1,637,374 owner-occupied housing units in Missouri of which approximately 61.2% (1,001,563) of these units have a mortgage. Under existing law, all housing units would have a property tax levied against the property. Under the proposed legislation, only 61% would potentially have a sales tax levied against the remaining principal of the mortgage. In addition, Per the Missouri Association of Realtors, 96,764 residential properties sold in 2021 which is approximately 5.9% of the total owner occupied housing units in Missouri.

Oversight assumes there would be a gain in revenue from the sales tax levied on real property. However, Oversight is unable to estimate the gain in revenue from this provision. Based on the assumptions above, Oversight assumes the loss of real property tax revenue would be a greater than the gain in the sales tax revenue proposed, resulting in a net loss for local political subdivisions.

In addition, **Oversight** will show a savings to General Revenue assuming this proposal would eliminate the Senior Citizen Property Tax Relief Credit. Based on information from the Tax Credit Analysis Forms, Oversight notes the following redemptions:

FY 2019 - $83,216,728
FY 2020 - $88,707,437
FY 2021 - $87,279,419
Average - $86,401,195

Oversight will show a potential loss to the Blind Pension Fund ranging from $0 (Blind Pension Fund is not impacted) to the estimated provided by DSS and an unknown gain in revenue from the proposed sales tax on real property if this provision applies to the Blind Pension Fund.

Oversight assumes there could be a savings to the State Tax Commission and county Assessors if they are no longer required to assess and appraise real property.

Oversight assumes there could be costs for staff and/or software for county Collectors to implement the sales tax on real property.

For purposes of this fiscal note, **Oversight** assumes the proposed sales tax on real property would not impact the following funds: the Conservation Commission Fund, the Park & Soil Funds and the School District Trust Fund. If this assumption is incorrect, this could potentially change the fiscal impact as presented in this fiscal note.

Oversight notes local property tax revenues are designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Therefore, **Oversight** is uncertain how this proposal would impact the tax levied on personal property.

In addition, eliminating property tax payments may reduce the amount of late payment fines charged and collected, which is used in the foundation formula calculation (potentially increasing the amount of state aid required). In addition, this may impact the Schedule A deductions on taxpayer's federal income tax calculations and their income tax payment, which may impact state income tax calculations the following year. For purposes of this fiscal note, Oversight assumes these would be indirect effects.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Transfer Out - SOS - reimbursement of local election authority election costs **if** a special election is called by the Governor	$0 or (More than $10,000,000)*	$0	$0
Cost Avoidance - from no longer issuing Senior Property Tax Credits (p. 4)	$0	$0 or $79,049,535	$0 or $79,049,535
Savings - **if** STC staff can be reduced (p. 13)	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or (More than $10,000,000)**	**$0 or Could exceed $79,049,535**	**$0 or Could exceed $79,049,535**

BLIND PENSION FUND			
Revenue Loss - from the prohibition of a tax being levied on real property **if** applicable (p. 9)	$0	$0 or Less than ($32,115,506)	$0 or Less than ($32,115,506)
Revenue Gain - from a sales tax being imposed on real property **if** applicable	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	**$0**	**$0 or Less than ($32,115,506)**	**$0 or Less than ($32,115,506)**

*SOS has updated the estimated cost of a statewide special election after examining actual reimbursement costs for the General Primary and General Election held during 2022.

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - Local Election Authorities reimbursement of election costs by State for a special election	$0 or More than $10,000,000*	$0	$0
Costs - Local Election Authorities cost of a special election **if** called for by the Governor	$0 or (More than $10,000,000)*	$0	$0
Costs - to Collectors - staff and/or software to implement	$0	$0 or (Unknown)	$0 or (Unknown)
Savings - to Assessors - **if** real property assessments and appraisals are no longer required	$0	$0 or Unknown	$0 or Unknown

Revenue Loss - from the prohibition of a tax being levied on real property	$0	$0 or ($7,026,306,820)	$0 or ($7,026,306,820)
Revenue Gain - from a sales tax being imposed on real property	$0	$0 or Unknown, Significant	$0 or Unknown, Significant
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0 or (Unknown, Significant)**	**$0 or (Unknown, Significant)**

*SOS has updated the estimated cost of a statewide special election after examining actual reimbursement costs for the General Primary and General Election held during 2022.

FISCAL IMPACT – Small Business

Oversight assumes this proposal would impact commercial real property; therefore, this could impact small businesses.

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, prohibits counties and political subdivisions from levying or collecting a tax on real property beginning January 1, 2024.

In lieu of such property tax, the amendment requires a county to impose a sales tax on the sale of real property at a rate equal to the total combined rate of state and local sales taxes in effect at the location of the property, provided that all revenues generated by the tax are collected and distributed by the county in the same manner as the property tax levied prior to January 1, 2024. A taxpayer shall select whether to remit the tax due upon the transfer of the title of the property, or to remit ten percent of the sales tax due to the county collector upon the transfer of title of the property, and the remainder within five, ten, or fifteen years in equal annual installments. Financial institutions that are mortgage servicers shall pay sales tax obligations which they service from escrow accounts in one payment by the required due date.

This amendment also requires a taxpayer who purchases his or her real property prior to January 1, 2024, to remit a tax equal to the total combined rate of state and local sales taxes in effect at the location of the property multiplied by the remaining mortgage balance on such property, provided that all revenues generated by the tax are collected and distributed by the county in the same manner as the property tax levied prior to January 1, 2024. A taxpayer shall select whether to remit the tax due by December 31, 2024, 2029, 2034, or 2039, with such payment made in equal annual installments. Financial institutions that are mortgage servicers shall pay sales tax obligations which they service from escrow accounts in one payment by the required due date. (Section 4(e))

This amendment also modifies a constitutional provision prohibiting sales taxes on transactions that were not subject to tax as of January 1, 2015, by providing an exemption for the sales tax imposed pursuant to the amendment. (Section 26).

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

Office of Administration - Budget and Planning
Department of Natural Resources
Department of Revenue
Department of Social Services
Office of the Secretary of State
City of Kansas City
City of Springfield
Hannibal Rural Fire Protection District (HANR)
County Employees Retirement Fund (CERF)
Kansas City Employees' Retirement System
Kansas City Firefighter's Pension System
Kansas City Public School Retirement System
Kansas City Supplemental Retirement Plan
Public Education Employees' Retirement System (PSRS/PEERS)
Rock Community Fpd Retirement Plan
Sheriff's Retirement System
Office of the State Auditor
Joint Committee on Administrative Rules
State Tax Commission

Julie Morff
Director
February 7, 2023

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Assistant Director
February 7, 2023