

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0685S.01I  
 Bill No.: SB 104  
 Subject: Taxation and Revenue - Property  
 Type: Original  
 Date: February 14, 2023

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2037)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2037)
Blind Pension Fund	\$0	(\$180,462)	(\$360,924)	(\$2,406,158)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>(\$180,462)</b>	<b>(\$360,924)</b>	<b>(\$2,406,158)</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2037)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2037)
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2037)
<b>Local Government*</b>	<b>\$0</b>	<b>Up to (\$48,171,590)</b>	<b>Up to (\$96,343,180)</b>	<b>Up to (\$642,287,864)</b>

\*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. Some taxing entities will be able to increase the tax rate levied on other property to make-up for the lost revenue from reduced assessments for personal property.

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 137.115 Personal Property Tax**

Officials from the **State Tax Commission (STC)** note this provision has a possible negative fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. Under the criteria of SB 104, the percentage of true market value for personal property is reduced by 1% per year until the assessed value is 20 1/3% of the true market value. Using values for 2021 published on the State Tax Commission website, the personal property assessed values accounts for 18.38% of the total assessment which would equal \$23,575,808,975.94. If the assessment percentage is reduced by 1%, the new assessed value for personal property would be \$22,868,463,972.16. The loss in assessed value would correlate to a loss in taxes collected of \$49,395,981.11. It is not possible to calculate values for the following 12 years of reductions due to changes in assessment of personal property and tax levy increases or rollbacks.

Officials from the **Department of Revenue (DOR)** note currently personal property is assessed at a rate of 33 1/3% of appraised value, to determine its assessed value. This proposal starting January 1, 2024 through December 31, 2035 would lower that rate by 1% per year, reducing the assessed value of the property. This would reduce the rate to 21 1/3% by December 31, 2035. Then on January 1, 2036, it would set the new permanent personal property assessment rate at 20%. The County Assessors and the State Tax Commission handle the assessment of personal property. DOR will defer to them for the fiscal impact of this provision.

The Department notes that the constitutionally created Blind Pension Fund (Article III, Section 38(b)) receives \$.03 for each \$100 valuation of taxable property in the state of Missouri. Reducing the assessed rate will decrease the amount they receive. DOR defers to the Department of Social Services for the estimated loss of funding.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal reduces the personal property assessment value percentage from 33.33% to 20% beginning with tax year 2024. For calendar years 2024 through 2035, the assessment percentage is reduced by 1% from the previous year's percentage. Beginning with calendar year 2036, personal property is to be assessed at 20% of its true value.

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 31<sup>st</sup> 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 \$180,462 and local property tax collections by \$48,171,590 in FY25. Once fully implemented in FY37, this proposal could reduce revenues to the Blind Pension Trust Fund by \$2,406,158 and local property tax collections by \$642,287,864. Table 1 shows the estimated impact per year.

Table 1: Estimated Impact per Year

Tax Year / Fiscal Year	Estimated Local Loss	Estimated Loss to Blind Pension Fund
TY24 / FY25	(\$48,171,590)	(\$180,462)
TY25 / FY26	(\$96,343,180)	(\$360,924)
TY26 / FY27	(\$144,514,769)	(\$541,386)
TY27 / FY28	(\$192,686,359)	(\$721,847)
TY28 / FY29	(\$240,857,949)	(\$902,309)
TY29 / FY30	(\$289,029,539)	(\$1,082,771)
TY30 / FY31	(\$337,201,129)	(\$1,263,233)
TY31 / FY32	(\$385,372,718)	(\$1,443,695)
TY32 / FY33	(\$433,544,308)	(\$1,624,157)
TY33 / FY34	(\$481,715,898)	(\$1,804,618)
TY34 / FY35	(\$529,887,488)	(\$1,985,080)
TY35 / FY36	(\$578,059,078)	(\$2,165,542)
TY36 / FY37	(\$642,287,864)	(\$2,406,158)

Officials from the **Department of Social Services (DSS) Family Support Division (FSD)** note Section 137.115 RSMo is amended to state that beginning January 1, 2024 and continuing until 2035, the percent of true value at which the assessor will annually assess personal property will

be reduced by 1 percent per year. Beginning January 1, 2036, the assessor will annually assess all personal property at 20 percent of its true value in money.

Blind Pension (BP) is funded from 0.03% of each \$100 assessed valuation of taxable property. Reducing the personal property tax rate could impact the amount received for the Blind Pension fund.

According to the [State Tax Commission Annual Report](#), in 2021 \$23,573,005,309 of the \$128,268,819,238 total assessed valuation for the State of Missouri comes from personal property. FSD made the assumption that this statute does not govern the assessment percentages of real property assessed by the tax commission (Centrally Assessed Companies). Therefore, any funds received for the BP fund from that source were not considered in the calculation of the fiscal impact of this legislation.

Personal property is currently assessed at 33 1/3 percent of true value in money. Therefore, the \$23,573,005,309 in property tax assessments reported in 2021 is 33 1/3% of the true value of personal property, which means the true value of the personal property assessed was \$70,726,088,536 (\$23,573,005,309/0.3333.)

This proposed legislation will affect the BP fund as follows:

Calendar Year	True Value of Personal Property Assessed at Current Rate of 19%	Assessment Rate, as amended per year	Amended Assessed Value of Personal Property	Personal Property Tax Collections for the BP fund (0.03% of each \$100 assessed)	Reduction in Collections for the BP Fund
2023	\$70,726,088,536	33 1/3%	\$23,573,005,309	\$7,071,902	\$0
2024	\$70,726,088,536	32 1/3%	\$22,865,744,424	\$6,859,723	\$212,178
2025	\$70,726,088,536	31 1/3%	\$22,158,483,538	\$6,647,545	\$424,357
2026	\$70,726,088,536	30 1/3%	\$21,451,222,653	\$6,435,367	\$636,535
2027	\$70,726,088,536	29 1/3%	\$20,743,961,768	\$6,223,189	\$848,713
2028	\$70,726,088,536	28 1/3%	\$20,036,700,882	\$6,011,010	\$1,060,891
2029	\$70,726,088,536	27 1/3%	\$19,329,439,997	\$5,798,832	\$1,273,070
2030	\$70,726,088,536	26 1/3%	\$18,622,179,111	\$5,586,654	\$1,485,248
2031	\$70,726,088,536	25 1/3%	\$17,914,918,226	\$5,374,475	\$1,697,426
2032	\$70,726,088,536	24 1/3%	\$17,207,657,341	\$5,162,297	\$1,909,604
2033	\$70,726,088,536	23 1/3%	\$16,500,396,455	\$4,950,119	\$2,121,783
2034	\$70,726,088,536	22 1/3%	\$15,793,135,570	\$4,737,941	\$2,333,961
2035	\$70,726,088,536	21 1/3%	\$15,085,874,685	\$4,525,762	\$2,546,139
2036	\$70,726,088,536	20%	\$14,145,217,707	\$4,243,565	\$2,828,336

Therefore, FSD estimates that the fiscal impact to the BP fund as a result of this legislation would be \$212,178 in SFY 24; \$424,357 in SFY 25; \$636,535 in SFY 26; \$848,713 in SFY 27; \$1,060,891 in SFY 28; \$1,273,070 in SFY 29; \$1,485,248 in SFY 30; \$1,697,426 in SFY 31; \$1,909,604 in SFY 32; \$2,121,783 in SFY 33; \$2,333,961 in SFY 34; \$2,546,139 in SFY 35; and \$2,828,336 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 is \$750 per participant. If enacted, the BP payment would be reduced by \$205 to \$545 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** assumes if the growth in total assessed value is the lowest of the three options, then any reduction in the percentage at which real residential property is assessed would reduce the maximum allowed revenue growth (relative to current law) which could impact all taxing entities. For example:

Year	Assessed Value Real	Assessed Value PP	Total Assessed Value Real and PP	Revenue Growth Factor	Maximum Allowed Revenue
<b>Base Year (Assumed)</b>	\$4,250,000,000	\$750,000,000	\$5,000,000,000		\$6,240,000
<b>Current Law (Next Year) (33.3%)</b>	\$4,377,500,000	\$772,500,000	\$5,150,000,000	3%	\$6,427,200
<b>Next Proposed (Next Year) (32.3%)</b>	\$4,377,500,000	\$749,301,802	\$5,126,801,802	2.47%	\$6,394,335

**Oversight** applied a 3% growth in real and personal property. To calculate the proposed assessed value, Oversight reduced the 33.3% currently applied to personal property values by the proposed 1% reduction in year one (33.3% - 1% = 32.3%).

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

Full Value of personal Property  $\times .333 = \$750,000,000$   
Full Value of personal Property =  $\$750,000,000 / .333$   
Full Value of personal Property =  $\$2,252,252,252$

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

$\$2,252,252,252 \times 1.03$	$\$2,319,819,820$	Total RP Value w/Growth
$\$2,319,819,820 \times 0.333$	$\$772,500,000$	Assessed Value RP (Current Law)
Or		
$\$2,319,819,820 \times 0.323$	$\$749,301,802$	Assessed Value RP (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. Oversight notes the above example only includes the initial 1% reduction in assessed value and does not account for the implications of the future reductions.

Alternatively, **if** inflation or 5% is the lowest 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 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 note B&P's estimated impact for all local political subdivisions on the fiscal note.

In addition, **Oversight** notes the Office of Administration - Budget and Planning estimates this proposal could reduce revenues to the Blind Pension Trust Fund beginning in FY 2025. Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by B&P to show the loss in property tax revenue for the Blind Pension Fund.

Officials from the **City of Springfield** and the **Newton County Health Department** each assume this proposal would have a negative fiscal impact on their respective city/county of an indeterminate amount.

Officials from the **City of Kansas City** and the **St Louis County Health Department** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **Cole Camp Ambulance District** note as a small Rural Ambulance District that relies heavily on property tax income, any reduction in property taxes without a provision that would replace the funds either through patient transports or sales tax increase, would greatly reduce the capabilities to provide adequate care to their patients.

Officials from the **Lincoln County Assessor** assume this proposal would slowly shift the tax burden from personal property to real property over the term of reductions. Officials also assume computing issues will play into each assessment year to correspond with the annual reductions.

Officials from the **Fruitland Area Fire Protection District (FRUI) - Cape Girardeau** assume this proposal, in the long run, would have a fiscal impact. Increased costs for supplies, labor costs, fuel, and equipment will continue. If their major source of income through property taxes is decreased, even over time, the results would be a reduction in services and possibly staff reductions to compensate for lost revenues.

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. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.



<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2037)
<b>BLIND PENSION FUND</b>				
Revenue Loss -§137.115 Reduction in Assessed value of personal property	\$0	(\$180,462)	(\$360,924)	(\$2,406,158)
<b>ESTIMATED NET EFFECT ON BLIND PENSION FUND</b>	<b>\$0</b>	<b>(\$180,462)</b>	<b>(\$360,924)</b>	<b>(\$2,406,158)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2037)
<b>LOCAL POLITICAL SUBDIVISIONS</b>				
Revenue Loss -§137.115 Reduction in Assessed value of personal property	\$0	Up to (\$48,171,590)	Up to (\$96,343,180)	Up to (\$642,287,864)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b>\$0</b>	<b>Up to (\$48,171,590)</b>	<b>Up to (\$96,343,180)</b>	<b>Up to (\$642,287,864)</b>

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.

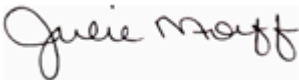
FISCAL DESCRIPTION

Current law requires personal property to be assessed at 33.3% of its true value in money. Beginning with the 2024 calendar year, this act reduces such percentage by one percent a year through the 2035 calendar year. Beginning with the 2036 calendar year, personal property shall be assessed at 20% of its true value in money.

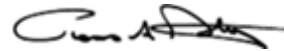
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
State Tax Commission  
Office of Administration - Budget and Planning  
Department of Social Services  
Office of the State Auditor  
City of Kansas City  
City of Springfield  
Newton County Health Department  
St Louis County Health Department  
Lincoln County Assessor  
Fruitland Area Fire Protection District (FRUI) - Cape Girardeau  
Cole Camp Ambulance District



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