



TESTIMONY

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HOUSE JOINT RESOLUTION 44 AND RESIDENTIAL PROPERTY TAXES

By David Stokes

Testimony Before the Special Committee on Tax Reform of the Missouri
House of Representatives

TO THE HONORABLE MEMBERS OF THIS COMMITTEE

Thank you for the opportunity to testify. 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 advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are my own and are offered in consideration of proposals that will address the assessment and taxation of real and personal property in Missouri.

According to Missouri law, residential property is one of three subclasses of real property and is defined as¹:

“Residential property”, all real property improved by a structure which is used or intended to be used for residential living by human occupants, vacant land

in connection with an airport, land used as a golf course, manufactured home parks, bed and breakfast inns in which the owner resides and uses as a primary residence with six or fewer rooms for rent, and time-share units as defined in section 407.600, except to the extent such units are actually rented and subject to sales tax under subdivision (6) of subsection 1 of section 144.020, but residential property shall not include other similar facilities used primarily for transient housing [...].

In practical terms, this means that you pay annual property taxes on the house, apartment, or condominium you reside in. You may pay the tax at the end of the year directly to the county collector. You may pay it directly each month as part of your mortgage payment. Or, you may pay it indirectly each month as part of your rent to a landlord.

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Every two years, the value of all real property in Missouri is reassessed, and the value of your residence is supposed to be set at the market value of the land and buildings. A nineteen percent assessment ratio is then applied to the market value, and your taxes are based on that final assessed value depending, of course, on the combined tax rate where you live or own property.

To calculate taxes owed on a \$100,000 home at an \$8.00 total combined tax rate per \$100 of assessed valuation:

1. $100,000 \times 0.19$ (19%) = \$19,000
2. $19,000 / 100 \times 8.00$ = \$1,520 owed in taxes

HJR 44 allows changes Missouri law to freeze the real property taxes of the primary homes of people once they turn 67 years of age. I do not doubt this bill is well-intended to help senior citizens stay in their homes as they age, but there are several major problems with this proposal and others like it, including other bills before this legislature that freeze the assessed valuations of homes for senior citizens instead of the property taxes. The end results of each strategy are similar and generally negative.

First, this proposal is harmful simply because it reduces the property tax base and redistributes the tax burden accordingly. Unless local governments cut services in response to the enactment of this plan, it will almost certainly lead to higher tax rates on those properties that are not subject to the property freeze. This bill is every bit as much of a tax increase on non-senior citizens as it is tax relief for some senior citizens.

HJR 44 is not clear on what would happen, in the event that this property tax freeze is adopted, when the senior citizens (or citizens in the case of joint ownership) eventually leave their home and sell the property. Presumably, the property taxes and assessed valuation of the home would be reset at the market-rate sale price. (That is how proposals like this usually work.) That plan is problematic because it favors older homeowners at the expense of new, younger homeowners. People who live in similarly valued homes with similar public services should pay similar property taxes. The young couple who has lived in their home for a year should not pay higher property taxes than their neighbor just because their neighbor has lived there for two decades.

In California, we have had an example of this with the famous Proposition 13 passed in 1970s that limited the increases in property assessments and taxes. Proposition 13 has certainly had its intended effect of making it easier for California residents to stay in their own homes. However, it has also reduced mobility,² dramatically increased alternative taxes,³ limited homeownership opportunities,⁴ and caused substantial tax disparities⁵ for similar properties with similar services.

While the changes enacted in California with Proposition 13 went further than HJR 44 authorizes for Missouri, HJR 44 would institute a very complex program for Missouri's local officials to administer, as evidenced by the difficulties that officials in Chicago had in administering a similar program there.⁶ While HJR 44 might ultimately help some Missouri senior citizens remain in their homes longer, it would redistribute property tax revenue and alter our assessment system in a myriad of harmful and biased ways. The goal of helping senior citizens stay in their homes is a worthy one. I recognize that retired people cannot adjust to property tax increases as readily as working people can. In order to achieve this goal, fully funding the existing property tax "circuit breaker" program to help seniors stay in their homes via targeted tax refunds is a better policy. That program is targeted at lower-income seniors, both homeowners and renters, who need the assistance to a greater degree. If the eligibility of the program needs to be expanded to include more senior citizens, that is a change worth considering.

Our property tax system works best when the assessments are accurate, the base is wide, and the rates are low. HJR 44 does not move us in that direction.

NOTES

1. RSMO 137.016(1)
2. Picker, Les, "The Lock-in Effect of California's Proposition 13." NBER Digest, No. 4, April 2005, <https://www.nber.org/digest/apr05/lock-effect-californias-proposition-13#:~:text=Proposition%2013%2C%20adopted%20by%20California,year%20until%20the%20next%20sale.>

3. Friedersdorf, Conor, “After 40 years, Proposition 13’s failures are evident,” Los Angeles Times, June 4, 2018.
4. Editors, “Proposition 13 Protects Elderly Homeowners, But Hurts Young Families,” The Times of San Diego, May 26, 2018, <https://timesofsandiego.com/politics/2018/05/26/proposition-13-protects-elderly-homeowners-but-hurts-young-families/>.
5. Legislative Analyst’s Office, “California’s Tax System: A Visual Guide,” page 23, <https://lao.ca.gov/reports/2018/3805/ca-tax-system-041218.pdf#page=23>.
6. Novak, Tim, et al, ‘Senior freeze’ tax program riddled with errors, lax oversight, Sun-Times finds,” Chicago Sun-Times, June 25, 2021, <https://chicago.suntimes.com/2021/6/25/22549463/senior-freeze-homestead-exemption-tax-program-errors-fritz-kaegi-barbara-kaplan-martin-israel>.



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