COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4135S.01I
Bill No.: SB 725
Subject: Taxation and Revenue - Property; Political Subdivisions;
Type: Original
Date: January 12, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2074)
General Revenue	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Total Estimated Net Effect on General Revenue	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**	**$0 or (Unknown)**

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	Fully Implemented (FY 2074)
Local Government	**$0**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Reduction in the Assessment Percentage of Personal Property

Officials from the **Department of Revenue (DOR)** assume 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 use a different formula for determining personal property tax. Starting January 1, 2025, the assessor would need to annually reduce the percentage of true value in money by the revenue generated from taxes levied on such personal property. The reduction should be substantially equal to one hundred percent of the growth in revenue generated by the 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 the Department and DOR defers to the State Tax Commission and the counties for their estimated fiscal impact to the State.

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 **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 2025 and ending tax year 2073. B&P notes that the assessment percentage for personal property is currently 33.33%. 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 at the **State Tax Commission** assume that this proposal 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 commission is unable to calculate the impact because the proposal is dependent on the true market value of real property at a future time. The STC assumes the percentage calculation of personal property, currently 33.3%, will then be reduced to reduce personal property revenue in an amount equal to any increase of revenue generated by an increase in the assessed value of real property. However, using the 2021 and 2022 data in the State Tax Commission Reports, a reduction of $191,256,963 in personal property taxes would have to be achieved. This calculation used the total property taxes collected for each year, $8,957,388,739 (2021) and multiplied it by the percentage of taxes received from real property from the three subclasses, 73.66% (2021). The same calculation was made for 2022 $9,462,396,528*71.75%. The difference was then calculated to get the amount personal property taxes would have to be reduced under the proposal $191,256,963 [$6,789,269,508 (2022)-$6,598,012,545 (2021)= $191,256,963]. This would result in a 3.31% reduction from the 33.3% of assessed value of personal property across the state.

Officials from the **Lincoln County Assessor** assume this proposal will shift the tax burden to the real property owners by eliminating personal property in extreme measures.

Officials from the **Howell County Assessor** assume the fiscal impact is impossible to accurately determine with the bill language just as the assessment rates will be with the provisions of this bill. Each political subdivision is affected differently by reassessment and is reflected in their levy if they adjust or not due to the change in value. If passed, this may cause a single property owner to have up to 8 different assessment rates on a single property in Howell County.

Officials from the **Jefferson County Assessor** assume it is impossible to calculate the true fiscal impact on political subdivisions in Jefferson County due to the fact that real property assessment growth is determined within each tax year and certified on or before June 30th of each tax year (RSMo 137.243). Without studying the real estate market conditions and determining whether or not assessed values need to be adjusted in a reassessment year, the financial impact that will result if this bill is passed cannot be accurately determined.

Officials from the **City of Osceolo** assume a fiscal impact but did not provide any additional information.

Officials from the **Branson Police Department** assume this has the potential to greatly decrease the amount of tax revenue available for emergency services in the future.

Officials from the **Fruitland Area Fire Protection District (FRUI) - Cape Girardeau** assume this legislation would have fiscal impact on their organization. It is unknown how significant the impact would be but since the department is funded by property taxes and personal property taxes, any reduction in tax rates could be detrimental in the current inflating economy.

Officials from the **St Louis City Office for Developmental Disability Resources** note statewide, approximately 20% of property taxes collected are for personal property. Therefore, the elimination of personal property taxes would reduce funding by over $1.3 Million directly impacting the health and welfare of people with intellectual and developmental disabilities. This would result in significant cuts to services. The cut would come at a time when service delivery is already diminished because of increasing costs due to staffing shortages, capacity limits, and Medicaid reimbursement rates below market value.

Local communities would be forced to discontinue or significantly reduce services to individuals with IDD and potentially destabilize the safety net of locally provided services. These services are critical to the well-being of individuals and support the maintenance of their community and family life.

The **Joint Committee on Public Employee Retirement** (JCPER) has reviewed the bill. The bill has no direct fiscal impact to the Joint Committee on Public Employee Retirement.

The JCPER's review of this legislation indicates it will not affect retirement plan benefits as defined in Section 105.660(9).

Officials from the **City of Kansas City**, **Newton County Health Department**, **Phelps County Sheriff**, **Kansas City Police Dept.**, **St. Louis County Police Dept**, 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 **Office of the State Auditor** and the **Department of Social Services** 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.

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.

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 approximately $1,923,908,514 in personal property taxes were collected in Missouri in 2022. One percent would equate to $19.2 million.

Oversight notes this reduction could also reduce the calculation used to determine the maximum allowed revenue.

<u>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</u>. 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 the language of the proposal would be applied but assumes counties could incur additional costs in 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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2074)
GENERAL REVENUE FUND				
Cost – §137.115.1(5) - Potential cost for reimbursement to local taxing entities	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**	**$0 or (Unknown)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2074)
LOCAL POLITICAL SUBDIVISIONS				
Costs – §137.115.1(4) - Local taxing entities – to administer the changes in assessment	$0	(Unknown)	(Unknown)	(Unknown)
Loss – §137.115.1(4) - Loss of property tax revenues from reduction in personal property assessed value	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2074)
Revenue Increase - §137.115.1(5) - Potential reimbursement to local taxing entities from the state	$0	$0 or Unknown	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**(Unknown)**	**(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 December 31, 2073.

Subject to appropriations, a political subdivision that receives less than the allowable amount of total real and personal property tax revenues 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 (DOR)
Department of Social Services
Joint Committee on Public Employee Retirement
Office of Administration - Budget and Planning (B&P)
Office of the State Auditor
State Tax Commission
Branson Police Department
City of Kansas City
City of Osceolo
Fruitland Area Fire Protection District (FRUI) - Cape Girardeau
Howell County Assessor
Jefferson County Assessor
Kansas City Police Dept.
Lincoln County Assessor
Newton County Health Department
Phelps County Sheriff
St Louis City Office for Developmental Disability Resources
St. Louis County Police Dept

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