COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5807S.03I
Bill No.: SJR 59
Subject: Constitutional Amendments; Taxation and Revenue - Property; Taxation and Revenue - Sales and Use
Type: Original
Date: March 30, 2022

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 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
General Revenue	$0 or (More than $7,000,000)	$0	$0 or Could exceed $90,244,428	$0 or Could exceed $90,244,428
Total Estimated Net Effect on General Revenue	**$0 or (More than $7,000,000)**	**$0**	**$0 or Could exceed $90,244,428**	**$0 or Could exceed $90,244,428**

*The potential fiscal impact of "(More than $7,000,000)" would be realized **only** if a special election were called by the Governor to submit this joint resolution to voters. Also, other fiscal impacts are ranged from "$0" (joint resolution is defeated by voters) to an estimated impact.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
Blind Pension Fund	$0	$0	$0 or Less than ($30,322,405)	$0 or Less than ($30,322,405)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0 or Less than ($30,322,405)**	**$0 or Less than ($30,322,405)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
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 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
Local Government	**$0***	**$0**	**(Unknown, Significant)**	**(Unknown, Significant)**

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

FISCAL ANALYSIS

ASSUMPTION

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 $7 million based on the cost of the 2020 Presidential Preference Primary.

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 FY22 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 2023. 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 2022 and the next scheduled general election is in November 2022 (both in FY 2023). 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 2023.

Officials from **Office of Administration - Budget and Planning (B&P)** state 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 2022 and if approved, would become effective January 1, 2024.

Article X, Section 4(e).1 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 $3,323,751,900 during tax year 2020. 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 $3,323,751,900 annually, beginning in FY25.

Article X, Section 4(e).2 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.

Article X, Section 4(e).3 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.

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.

Article X, Section 26 would exempt sales tax on real property from the current prohibition on expanding sales tax.

Concerns
B&P notes the following concerns with this proposal:

- Article X, Section 4(e).1 – this would prohibit all county and political subdivision from levying a property tax on real property. B&P notes that Article III, Section 38(b) allows for a statewide property tax on all property (real and personal) for the purpose of funding the Blind Pension Trust Fund. B&P further notes that this section appears to conflict with Article III, Section 38(b). B&P is unsure of how this conflict would be resolved. However, it appears that under the proposed language there would be two potential options.
    - The Blind Pension levy remains in place – under this scenario the real property tax collections would remain for the Blind Pension Trust Fund. However, under the language in this proposal counties must distribute sales tax collections under the same manner as the current property tax distribution. This would mean that in addition to the property tax levy, the Blind Pension Trust Fund would also receive a portion of the sales tax collections. B&P notes that this would require county assessors to maintain yearly assessments to levy and collect the Blind Pension property tax revenues in addition to levying and collecting sales tax revenues.
    - The Blind Pension levy is eliminated – under this scenario the property tax levy for the Blind Pension Trust Fund would no longer be applied to real property. B&P estimates that this could have significant negative impacts on revenues to the Blind Pension Trust Fund and thus on payments made from the trust fund.
- Article X, Section 4(e).2 – it is unclear whether allowing a sales tax on the sale of real property would also open up the transactions to the levy of existing state and local sales taxes in addition to the sales tax levied under this proposal. If so, B&P notes that the population weighted total local sales tax rate on real property would be 16.51% (4.225% state sales tax + 4.03% population weighted local sales tax + 8.255% population weighted proposed real estate sales tax).
- Article X, Section 4(e).2 – B&P notes that currently property taxes are levied and collected annually. Under this proposal, sales taxes would only be collected upon the transfer of the title for real property. B&P further notes that the sale of real property is lumpy, with significant swings in the number and price of property that is sold in any given year. This will have significant cash flow impacts to all taxing jurisdictions that receive real property tax revenues.
- Article X, Section 4(e).2 – B&P notes that the State Tax Commission (STC) determines the property tax assessment values for centrally assessed properties, such as utilities. It is unclear how this proposal would impact centrally assessed properties since only counties

are allowed to levy and collect the proposed sales tax. B&P defers to STC for more detailed information.

- Article X, Section 4(e).2 – B&P notes that the term "taxpayer" is not defined within this section. Typically, it is the buyer's responsibility to pay the sales tax, but the seller's responsibility to collection and remit sales tax. It is unclear which taxpayer (buyer or seller) would be responsible for the payment of the proposed sales tax. This could create confusion and result in lower sales tax collections.
- Article X, Section 4(e).2 and Section 4(e).3 – the language in these sections would require financial institutions acting as mortgage servicers to remit the sales tax from escrow accounts with one payment. However, the language does not specify whether the one payment is for all escrow account liabilities or all escrow account liabilities within a single county. As written, it appears as if the financial institution is responsible for making a single payment to a single entity. At which point it would be the receiving entity's responsibility to distribute that payment to all of the impacted counties.
- Article X, Section 4(e).3 – this section would levy a sales tax on the remaining mortgage balance for all real property sold prior to January 1, 2024. B&P notes that county assessors do not have access to mortgage balances held by any financial institution. Therefore, it is unclear how this section would actually be implemented. B&P assumes that county assessors could ask real property tax owners to voluntarily submit their mortgage balance, but there would be no way for the county assessor to verify the amount. Therefore, B&P assumes that little to no actual revenue will be generated from this provision.

Revenue Impacts

Based on data published by the U.S. Census Bureau 20.3% of homes in Missouri were sold within the first five years of ownership during 2020, while 17.6% 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 2020, by Length of Ownership

Length of Homeownership	% of Homes	# of Homes Sold
< 5 years	20.3%	314,560
5 - 10 years	17.1%	264,186
11 - 20 years	28.3%	437,976
21 - 30 years	16.7%	258,474
31+ years	17.6%	272,990

Based on additional data published by the U.S. Census Bureau, the median home price in Missouri during 2020 was $163,600. B&P notes that the population weighted state + local sales tax rate in Missouri was 8.255% in 2021 (4.225% state rate + 4.03% population weighted local rate). Therefore, B&P estimates that the sales tax due for the median Missouri priced home would be $13,505 ($163,600 x 8.225%). 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 $12,370,626,700. 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 only 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	$4,248,132,800
Collections over first 10 years	$7,815,964,730
Collections over first 20 years	$13,730,830,610
Collections over first 30 years	$17,221,521,980
Collections over first 31+ years	$20,908,251,930
Current Law	Current Property Tax
Collections over first 5 years	$16,618,759,500
Collections over first 10 years	$33,237,519,000
Collections over first 20 years	$66,475,038,000
Collections over first 30 years	$99,712,557,000
Collections over first 31+ years	$132,950,076,000
Difference between Proposed and Current	Estimated Impact
Collections over first 5 years	($12,370,626,700)
Collections over first 10 years	($25,421,554,270)
Collections over first 20 years	($52,744,207,390)
Collections over first 30 years	($82,491,035,020)
Collections over first 31+ years	($112,041,824,070)

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.

Officials from the **Department of Revenue (DOR)** state this is a joint resolution that would be required to go to the vote of the people on November 8, 2022. 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.

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.

Starting January 1, 2024, in lieu of a residential property tax a county can 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.

In Jefferson City, a home sold would be assessed a sales tax of 7.725%. That would include the 4.225% state rate, 1.5% Cole County rate and 2% imposed by the City. Therefore if a person sold a home for $200,000 they would owe $15,450 in sales tax under this proposal.

This proposal does not make clear if the constitutionally created Blind Pension Fund would still be allowed to assess their property tax on all properties. 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.

In Section 4(e).3 would allow all counties to collect a sales tax on any property that had a mortgage as of January 1, 2024. The sales tax would be on the outstanding balance of the mortgage on that day. 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 the outstanding balance was.

This proposal outlines methods of the payment of the sales tax.

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

Officials from the **Department of Social Services (DSS)** state 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 2021 was $37,550,966 or approximately $37.6 million (rounded up). 80.75 % is real property revenue; therefore, the total real property revenue for BP is $30,322,405 ($37,550,966 * 0.8075= $30,322,405.05 round down). In SFY 2021, an average of 3,769 BP recipients received a cash grant from the BP fund. The BP cash grant amount for SFY 2022 is $750 per person per month. FSD assumes that this amount will decrease by approximately $683 to $67 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, the fiscal impact to FSD is up to $30,322,405 annually beginning in SFY 2024.

Officials from the **State Tax Commission** have determined 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 **Missouri Department of Conservation** anticipate an unknown positive fiscal impact.

Officials from the **Department of Elementary and Secondary Education** and the **Department of Natural Resources** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **County Employees' Retirement Fund (CERF)** indicate that this proposal would have a negative fiscal impact to the CERF. Moneys that are used to fund the CERF 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 CERF received total fee revenues of $35,587,162. Of this $35,587,162, the following amounts received were tied to the collection of property taxes:

2021 Collector Late Property Tax Penalties: $15,397,499 (43% of fee revenue)

2021 Assessor Late Assessment Penalties: $11,106,885 (31% of fee revenue)

Total: $26,504,384 (74% of total fee revenues)

CERF notes that the amount of these revenues fluctuates from year to year. However, for purposes of this response to Fiscal Oversight, CERF assumes revenue losses of $26,504,384 for both 2024 and 2025 (the amount of these fees received in 2021.)

Officials from the **Lincoln County Assessor's Office** and the **Florissant Valley Fire Protection District** stated there would be an impact but were unable to estimate it.

Officials from the **Boone County Collector's Office** state approximately $183.2 million was billed in 2021 on class 1 real property for taxing entities within Boone County, Missouri. Of this amount, approximately $148.9 million was billed for local school districts.

Officials from the **Cole County Collector's Office** state the proposal would estimate the impact using an example. A house is currently appraised for $222,200 and the ad valorem tax is $2,540 per year. If the house sold today for that amount times the maximum tax rate in the city of 8.73%, the sales tax would be $19,398 paid over 15 years would be $1,293 annually. A savings of $1,247 a year or $18,704 over the 15 years. Multiply that by the hundreds of houses that sell each year and it is a pretty substantial blow to the taxing entities, schools in particular.

The estimated impact is:

1. Substantial loss of revenue for taxing entities.
2. Inability to budget as you have no idea how a homeowner will decide they want to pay their sales tax.
3. Excessive cost to implement as no collector's software has the ability to collect or distribute taxes based on this method.
4. How does this affect delinquent taxes? Or are delinquent taxes done away with?
5. How this affects the Delinquent Tax Certificate Sale or is it done away with?
6. How this affects PACE loans, TIF's, NID's, CID's, etc. that are all tied to the current taxing system.
7. How do you determine the sales price as currently there is nothing in state statutes that requires that information to be disclosed by the seller or buyer?

For information purposes Cole County ad valorem taxes on class 1 residential property was approximately $45,000,000 on 28,575 parcels making the average tax bill $1,575 for 2021. The total appraised value on residential property in 2021 was $4,072,593,954. If you multiply that by the 8.73% sales tax rate the total revenue generated would be $355,537,452. Divide that by 15 years and the total is $23,702,497 or a loss of $21,297,503 in revenue each year.

Officials from the **Ste Genevieve County Collector's Office** state the amount of real estate tax charged in Ste Genevieve County in tax year 2021 was nearly $35 million, or 83% of all property and levee tax charged for the tax year. There were 18,575 real estate parcels in 2021. The Ste. Genevieve County Collector tax software does not have the capability to accommodate any taxes due in annual installments over periods of five, ten, or fifteen years, much less just real estate taxes.

If this legislation passes, there would have to be a significant software program change. The cost of that change is undetermined. There are at least seventeen different tax software systems plus seven in-house systems used by County Collectors across the state, all of which would likely have to make the programming change. Otherwise, the Collectors would all have to manually track these real estate "sales tax" installments outside the tax software (for over 18,000 thousand accounts), which would require additional staff. The cost of additional staff could cost Ste. Genevieve County at least $123,500 annually. Some manual tracking may be necessary regardless of software changes.

It is unclear how this legislation would impact the imposition of interest and penalty on delinquent taxes. In the Collector Year ended February 2022, total interest and penalty on all delinquent real estate tax was $61K and $50K respectively. The interest is distributed to the respective taxing entities. The penalties/fees are distributed to the County, CERF, etc. It is also unclear how this legislation would impact the annual land tax sale, which is imposed on properties that are three or more years delinquent in property taxes to collect for those taxes due.

Officials from **Hazelwood School District** state it would be difficult to place an exact dollar amount on this, but certainly a major concern is that any revenue would be subject to the ebb and flow of consumer purchasing and would likely create instability in school district funding.

Officials from the **Fruitland Area Fire Protection District** state this legislation would create a major fiscal impact on the Fire Protection District. Their funding is completed based on property taxes. They do not have the exact numbers on sales tax collected within their Fire Protection District, however they are a rural area. In a conversation with their County Collector's office, the data they have is county wide and without knowing all of the businesses within their response area. They do not have a large business base that would generate enough sales tax for them to continue providing the service that their citizens expect us to provide. Since they are a combination organization with paid staff as well as paid on call staff, they would not be able to pay their employees, make equipment payments, purchase new equipment, etc.

Officials from the **St. Charles Community College**, **Newton County Health Department**, and the **City of Claycomo** each assume the proposal will have no fiscal impact on their respective organizations.

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.

Current Law
Market Value = $100,000
Assessed Value = $19,000
Springfield, MO Property Tax Rate = 5.3822 per 100 dollars of assessed value
Tax Due = $1,023 (annually)

Proposed Law - Transfer of Property
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

Proposed Law - Mortgage Remainder
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 2024 (with revenues being realized in December 2024 or FY 2025). 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 2021 was $8,957,388,739.

- Residential accounted for 52.54%
- Commercial accounted for 20.19%
- Centrally Assessed accounted for 4.60%
- Agricultural accounted for 1.47%
- Motor Vehicles accounted for 12.22%
- Other Personal Property accounted for $5.52%
- Surtax accounted for 3.47%

Oversight assumes there would be a loss of approximately 78.8% or $7,058,422,326 (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 2018 - $98,808,490
FY 2019 - $83,216,728
FY 2020 - $88,707,437
Average - $90,244,248

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). Also, 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 assume these would be indirect effects.

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.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2038)
GENERAL REVENUE				
Transfer Out – SOS – reimbursement of Local Election Authorities election costs **if** special election is called for by the Governor	$0 or (More than $7,000,000)	$0	$0	$0
Cost Avoidance - from no longer issuing Senior Property Tax Credits (p.13)	$0	$0	$0 or $90,244,428	$0 or Could exceed $90,244,428
Savings - **if** STC staff can be reduced (p.13)	$0	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or (More than $7,000,000)**	**$0**	**$0 or Could exceed $90,244,428**	**$0 or Could exceed $90,244,428**
BLIND PENSION FUND				
Revenue Loss - from the prohibition of a tax being levied on real property **if** applicable (p.9)	$0	$0	$0 or ($30,322,405)	$0 or Could exceed ($30,322,405)
Revenue Gain - from a sales tax being imposed on real property **if** applicable	$0	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	**$0**	**$0**	**$0 or Less than ($30,322,405)**	**$0 or Less than ($30,322,405)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2026)
LOCAL POLITICAL SUBDIVISIONS				
Transfer In - Local Election Authorities reimbursement of election costs by State for a special election	$0 or More than $7,000,000	$0	$0	
Costs - Local Election Authorities cost of a special election **if** called for by the Governor	$0 or (More than $7,000,000)	$0	$0	
Costs - to Collectors - staff and/or software to implement	$0	$0	(Unknown)	(Unknown)
Savings - to Assessors - **if** real property assessments and appraisals are no longer required	$0	$0	$0 or Unknown	$0 or Unknown
Revenue Loss - from the prohibition of a tax being levied on real property	$0	$0	($7,028,099,921)	Could exceed ($7,028,099,921)
Revenue Gain - from a sales tax being imposed on real property	$0	$0	Unknown, Significant	Unknown, Significant
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**(Unknown, Significant)**	**(Unknown, Significant)**

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 Elementary and Secondary Education
Department of Natural Resources
Department of Revenue
Department of Social Services
Missouri Department of Conservation
Office of the Secretary of State
Office of the State Auditor
City of Claycomo
Newton County Health Department

JLH:LR:OD

Lincoln County Assessor
Boone County Collector
Cole County Collector
Ste Genevieve County Collector
Florissant Valley Fire Protection District
Fruitland Area Fire Protection District
County Employees Retirement Fund
Hazelwood School District
St. Charles Community College

Julie Morff
Director
March 30, 2022

Ross Strope
Assistant Director
March 30, 2022