

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3821H.011  
Bill No.: HB 1831  
Subject: Property, Real and Personal; Taxation and Revenue - Property; Taxation and Revenue - General; State Tax Commission; Counties  
Type: Original  
Date: February 20, 2024

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
General Revenue	\$0	\$2,566,282	\$2,566,282
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$2,566,282</b>	<b>\$2,566,282</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Blind Pension Fund	\$0	(\$11,084,379)	(\$11,084,379)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>(\$11,084,379)</b>	<b>(\$11,084,379)</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
<b>Total Estimated Net Effect on FTE</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 2025	FY 2026	FY 2027
<b>Local Government*</b>	<b>\$0</b>	<b>(More or Less than \$2,435,336,327)</b>	<b>(More or Less than \$2,435,336,327)</b>

\*Oversight notes this impact could be substantially reduced if taxing authorities are able to increase the levy to other taxpayers to make up for the loss of property tax revenue resulting from this proposal

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 137.115 Residential Property Tax**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal reduces the real property assessment value percentage on subclass (1) property from 19% to 15% beginning with tax year 2025. B&P notes that subclass (1) real property is residential real property.

This proposal also reduces the real property assessment value percentage on subclass (3) property from 32% to 15% beginning with tax year 2025. B&P notes that subclass (3) real property includes utility, commercial, industrial, railroad, and all other real property not otherwise classified.

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 2025 reduction will impact FY26 collections.

Based on data published by State Tax Commission (STC), the assessed value for class (1) property was \$70,946,826,909 and the assessed value for class (3) property was \$32,689,652,599 for tax year 2022. Under this proposal, B&P estimates that the new assessed values would be \$56,010,652,823 for class (1) and \$15,323,274,656 for class (3) property.

Using the 2022 property tax levy audit report, B&P estimated 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 estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by \$9,180,083 and local property tax collections by \$2,106,322,416 annually beginning in FY26. Table 1 shows the estimated impact by property class.

Table 1: Estimated Impact by Property Class

<u>Class</u>	<u>Blind Pension Fund</u>	<u>Local Funds</u>
Class 1 - Residential	(\$4,244,721)	(\$973,929,188)
Class 3 - Commercial/Centrally Assessed	(\$4,935,362)	(\$1,132,393,227)
<b>Total</b>	<b>(\$9,180,083)</b>	<b>(\$2,106,322,416)</b>

PTC Claims

B&P notes that this proposal may also impact redemptions for the senior property tax credit (PTC). In tax year 2022, 56,453 homeowners claimed the PTC for a total of \$33,425,647. However, most homeowners pay more property taxes than the maximum credit amount allowed. Therefore, while this proposal may reduce real residential property taxes, it will not reduce PTC claims by a corresponding amount.

Using data provided by DOR and the estimates shown above, B&P estimates that this provision may reduce PTC claims and increase GR by **\$2,566,285** annually beginning in FY26.

Summary

B&P estimates that this provision could reduce state revenues by \$6,613,800 annually beginning in FY26. In addition, this proposal could reduce total revenues by \$2,106,322,416 annually beginning in FY26. Table 2 shows the estimated net state impact.

Table 2: Estimated Impact by Fund

<u>State Funds</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
GR - Lower PTC Claims	\$2,566,282	\$2,566,282	\$2,566,282
Blind Pension - Lower Assessment	(\$9,180,083)	(\$9,180,083)	(\$9,180,083)
Net State Impact	(\$6,613,800)	(\$6,613,800)	(\$6,613,800)
<u>Local Funds</u>			
Property Tax Districts - Lower Assessment	(\$2,106,322,416)	(\$2,106,322,416)	(\$2,106,322,416)

Officials from the **Department of Revenue (DOR)** note currently residential property is assessed at a rate of 19% of appraised value, to determine its assessed value, which is used to calculate how much property tax is owed. This proposal starting January 1, 2025, would lower the rate from 19% to 15% for residential property, which would result in a reduction of the assessed value of the property by about 20%. This would result in less property tax being owed by taxpayers. The County Assessors and the State Tax Commission handle the assessment of real property. DOR will defer to them for the fiscal impact of this provision on the counties.

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 to the Blind Pension Fund.

The Department of Revenue administers the Senior Property tax credit (PTC) 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.

Here is the amount claimed each of the last three years.

Tax Year	Number of Filers	Amount Claimed
2020	142,947	\$82,894,597
2021	131,235	\$79,049,535
2022	120,672	\$70,079,033

If the assessment rate on the property goes down, then the amount of property tax paid goes down and the amount of the Senior Property Tax Credit that can be claimed would go down.

Since the renter's credit is based on the total amount of rent paid, and this proposal does not require rents to decrease, DOR assumes this will not impact the renters claiming the credit. 63,364 renters claimed \$36,106,983 of the total credits handed out in 2022.

This proposal is assumed to mostly impact the homeowners. When the homeowner's residential property tax is reduced as outlined by this proposal, this would result in a reduction of the amount of credits being issued. DOR notes the PTC credit is not only based on the amount of property tax paid but also the income of the taxpayer. Due to how the credit is awarded, DOR is not able to determine exactly how much this will reduce what can be claimed due to the income limits on the tax credits. In FY 2022, 56,457 homeowners claimed \$33,428,661 in credits. However, since the new assessment rate is approximately 20% less than the current, assuming a same 20% decrease in use of the PTC program by homeowners, DOR assumes potential savings up to \$6,685,732 annually.

Given this proposal starts on January 1, 2025, the first assessment period at the lower rate would be in December of 2025 and the first time the PTC credits would be claimed for that period is January 2026. Therefore, this will not result in an impact to general revenue until FY 2026.

Officials from the **Department of Social Services (DSS)** assume Section 137.115 is amended to change the residential real property (subclass 1), utility real property, industrial real property, commercial real property, railroad real property (subclass 3), as defined by [137.016 RSMo](#), tax rates and as follows:

Residential real property (subclass 1)	
For all calendar years ending on or before December 31, 2024	Nineteen percent of true value
For all calendar years beginning on or after January 1, 2025	Fifteen percent of true value

Commercial real property (subclass 3)	
For all calendar years ending on or before December 31, 2024	Thirty-two percent of true value
For all calendar years beginning on or after January 1, 2025	Fifteen percent of true value

Blind Pension (BP) is funded from 0.03% of each \$100 assessed valuation of taxable property. Reducing taxes on residential real property could impact the amount collected for the BP fund.

According to the [State Tax Commission Annual Report](#), in 2022, the total assessed valuation for all residential real property in the State of Missouri is \$70,946,826,909 and is currently assessed at 19% of true value in money. The total assessed valuation for all utility real property, industrial real property, commercial real property, and railroad real property is \$32,689,652,599 and are currently assessed at 32% of true value in money.

This proposed legislation will affect the BP fund as follows:

Calendar Year	True Value of Residential Real Property Assessed at Current Rate of 19%	Assessment Rate, as Amended Per Year	Amended Assessed Value of Real Residential Property	Residential Real Property Tax Collections for the BP Fund (0.03% of each \$100 assessed)	Reduction in Collections for the BP Fund
2024	\$373,404,352,153	19%	\$70,946,826,909	\$21,284,048	\$0
2025	\$373,404,352,153	15%	\$56,010,652,823	\$16,803,196	\$4,480,852
2026	\$373,404,352,153	15%	\$56,010,652,823	\$16,803,196	\$4,480,852

Calendar Year	True Value of Utility, Industrial, Commercial, and Railroad Assessed at Current Rate of 32%	Assessment Rate, as Amended Per Year	Amended Assessed Value of Utility, Industrial, Commercial, Railroad, and All Other Real Property	Utility, Industrial, Commercial, and Railroad Property Tax Collections for the BP Fund (0.03% of each \$100 assessed)	Reduction in Collections for BP Fund
2024	\$102,155,164,372	32%	\$32,689,652,599	\$9,806,896	\$0
2025	\$102,155,164,372	15%	\$15,323,274,656	\$4,596,982	\$5,209,913
2026	\$102,155,164,372	15%	\$15,323,274,656	\$4,596,982	\$5,209,913

Therefore, FSD estimates that the fiscal impact to the BP fund would be \$4,480,852 for residential real property and \$5,209,913 for utility, industrial, commercial, and railroad real property. FSD estimates that the total fiscal impact to the BP fund would be \$9,690,766 beginning SFY 26 and ongoing.

Officials from the **State Tax Commission (STC)** assume this 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 HB 1831, the percentage of true market value for residential properties in class 1 is reduced to 15% of the true market value. Using values for 2022 published on the State Tax Commission website, the residential assessed values accounts for 52.5% of the total assessment which would equal \$70,953,063,713.70. If the assessment percentage is reduced by 4%, the new assessed value for residential property would be \$56,015,576,616.07.

The loss in assessed value would correlate to a loss in taxes collected of \$1,010,583,949.19. The percentage of true market value for commercial property, class 3, is reduced from 32% to 15% of true market value. Again, using values for 2022 on the State Tax Commission website, the commercial assessed values account for 20.31% of the total assessment, which would equal \$27,448,699,505.24. If the assessment percentage is reduced by 17% the new assessed value for commercial property would be \$12,866,577,893.08. The loss in assessed value would correlate to a loss in taxes collected of \$986,277,418.11.

The total fiscal impact of the proposal would equal \$1,996,861,367.30. It is not possible to calculate values for the following 3 years of reductions due to changes in assessment of residential properties and tax levy increases or rollbacks.

Officials from the **Newton County Health Department** assume this would cause a negative fiscal impact to the Newton County Health Department in the amount of reduced property tax collected year by year due to passage of the bill.

Officials from the **Lincoln County Assessor** assume this would be detrimental to all taxing entities within the county in changing assessment ratios for the residential and commercial subclasses.

The county would lose \$144,743,998.00 in assessed value on the residential classed property

The county would lose \$61,304,519.00 in assessed value on the commercial classed property.

Using a tax rate of \$6.00 per \$100 assessed - the tax revenue loss would be over \$12.5 million.

(numbers are based off 2023 value totals for the county)

Officials from the **City of Kansas City** assume this legislation has a negative fiscal impact of an indeterminate amount on Kansas City.

Officials from the **Phelps County Sheriff, Kansas City Police Dept.,** and the **St. Louis County Police Department** 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.

**Oversight** assumes this proposal reduces the percentage at which real residential property and Commercial/Centrally Assessed property is assessed, effectively reducing the assessed value over time.

Property Type	Current	Proposed
Subclass (1) real property (residential)	19%	15%
Subclass (3) property (commercial/centrally assessed)	32%	15%

**Oversight** estimated the difference between the proposed assessed values and the 2023 assessed values in the table below according to the [State Tax Commission](#).

Property Type	Assessed Value (2023)	Full Value	Assessed Value Proposed	Difference
Residential Real Property	\$81,710,961,710	\$430,057,693,211	\$64,508,653,982	(\$17,202,307,728)
Centrally Assessed	\$6,954,055,409	\$21,731,423,154	\$3,259,713,473	(\$3,694,341,936)
Commercial	\$30,214,171,778	\$94,419,286,805	\$14,162,893,021	(\$16,051,278,757)
<b>Total</b>	<b>\$118,879,188,897</b>	<b>\$546,208,403,169</b>	<b>\$81,931,260,475</b>	<b>(\$36,947,928,421)</b>

**Oversight** notes the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)\*.03). Because this proposal limits the assessed value portion of this equation, the Blind Pension Fund will experience a decrease in revenue relative to what it would have received under current law. Oversight estimated the impact to the blind pension fund in the table below.

Property Type	Difference	Impact to Blind Pension Fund ((Total Assessed Value/100)*.03)
Residential Real Property	(\$17,202,307,728)	(\$5,160,692)
Centrally Assessed	(\$3,694,341,936)	(\$1,108,303)
Commercial	(\$16,051,278,757)	(\$4,815,384)
<b>Total</b>	<b>(\$36,947,928,421)</b>	<b>(\$11,084,379)</b>

**Oversight** calculated an effective local property tax rate of approximately 6.6%. Oversight used the effective local property tax rate to estimate the reduction of local property tax collections under this proposal.

Property Type	Property Tax Paid*	Assessed Value	Effective Local Tax Rate
Residential	\$5,360,052,061	\$81,710,151,058	<b>6.6%</b>
Central Assessed	\$456,261,716	\$6,954,055,409	<b>6.6%</b>
Commercial	\$1,982,907,667	\$30,214,171,778	<b>6.6%</b>

\*Excluding the Blind Pension Fund revenue.

Property Type	Difference in assessed value	Local impact (difference in assessed value x 6.6%)
Residential	(\$17,202,307,728)	(\$1,133,603,900)
Centrally Assessed	(\$3,694,341,936)	(\$243,497,339)
Commercial	(\$16,051,278,757)	(\$1,058,235,087)
<b>Total</b>	<b>(\$36,947,928,421)</b>	<b>(\$2,435,336,327)</b>

**Oversight** notes 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. Property tax rates will be impacted by this proposal.

**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.

**Oversight** notes this proposal starts on January 1, 2025, the first assessment period at the lower rate would be in December of 2025. Oversight will note the fiscal impact to the Blind Pension Fund and local political subdivisions beginning in FY 2026.

**Oversight** notes that this proposal may also impact the amount of claims for the senior property tax credit. For the purpose of this fiscal note, Oversight will note B&P's estimated impact for the revenue savings to general revenue from the reduced claims beginning in FY 2026.

**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.

#### Rule Promulgation

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

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE</b>			
<u>Revenue Savings</u> - §137.115 - Reduction in property tax credit redemptions if taxpayers pay less in property taxes p. 4	\$0	\$2,566,282	\$2,566,282
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>\$2,566,282</b>	<b>\$2,566,282</b>
<b>BLIND PENSION FUND</b>			
<u>Revenue Reduction</u> - §137.115 - Real residential property taxes change in assessed value	\$0	(\$5,160,692)	(\$5,160,692)
<u>Revenue Reduction</u> - §137.115 - Centrally assessed property change in assessed value	\$0	(\$1,108,303)	(\$1,108,303)
<u>Revenue Reduction</u> - §137.115 - Commercial property change in assessed value	\$0	(\$4,815,384)	(\$4,815,384)
<b>ESTIMATED NET EFFECT ON BLIND PENSION FUND</b>	<b>\$0</b>	<b>(\$11,084,379)</b>	<b>(\$11,084,379)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Reduction</u> - §137.115 - Real residential property taxes change in assessed value	\$0	(More or Less than \$1,133,603,900)	(More or Less than \$1,133,603,900)
<u>Revenue Reduction</u> - §137.115 - Centrally assessed property change in assessed value	\$0	(More or Less than \$243,497,339)	(More or Less than \$243,497,339)
<u>Revenue Reduction</u> - §137.115 - Commercial property change in assessed value	\$0	(More or Less than \$1,058,235,087)	(More or Less than \$1,058,235,087)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b>(More or Less than <u>\$2,435,336,327</u>)</b>	<b>(More or Less than <u>\$2,435,336,327</u>)</b>

\*Oversight notes this impact could be substantially reduced if taxing authorities are able to increase the levy to other taxpayers to make up for the loss of property tax revenue resulting from this proposal.

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

Currently, the subclasses of real property are assessed as follows:

- (1) Residential property: 19% of its true value in money;
- (2) Agricultural and horticultural property: 12% of its true value in money; and
- (3) Utility, industrial, commercial, railroad, and all other property not included in Subclasses (1) and (2): 32% of its true value in money.

Beginning January 1, 2025, the subclasses of real property shall be assessed as follows:

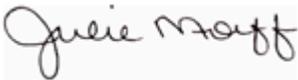
- (1) Residential property: 15% of its true value in money;
- (2) Agricultural and horticultural property: 12% of its true value in money; and

- (3) (3) Utility, industrial, commercial, railroad, and all other property not included in Subclasses (1) and (2): 15%.

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 Revenue  
Department of Social Services  
State Tax Commission  
Office of the Secretary of State  
Joint Committee on Administrative Rules  
Newton County Health Department  
Lincoln County Assessor  
City of Kansas City  
Phelps County Sheriff  
Kansas City Police Dept.  
St. Louis County Police Dept  
Office of the State Auditor



Julie Morff  
Director  
February 20, 2024



Ross Strobe  
Assistant Director  
February 20, 2024