

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1197H.03P
 Bill No.: Perfected HCS No. 2 for HB 713
 Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal; Motor Vehicles; County Officials; State Tax Commission
 Type: Original
 Date: March 1, 2023

Bill Summary: This proposal modifies provisions relating to motor vehicle assessment valuations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	\$0	(Unknown, less than \$300,000)	(Unknown, less than \$300,000)
Total Estimated Net Effect on General Revenue	\$0	(Unknown, less than \$300,000)	(Unknown, less than \$300,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Blind Pension Fund (0621)	\$0	\$0	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	(Unknown)

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	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 2024	FY 2025	FY 2026
Local Government	\$0	\$0	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** note HA1 adds farm machinery to the definition of motor vehicles. B&P notes that this provision would increase the number of items that would qualify under the newly proposed depreciation schedule. Therefore, this provision may impact revenues to the Blind Pension Trust Fund.

HA2 would expand the allowable national automotive publications that may be used to determine a motor vehicle's market value for tax year 2023. Beginning with tax year 2024, county assessor must use a vehicle's MSRP and proposed depreciation schedule to determine a motor vehicle's market value. B&P notes that to the extent this changes the market value assigned to vehicles, this could result in an impact to the Blind Pension Trust Fund.

B&P notes that it is unclear whether farm machinery (HA1) would be include in the perfected version of this bill as HA2 replaced the language that HA1 had been drafted to amend.

Officials from the **State Tax Commission (STC)** note this proposal has an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The bill would require additional FTE for the State Tax Commission to receive the Manufacturer Suggested Retail Price (MSRP) from a vendor and then configure that data to fit the multiple assessment programs used in the state. Based on a response from a potential vendor, the STC assumes the cost of the MSRP data and additional FTE will be less than \$300,000. The cost of licensing for each county in the state is unknown.

STC notes the bill allows for all currently assessed vehicles to use a previously assessed value in the depreciation schedule, but the MSRP would have to be obtained for each new vehicle and used vehicles purchased from outside of the state by Vehicle Identification Number. The current system uses average trade in value listed in the October issue of the National Automobile Dealers Association guide and that value will be less than the starting value of MSRP in most cases, which could cause an increase in assessments. The use of a depreciation schedule would require that the vehicle values decrease each year regardless of the true market values, which could cause a decrease in the assessments generated. The depreciation schedule stopping after 15 years would cause a reduction due to approximately 33% of vehicles being removed from assessment.

STC notes the bill was amended to include Farm Machinery and Tractors that would require a MSRP value and be placed on the depreciation schedule. The amendment would have an unknown fiscal impact. The second amendment to allow other pricing guides and multiple years for the assessment will not have a fiscal impact on the STC. The bill also requires all of the software used in the counties to meet minimum standards which could require a cost to some counties for upgrades.

Oversight is unsure when the STC will incur the additional costs and require the additional FTE. Therefore, we will reflect this fiscal impact to the STC in fiscal years 2025 and 2026.

Officials from the **Department of Social Services** assume Section 137.115.9 is amended to require the assessors to use a nationally recognized automotive trade publication to determine the value of motor vehicles for the tax year ending on or before December 31, 2023. The state tax commission shall determine which publication shall be used. Beginning January 1, 2024, assessors are required to use the manufacturer’s suggested retail price for all manufactured motor vehicles as acquired annually by the state tax commission for the original value in money of all motor vehicle assessment valuations. A fifteen-year depreciation schedule shall be applied to each manufacturer’s suggested retail price.

Blind Pension (BP) is funded from 0.03% of each \$100 assessed valuation of taxable property. Assessing vehicles based on the suggested depreciation schedule could impact the amount received for the BP fund. According to the [2022 State Tax Commission Annual Report](#), \$20,659,394,897 of the \$135,215,666,531 total assessed valuation for the State of Missouri comes from vehicles including recreational vehicles. Therefore, approximately \$6,197,818 [$(\$20,659,394,897/100)*0.03 = \$6,197,818.47$, rounded down] in property tax revenue is collected from motor vehicles.

Motor vehicles are currently assessed based on a recommended guide of information for determining the true value of a motor vehicle and includes vehicles that are greater than fifteen years of age in the assessment. According to the State Tax Commission, the proposed change to assess vehicles based on a depreciation schedule could result in a reduction in tax revenue from motor vehicles of up to 10.3%. Therefore, FSD estimates that the potential impact to the BP fund would be a decrease of up to \$638,375 ($\$6,197,818*0.103 = \$638,375.25$, rounded down).

Tax Collection Year	True Value of Motor Vehicles Assessed at Current Rate of 33 1/3%	Assessment Rate	Assessed Value of Motor Vehicles	Tangible Personal Property Tax Collections for the BP fund (0.03% of each \$100 assessed)	Percentage Reduction in Motor Vehicle Assessment	Reduction in Collections for the BP Fund
2025	\$61,984,383,129	33 1/3%	\$20,659,394,897	\$6,197,818	10.3%	\$638,375

According to the [2022 State Tax Commission Annual Report](#), \$509,487,451 of the \$135,215,666,531 total assessed valuation for the State of Missouri comes from Farm Machinery

total assessed valuation for the State of Missouri comes from vehicles including recreational vehicles. Therefore, approximately \$152,846 $[(\$509,487,451/100)*0.03 = \$152,846.24$, rounded down] is collected in the BP fund from Farm Machinery tax revenue. The State Tax Commission is unable to identify the age of farm machinery or provide an estimate on the effect of exempting farm machinery that is greater than fifteen years of age from taxation; therefore, the effect is unknown. The Family Support Division (FSD) assumes that it will result in a reduction in tax revenue from farm machinery of up to 10.3%. Therefore, FSD estimates that the tax revenue from farm machinery collected in the BP fund could decrease up to \$15,743 $(\$152,846*0.103 = \$15,743.14$, rounded down).

Tax Collection Year	True Value of Farm Machinery Assessed at Current Rate of 12%	Assessment Rate	Assessed Value of Motor Vehicles	Tangible Personal Property Tax Collections for the BP fund (0.03% of each \$100 assessed)	Percentage Reduction in Motor Vehicle Assessment	Reduction in Collections for the BP Fund
2025	\$4,245,728,758	12%	\$509,487,451	\$152,846	10.3%	\$15,743

Therefore, FSD estimates that the fiscal impact to the BP fund as a result of this legislation would be \$654,118 $(\$638,375 + \$15,743)$ in SFY 25 and ongoing.

In response to a previous version (HCS #2 HB 713), officials from the **Cape Girardeau County Assessor** assume this revision will result in an annual net loss of property tax revenue of \$1.5 million or greater to Cape Girardeau County alone.

In response to a previous version (HCS #2 HB 713), officials from the **Lincoln County Assessor** assume this proposal would cause a tax burden shift to the real property owners with the reduction of personal property valuations.

The **County Employees' Retirement Fund (CERF)** has reviewed the perfected version of HCS#2/HB 713. CERF indicates that this proposal would likely result in reductions in contribution revenue to CERF of an unknown amount annually. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. Data is not available to quantify how changes to motor vehicle assessments would impact contribution revenue but CERF assumes there would be a negative impact.

Officials from the **City of Springfield** stated this proposal would have a negative fiscal impact on their respective city of an indeterminate amount.

Officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their organization.

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 this proposal has an emergency clause.

Oversight notes this proposal would impact the assessed value of personal property over time. Oversight doesn't have enough information to estimate a fiscal impact to the Blind Pension Fund or to local political subdivisions from these changes. Therefore, Oversight will show an unknown loss in property tax revenue 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.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Costs – State Tax Commission – §137.115 – Software/programming and additional FTE costs</u>	\$0	<u>(Unknown, less than \$300,000)</u>	<u>(Unknown, less than \$300,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(Unknown, less than \$300,000)</u>	<u>(Unknown, less than \$300,000)</u>
BLIND PENSION FUND			
<u>Revenue Reduction - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method</u>	\$0	\$0	(Unknown)
<u>Revenue Change - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method</u>	\$0	\$0	(Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Costs</u> – Counties – §137.115 - to administer the changes in assessment from this proposal	\$0	\$0	(Unknown)
<u>Revenue Reduction</u> - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method	\$0	\$0	(Unknown)
<u>Revenue Reduction</u> - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method	\$0	\$0	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

Small businesses that own personal property could see a reduction in property taxes.

FISCAL DESCRIPTION

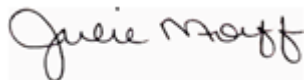
This legislation modifies provisions relating to motor vehicle assessment valuations.

The bill contains an emergency clause.

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
State Tax Commission
Department of Social Services
Cape Girardeau County Assessor
Lincoln County Assessor
City of Springfield
City of Kansas City
County Employees' Retirement Fund (CERF)



Julie Morff
Director
March 1, 2023



Ross Strobe
Assistant Director
March 1, 2023