

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2994-01
Bill No.: HB 1358
Subject: Elderly, State Tax Commission, Taxation and Revenue - General, Taxation and Revenue - Property
Type: Original
Date: January 21, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue *	\$0	(\$11,267,000)	(\$11,661,000)
Total Estimated Net Effect on <u>All</u> State Funds *	\$0	(\$11,267,000)	(\$11,661,000)

*Does not include possible cost to fully fund Foundation Formula.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Political Subdivisions *	(Unknown)	(Unknown)	(Unknown)
Local Government*	(Unknown)	(Unknown)	(Unknown)

*Significant revenue reductions and reimbursements.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume the proposal would remove a segment of society from paying local property taxes. The state would be required by the Constitution of Missouri to reimburse the local political subdivisions for the lost revenues. The magnitude of the affect is impossible to determine though at this time.

The State Tax Commission utilized 1999 collection figures, to establish the amount of property tax paid by different categories of entities. Forty-four percent of the \$3,922,378,077 came from residential property taxes. 10.3% of households in Missouri in the year of 2000 consisted of householders that were 65 years and older. 70.3% of the houses were owner occupied housing units according to the general demographic characteristics for Missouri in 2000. Assumed a two percent increase on an annual basis. There is however no clear way of knowing how many people 65 years and older would meet the criteria of incomes of less than \$25,000 for an individual, and \$50,000 for a married couple.

Oversight assumes the proposal would limit increases in valuation for the principal residence of elderly persons with individual income less than \$25,000 per year or combined income less than \$50,000 per year. Oversight estimated possible losses as follows:

An increase in taxes on residential property of 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, 70% of residential property is owner occupied, and 20.5% of residential property owners are over 64.

Total property tax paid in 2000	\$	3,922,378,000	
Percent residential		x	.44
Residential Property Tax paid in 2000	\$	1,725,846,000	
Projected Tax 2002	\$	1,915,689,000	
Projected Increase	\$	189,843,000	
Percentage of population 64+		x	.205
Projected Increase for 64+ Occupied	\$	38,918,000	
Percentage of owner-occupied		x	.70
Projected Increase for 64+ owner-occupied	\$	27,243,000	

ASSUMPTION (continued)

Oversight assumes that 36% of Missouri households would be eligible for the tax relief provided by this proposal.

Projected Increase for 64+ owner-occupied	\$	27,243,000	
Percent eligible			<u>36</u>
Projected increase for eligible households	\$	<u>9,807,000</u>	

Oversight assumes the first tax collections affected by this proposal would be calendar year 2003 taxes collected in state FY 2004.

Projected Losses for FY 2004: $\$9,807,000 \times 1.11 \times 1.035 =$ \$11,267,000

Projected losses for FY 2005: $\$14,785,000 \times 1.035 =$ \$1,661,000

Projected losses for FY 2006: $\$15,302,000 \times 1.11 \times 1.035 =$ \$13,397,000

In response to a similar proposal in the prior session, officials from the **Department of Elementary and Secondary Education** note that the proposal would decrease tax collections, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “on the formula” districts would recoup their losses through state payments, and 2) “hold harmless” districts would not recover losses through additional payments through the Foundation Formula.

Oversight assumes there will be unknown increased costs to the County Assessor, Clerk, and Collector to administer this program.

Oversight assumes that the state will reimburse political subdivisions for their lost tax revenues from the General Revenue Fund.

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Cost - Reimbursement to Political Subdivisions</u>	\$0	<u>(\$11,267,000)</u>	<u>(\$11,661,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	<u>\$0</u>	<u>(\$11,267,000)</u>	<u>(\$11,661,000)</u>
*Does not include possible costs to fully fund Foundation Formula			

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
POLITICAL SUBDIVISIONS			
<u>Income - State reimbursements</u>	\$0	\$11,267,000	\$11,661,000
<u>Loss - Reduced Property Tax</u>	\$0	(\$11,267,000)	(\$11,661,000)
<u>Cost - Increased Administration costs for County Assessor, Clerk, and Collector</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would provide a homestead property exemption by prohibiting any increase in assessed valuation of the owner's principal residence if the owner is over 65 years of age, the owner has an individual income less than \$25,000 or combined income less than \$50,000 joint, provided the property does not have improvements or new construction exceeding 15% of market value. Application would be made by the owner, to the county clerk. The county would make payment in lieu of tax to the blind pension fund. Reimbursement would be made by the state to the political subdivisions subject to the availability of funds, and subject to appropriations. The proposal would become effective January 1, 2003.

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

State Tax Commission
 Department of Revenue

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NOT RESPONDING

Office of Administration

Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, slightly slanted style.

Mickey Wilson, CPA
Acting Director
January 21, 2002