



TESTIMONY

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HOUSE BILL 1134 AND THE RESIDENTIAL PROPERTY TAX CIRCUIT BREAKER PROGRAM

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 implementation and expansion of Missouri's property tax circuit-breaker program.

According to Missouri law, residential property is one of three subclasses of real property and is defined as follows¹:

“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

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mortgage payment. Or, you may pay it indirectly each month as part of your rent to a landlord.

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 19% 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

\$1,520 in real estate taxes can be a substantial amount of money for lower-income residents, senior citizens on fixed incomes, and people with disabilities. Missouri has created the “circuit breaker” program to help address that issue. This program provides an income tax credit to senior citizens and disabled persons below a certain income level to help offset the property tax burden. Programs such as the “circuit breaker” are a more effective method of helping people who are burdened by the property tax than many other proposals. As the Lincoln Institute for Land Policy explains²:

By targeting property tax relief to those most in need of relief, circuit breakers promote tax equity at minimal cost to the budget while preserving the basic nature and strengths of the property tax.

HB 1134 expands Missouri’s existing “circuit breaker” program by increasing the allowable tax credit for both homeowners and renters and tying that maximum credit to inflation in the future. It also increases the maximum level of income eligibility for the program and ties that income eligibility level to inflation going forward. The expansions and increases in the credit amount and eligibility levels are modest. They still maintain the focus of the program on lower-income senior citizens and disabled persons, as it should be. That focus on lower-income senior citizens and disabled persons is one of the more beneficial aspects of Missouri’s program.

Our property tax system works best when the assessments are accurate, the base is wide, and the rates are low. HB 1134 helps to maintain the benefits of our property tax system while assisting those for whom it genuinely imposes a significant burden. HB 1134 is good public policy and the program expansions and changes proposed in the bill will benefit Missouri.

NOTES

1. RSMO 137.016(1)
2. Lincoln Institute of Land Policy, “Property Tax Circuit Breakers,” Policy Focus Report, 2009.



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