



ADVANCING LIBERTY  
WITH RESPONSIBILITY  
BY PROMOTING  
MARKET SOLUTIONS  
FOR MISSOURI  
PUBLIC POLICY

# TESTIMONY

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## FLEXIBLE COMMERCIAL SURCHARGE RATES WOULD PROMOTE ECONOMIC GROWTH IN MISSOURI

*By David Stokes*

*Presented Before the Missouri House of Representatives Job  
Creation and Economic Development Committee,  
considering House Joint Resolution 81*

A 1988 study by economist William Stine surveyed the property taxes of mid-sized New York cities. His review found that, over time, for most of the cities surveyed, “A one percent increase in the property tax rate was associated with a greater than two percent decline in the property tax base.”<sup>1</sup> Empirical data from one region does not necessarily apply perfectly to another, but it’s important to note that when property taxes are too high, they can harm the property tax base — which comprises, at its core, our own neighborhoods and communities. Stine’s study demonstrated this, and it is a lesson that policymakers should heed.

Missouri reassesses property values both frequently (every other year) and aggressively (no caps on the percentage of increase), so leaving property tax rates consistent from one reassessment to the next does not provide enough protection to taxpayers. Historically, as assessments have increased, tax rates have also decreased in order to offset the tax increase. When loopholes in the system became a real problem for Missourians, the General Assembly corrected many roll-back issues in 2007. It is time for the legislature and local officials to correct another tax levy problem, and House Joint Resolution 81 does that.

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In 1985, Missouri eliminated the merchants' and manufacturers' inventory tax, replacing it with a surcharge on commercial property. At the time, it was a good idea to base the tax on the more predictable and easily forecasted value of land and property, rather than ever-changing inventory. However, when this change to the constitution was enacted, some systemic quirks were also born. The law stated that the new commercial surcharge rate, which every county calculated individually at a rate that would replace the lost inventory taxes, would not roll back as assessments increased, like all other property tax rates do. Furthermore, although that original surcharge rate could never be increased, it could also only be lowered through a vote of the people — not by the local officials that people elect to make decisions like this. The result is that these commercial surcharge rates have never been lowered in any county in order to offset dramatically increased assessment totals since 1985. The surcharge itself, especially in the absence of any type of a rollback, constitutes a disincentive for property owners to make improvements to their holdings in the counties that have larger surcharges, because those very improvements would be disproportionately punished with higher taxation.

This inflexible surcharge rate has hit our urban counties particularly hard. Saint Louis, Jackson, and other counties with significant industry set much higher surcharge rates in 1985 than Missouri's other rural and suburban counties. There are many reasons that the automobile manufacturing industry has declined both in Missouri and nationwide, but it is probably not entirely a coincidence that the two automotive plants in Saint Louis

County — which has a \$1.70 surcharge per \$100 of assessed valuation — have closed, while the one plant in Saint Charles — which has a \$0.53 surcharge — remains open. If Missouri is serious about keeping the jobs at the Ford plant in Clay County, the most effective strategy would be to lower the plant's property taxes, which are substantial. Clay County has the third-highest commercial surcharge in the state, at \$1.59, and reducing that tax rate would be the simplest and most direct way to keep that plant and its many jobs intact. According to the Clay County Collector's office, the Claycomo Ford plant paid \$86,522 in surcharge taxes alone last year. This amount is above and beyond its regular property taxes — and commercial property is already assessed at a higher rate than residential and agricultural property. Reducing county surcharge rates will benefit all businesses, large and small.

Another example is Greene County, where the surcharge rate is \$1.04, whereas neighboring Christian County's rate is just \$0.34. This puts the business community in Greene County at a disadvantage, and the local officials in Greene County should be allowed to lower that rate. Think about this: The difficulty of amending the surcharge rate has essentially forced counties (and the city of Saint Louis) to levy taxes according to 1985 economic conditions, and has prevented local governments from adapting the rate to the enormous changes Missouri has undergone during the past 25 years.

As we move forward in making improvements to our property tax system, it is imperative that changes such as the one proposed here in HJR 81 be enacted in a manner that does not simply shift the burden of taxation from businesses to

individuals. One simple way to prevent that from happening would be for more counties to adopt a system of setting different property tax rates for different classes of property, such as Saint Louis County has done.

The changes proposed in HJR 81 are important. They simplify the ability of individual counties to lower their surcharge tax rates if they choose to do so. They improve the fairness of the tax system by requiring that rates roll back as assessments increase, as other property taxes in Missouri already do. Finally, the changes propose the eventual elimination of the surcharge tax after five years. This would give local governments time

to prepare for the changes while also improving the economic climate throughout our state. Lowering, and then phasing out, the commercial surcharge tax is one of the best ways to keep automotive production jobs located in Claycomo and Wentzville. These changes would help grow Missouri's economy, and everyone benefits from that.

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*For more of the Show-Me Institute's research about tax issues, visit [www.showmeinstitute.org](http://www.showmeinstitute.org).*

## NOTES

- <sup>1</sup> Stine, William F., "Estimating property tax base elasticity over time: Evidence on the revenue maximizing politician," *Public Choice*, 1988, vol. 58, pp. 35–44.

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# SHOW-ME INSTITUTE POLICY AREAS

## TAXES

Our economy works better when the tax system is simple, fair, and lets workers keep more of the money they earn. Show-Me Institute scholars study the impact of tax and spending policies, and develop reforms that will give us more for our tax dollars and spur faster economic growth.

## EDUCATION

The latest education research confirms what common sense has always told us: Kids learn better when their parents have more choices. The Show-Me Institute studies how to empower parents by expanding educational options and providing them with better information, so that every child can attend a school that best meets his or her unique needs.

## CORPORATE WELFARE

From eminent domain abuse to subsidies and tax breaks for the powerful and well-connected, government officials often try to pick winners and losers in the market. The Show-Me Institute develops policy recommendations to protect property rights and promote economic growth without caving in to demands for corporate welfare. Secure property rights encourage investment and entrepreneurship. Trying to create economic success through government intervention is a formula for failure.

## HEALTH CARE

The standard employer-based model for health insurance leaves a remarkable number of people out. The Show-Me Institute highlights the ways that a consumer-driven, market-based model for coverage can help more people get the care they need while taking ownership for their own health and lifestyle decisions.

## PRIVATIZATION

Many government services can be provided more effectively, and at a lower cost, by the private sector. When public services are provided by private industry, economic incentives and accountability provide a critical feedback loop that is largely absent in government bureaucracy. Show-Me Institute scholars analyze public programs to determine how taxpayers can benefit from market-based alternatives.

## RED TAPE

One thing that government officials do well is establish barriers to market innovation and erect hurdles for entrepreneurs to clear. The Show-Me Institute is committed to showing how burdensome regulations stand in the way of economic growth and individual prosperity. Market solutions lose their strength when bound by red tape.



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