



TESTIMONY

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COMMERCIAL SURTAXES

By David Stokes and Patrick Ishmael

**Testimony Before the Clay County Commission
on the Commercial Surtax**

TO THE MEMBERS OF THE CLAY COUNTY COMMISSION

Our names are David Stokes and Patrick Ishmael, and we are director of municipal policy and director of government accountability, respectively, at the Show-Me Institute. The Show-Me Institute is a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented herein are our own and summarize research regarding commercial property taxation in Missouri and how that research relates to the proposal to reduce the Clay County commercial surtax.

The current proposal before Clay County is to reduce the commercial surcharge from \$1.59 per \$100 of assessed valuation to \$1.44 per \$100—the same level as neighboring Jackson County. While this reduction may be modest, we believe it would be beneficial to the overall economy of Clay County if the voters approve this change.

A 1988 study by economist William Stine surveyed the property taxes of mid-sized cities in New York State. 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.”¹ 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 the 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

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problem for Missourians, the General Assembly corrected many rollback issues for general property taxes in 2007. However, that statute did not apply to one particular property tax: the commercial surtax (also known as the commercial surcharge). Clay County has one of Missouri's highest commercial surtax rates, and it would be a very beneficial change for Clay County to reduce that rate to a more competitive level.

In 1985, Missouri eliminated the merchants' and manufacturers' inventory tax, replacing it with a surtax on commercial property. At the time, it was a good idea to base the tax on the more predictable and easily forecast 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 surtax 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 surtax 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 such decisions. The result is that commercial surtax rates have never been lowered *in any county* in order to offset the dramatic increase in assessment totals that has occurred since 1985. The surtax 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 high surtax rates, because those very improvements would be disproportionately punished with higher taxation.

This inflexible surtax rate has hit our urban counties particularly hard. Clay County, like Saint Louis, Jackson, and other counties with significant industry, set much higher surtax rates in 1985 than Missouri's 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 surtax per \$100 of assessed valuation—have closed, while the one plant in neighboring Saint Charles County—which has a \$0.53 surtax—remains open. For policymakers who are serious about keeping the jobs at the Claycomo Ford plant, the most effective strategy would be to lower the plant's

property taxes, which are substantial. Clay County has the third-highest commercial surtax 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 approximately \$158,000 in *commercial surtaxes 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 or agricultural property.

The difficulty of amending the surtax rate has essentially forced Clay and other counties to levy taxes according to 1985 economic conditions, which in turn has prevented local governments from adapting the rate to the enormous changes Missouri has undergone during the past 35 years. Neighboring Platte County has a surtax rate of just \$0.36 cents per \$100, compared to the \$1.59 rate in Clay. That difference is substantial. In a 2020 survey of corporate location officers, 80 percent said that corporate tax rates were an important factor in deciding where to locate their facilities.²

A study of corporate location decisions and state and local taxation concluded that taxes are not the primary factor in most location choices, but that nonetheless, "all things being equal in a location decision, taxes can be decisive."³

We might propose that, taking a broad view, there are enough similarities between Clay and Platte counties that "all else being equal" often applies in this particular situation and that, indeed, "taxes can be decisive." That same paper reviewed literature on Cook County, Illinois (which contains Chicago) and determined that "high [property] tax rates seemed to have a certain deterrent effect upon nonresidential development. . . ."⁴ While further lowering the rate to compete with Platte County may be a long-term goal, the present proposal to lower the rate to equal that of Jackson County is still an important step.

The changes encompassed in this proposal are important. Reducing the county surtax rate to \$1.44 would benefit all businesses in Clay County, large and small, and would help Clay County maintain its competitive edge in the future. Lowering the very high commercial surtax to equal Jackson County's rate is one of the best ways to encourage

investment and job growth in Clay County, including the automotive production jobs located at the Ford Plant. This property tax reduction would help grow Clay County's economy, and everyone would benefit from that.

ENDNOTES

1. Stine, W. F. Estimating property tax base elasticity over time: Evidence on the revenue maximizing politician. *Public Choice* 58, 35–44 (1988). <https://doi.org/10.1007/BF00183327>
2. *Area Development Magazine*, “2020 Corporate Executive Survey”, 2021, <https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2021/35th-annual-corporate-survey.shtml>
3. Haider, Donald, “Business Location, Taxes, and Property Taxes,” *The Civic Federation*, August 1998, p. 10.
4. *Ibid*, p. 10.



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