



TESTIMONY

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COMMERCIAL SURCHARGES

By David Stokes

Testimony before the Missouri Senate Economic Development and Tax Policy Committee on Senate Joint Resolution 35: Commercial Surcharges

TO THE HONORABLE MEMBERS OF THIS COMMITTEE

Thank you for the opportunity to testify today. My name is David Stokes, and I am director of municipal policy at the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research that the Show-Me Institute has conducted and reviewed regarding the local commercial surcharge (aka the surtax) in Missouri.

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.”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 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 Senate Joint Resolution 35 does that.

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

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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 most 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 had never been lowered in any county until Clay County voters approved a slight reduction in 2022. This is despite the dramatic increase in assessed valuations statewide since 1985. Total Missouri assessed valuation (all classes) has gone from \$28 billion in 1985 to \$135 billion in 2022. For commercial property alone, the assessed valuation has gone from \$17 billion in 2005 to over \$27 billion now.²

The commercial 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. That does not mean there has been no investment in those counties. Obviously, there has been. But on the margins there is an incentive to invest outside of our major urban cities and counties.

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 did 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 surcharge per \$100 of assessed valuation—have closed, while the one plant in Saint Charles—which has a \$0.53 surcharge—remains open.

Elected officials in Clay County, where the Claycomo Ford Plant is located, were serious about addressing this issue in their county. Clay County had, until this year,

the third-highest commercial surcharge in the state, at \$1.59. According to the Clay County Collector's office, the Claycomo Ford plant paid \$158,000 in *surcharge taxes alone* in 2021. 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. In November, 2022, elected official proposed and voters approved reducing that rate to equal Jackson County's rate of \$1.44. Lowering that rate for all businesses in Clay County is the simplest and most direct way to keep that plant and its many jobs intact. Reducing the county surcharge rate 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 38 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 SJR 35 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, as Saint Louis County has done. Another option is to increase the taxable percentage of land and decrease the taxable percentage of improvements for all types of property.

The changes proposed in SJR 35 are important. They simplify the process whereby individual counties can 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. These changes would help grow Missouri's economy, and everyone would benefit from that.

NOTES

1. Stine, William F., “Estimating property tax base elasticity over time: Evidence on the revenue maximizing politician.” *Public Choice*, 1988, vol. 58, pp. 35–44.
2. 2005 is the earliest year in which the total commercial subclass breakdown was available.



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