

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1498-01
Bill No.: HJR 40
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Constitutional Amendments
Type: Original
Date: April 2, 2019

Bill Summary: This proposal introduces constitutional provisions relating to a tax exemption for certain senior citizen property owners.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (\$7,800,000)	\$0 or \$35,700,000	\$0 or \$35,700,000
Total Estimated Net Effect on General Revenue	\$0 or (\$7,800,000)	\$0 or \$35,700,000	\$0 or \$35,700,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0 or (Unknown over \$390,200,000)	\$0 or (Unknown over \$390,200,000)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal requires voter approval at the November 2020 election. B&P notes that while the exemption would not be approved until November 2020, it would apply for all tax years beginning on or after January 1, 2020. B&P notes that this would give local jurisdictions less than two month to put the exemptions in place before tax year 2020 property taxes must be paid. In addition, this would only give DOR two months to institute checks with locals when verifying Senior Property Tax Credit (PTC) claimants did not also receive a property tax credit. B&P notes that since November 2020 would occur after the start of FY 2021, B&P will show all impacts as beginning in FY 2021.

This proposal would create a property tax exemption for taxpayers who are eligible to receive full social security retirement benefits. Eligible taxpayers must own their residence with no outstanding obligations for at least two years. Taxpayers would be exempt from 20% of local real property taxes paid in the first year they qualify for the credit. The percentage of local real property taxes paid covered by the exemption increases yearly, until the credit covers 100% of paid property taxes in the fifth year that an individual qualifies.

B&P notes that while the exemption would not begin until January 1, 2020 the exemption percentage allowed would be retroactive to the year after such individual reached the age eligible to receive full social security retirement benefits. For example: A qualified individual who reached the required age in 2015 would be eligible for a 100% exemption beginning January 1, 2021. Therefore, B&P will show the full estimated loss from this proposal during the first tax year the exemption would be available.

Using data provided by the United States Census Bureau, the average median real estate taxes paid on homes without a mortgage was \$1,232 in Missouri during 2017. In addition, approximately 318,573 homeowners in Missouri were age 65 or older and resided in mortgage free owner-occupied housing. Based on the above information, B&P estimates that approximately \$392.4 million (\$1,232 taxes x 318,573 homeowners) in real estate taxes paid could be offset by this tax credit. Based on information provided by the Department of Revenue, the average property tax rate in Missouri is 5.0%; therefore, B&P estimates that this proposal would exempt approximately \$7.85 billion in real estate assessed values from local taxation.

B&P notes that this proposal would only exempt local real property taxes paid. B&P further notes that the Blind Pension Trust Fund levies a property tax of \$0.03 per \$100 valuation. Therefore, B&P estimates that of the \$392.4 million in real estate taxes paid approximately

ASSUMPTION (continued)

\$2.4 million (\$7.85 billion in property values x \$0.03/\$100 assessed value) would remain taxable. Therefore, B&P estimates that this proposal will reduce local property tax receipts by \$390.1 million annually beginning in tax year 2020, if approved by voters.

B&P notes that this proposal would require qualified individuals who make use of a service within a district that levies a property tax for such services to pay that portion of the property tax in the year that service was used. For example: if an individual uses ambulance services in 2022, that individual would be required to pay the property tax levy for the ambulance district in 2022. B&P notes that enforcement of this provision could be extremely difficult.

B&P notes that this bill does not allow any taxpayers to claim both this exemption and any other tax exemption, tax credit, or tax incentives with respect to any local real property tax exempted by this proposal. This would prevent individuals claiming the exemption from also claiming the Property Tax Credit. Based on the data from the Census Bureau, B&P estimates that of individuals age 65 and older who own their homes, 66% of such individuals own their homes with no mortgage. Based on information provided by DOR, there was approximately \$35.7 million in PTCs paid during FY 2018 that could also be eligible for the tax exemption in this proposal (66% of all homeowner PTC claims of \$54.1 million). Therefore, B&P estimates that this proposal may increase General Revenue by \$0 (no one takes the property tax exemption) to \$35.7 million (all qualified individuals claim local exemption).

Therefore, B&P estimates that this proposal may reduce local real property tax revenues by \$0 or \$390.1 million annually beginning in FY 2021, depending on voter approval. This proposal may also increase General Revenue by \$0 to \$35.7 million annually beginning in FY 2021, depending on voter approval.

Oversight will show the estimates provided by B&P in the fiscal note.

Officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

Officials at the **University of Missouri Economic & Policy Analysis Research Center** assume this constitutional amendment would authorize a tax credit for senior citizen property owners. Unfortunately, we are not able to estimate the number of senior citizens who own their property free-and-clear of any obligation, nor are we able to estimate the assessed valuations of said properties. Therefore, we are unable to provide an impact estimate of this bill.

ASSUMPTION (continued)

Officials at the **Office of the Secretary of State (SOS)** assume Missouri public libraries reported to the State Library via the Public Library Survey, income from local property taxes of \$239,826,149 in 2017. What is unknown is the assessed valuation of property owned by the population specified in this bill.

Additionally, SOS assumes 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 \$7.8 million based on the cost of the 2016 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.

In FY19, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

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, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

ASSUMPTION (continued)

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 2020. 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 2020 and the next scheduled general election is in November 2020 (both in FY 2021). 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. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2020.

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials at the **Howell County Assessor** assume that they may lose \$1.6 million to \$2 million in tax receipts and \$24,000 to \$30,000 to the local assessment fund.

Officials at the **Clay County Assessor** assume that 30% of the county is elderly and could cost an estimated \$120 million in revenue.

Officials at **Harrison County** assume they are not able to calculate an impact as they have no idea how many seniors would be exempted.

Officials at the **Ste. Genevieve County** assume that approximately 18.9% of the population is over age 65. The estimate of the loss is \$909,000.

Oversight notes that starting on January 1, 2020 a person who qualifies for full Social Security retirement benefits and owns their home (without obligation) is qualified for a local real property tax exemption. Oversight notes a person becomes eligible for full Social Security retirement benefits at the following age:

ASSUMPTION (continued)

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

The property tax exemption is 20% in the taxpayer's first year of qualification, 40% in the taxpayer's 2nd year of qualification, 60% in the taxpayer's third year of qualification, 80% in the taxpayer's 4th year of qualification and 100% for each year thereafter. Oversight notes that beginning on January 1, 2020 a taxpayer could be immediately at 100% based on when they would have been eligible for full Social Security benefits.

Oversight notes this proposal would result in additional costs to the County Assessors to track who in their county is exempt and who pays taxes. Oversight will show a cost to the County Assessors of Unknown over \$100,000.

This proposal states that if a qualified taxpayer uses a special taxing district service (such as ambulance districts) in a year then the taxpayer must pay the tax for that special tax district. This would decrease the loss to those districts from the exemption stated above. Oversight will show an Unknown loss reduction from this portion of the proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue</u> - DOR §27 taxpayers no longer claiming the senior property tax credit	\$0	\$0 or \$35,700,000	\$0 or \$35,700,000
<u>Transfer Out</u> - Local Election Authorities the cost of the special election if called for by the Governor	<u>\$0 or</u> <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u><u>\$0 or</u></u> <u><u>(\$7,800,000)</u></u>	<u><u>\$0 or</u></u> <u><u>\$35,700,000</u></u>	<u><u>\$0 or</u></u> <u><u>\$35,700,000</u></u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISION FUNDS			
<u>Transfer In</u> - to Local Election Authorities the cost of a special election	\$0 or \$7,800,000	\$0	\$0
<u>Cost</u> - Local Election Authorities the cost of the special election if called for by the Governor	\$0 or (\$7,800,000)	\$0	\$0
<u>Revenue Reduction</u> - Locals §27 senior taxpayers receiving a property tax exemption	\$0	\$0 or (\$390,100,000)	\$0 or (\$390,100,000)
<u>Costs</u> - Assessors - detailed tracking of use of special district services	\$0	\$0 or (Unknown over \$100,000)	\$0 or (Unknown over \$100,000)
<u>Loss reduction</u> - Assessors - property tax collected for use of special districts	\$0	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION FUNDS	\$0	\$0 or <u>(Unknown over \$390,200,000)</u>	\$0 or <u>(Unknown over \$390,200,000)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment authorizes a tax exemption phased-in at 20% increments over five years to equal 100% of the amount of real property tax paid on a senior citizen's primary residence.

To qualify, the senior citizen or his or her spouse must be eligible for full social security retirement benefits the year prior to the credit and must have owned his or her home free of any

FISCAL DESCRIPTION (continued)

obligation for at least two years. A senior citizen may move and waive the two year ownership requirement, provided the new primary residence is wholly owned and free of any obligation. If the property becomes subject to an encumbrance during the phase-in, the senior citizen will no longer be eligible for the property tax exemption. However, the senior citizen will automatically become re-eligible and will be re-credited with any previously accumulated years of eligibility in the first year following the year in which the encumbrance is removed.

The exemption would also apply to senior citizens who have placed their primary residence in trust to a third party. If the eligible taxpayer dies, and the surviving spouse is not for full social security retirement benefits, they will not be allowed to receive the exemption until they obtain the age required for full social security retirement benefits.

No individual may claim this tax exemption with any other tax exemption, tax credit, or tax incentive with respect to any local property tax exempted.

Additionally, any qualified taxpayer that utilizes a service in a political subdivision that is authorized to impose a real property tax will be liable to pay that portion of their property tax for that tax year.

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

Clay County Assessor
Harrison County
Howell County Assessor
Joint Committee on Administrative Rules
Office of Administration Division of Budget and Planning
Office of the Secretary of State
Ste. Genevieve County
University of Missouri Economic & Policy Analysis Research Center



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