



# TESTIMONY

April 3, 2024

## MISSOURI SENATE BILL NO. 756

*By David Stokes*

### Testimony Before the Missouri House Special Committee on Property Tax Reform

#### **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 property in Missouri.

According to Missouri law, residential property is one of three subclasses of real property and is defined as follows<sup>1</sup>:

“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.

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

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19 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. Certainly, 2023 saw large property tax increases across Missouri.

This bill, SB 756, makes changes to last year's SB 190, which allowed counties to freeze the real property taxes of the primary homes for senior citizens once they meet the eligibility requirements. It did this by granting a tax credit to those seniors according to the rules set out in the bill. I do not doubt that both bills are 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.

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

These proposals are problematic because they favor 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. Similarly, this bill will lead to the troubling issue of people voting on property tax increases that they themselves are not subject to. The single best aspect of property taxation is that it focuses the costs of local services on the people who use those services, unlike sales or earnings taxes that are exported in part to visitors or commuters. Instituting a system where people vote on property taxes they won't pay breaks that beneficial connection. It dramatically alters the voter calculation if seniors are voting on property tax increases they are immune to.

SB 756 makes several clarifications to the prior statutory language in SB 190 involving the age of eligibility, the treatment of new construction and improvements for

homes with their taxes previously frozen, municipal annexations, and notification dates for taxing entities. Those clarifications are understandable and largely beneficial.

However, the change that prevents counties from limiting the eligibility requirements is troubling. St. Louis County (\$550,000) and the City of St. Louis (\$500,000) have each limited the assessed valuation of the homes of eligible seniors. I believe those limits are beneficial primarily because they will limit the harms of this program while focusing the purported benefits to lower-income residents.\* The City of St. Louis went further and limited the eligible taxes in the program to those owed to the city itself. The city deserves credit for limiting the program to its own tax money and not trying to control the taxes owed to independent taxing districts such as the school district and the zoo-museum district.† I am not a supporter of the overall programs allowing counties to freeze senior property taxes, but I believe eliminating the ability of counties to implement eligibility limits within their counties will make the program even more harmful.

California provides us with an example of the harms of these types of property tax subsidies with the famous Proposition 13, passed in 1970s, which 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 impeded economic growth by disincentivizing people from moving,<sup>2</sup> dramatically increased alternative taxes,<sup>3</sup> limited homeownership opportunities,<sup>4</sup> and caused substantial tax disparities<sup>5</sup> for similar properties receiving similar services. This is not what we need for Missouri.

The changes authorized by SB 190 and SB 756 for Missouri aren't as drastic as those enacted in California. They are nonetheless instituting a very complex program for county officials to administer, as evidenced by the difficulties that officials in Chicago had in administering a similar program there.<sup>6</sup> Indeed, St. Louis County is having considerable difficulty getting the program off the ground.<sup>7</sup>

\* Although many people who own homes at the higher levels of eligibility in the city and county – \$500,000 — would hardly be described as “lower income.”

† This does not mean I think either the City of St. Louis or St. Louis County should have implemented the program, just that they deserve some credit for enacting reasonable limits.

While these proposals might ultimately help some Missouri senior citizens remain in their homes longer, it would alter our property tax and assessment system in a myriad of harmful and biased ways. Working to fully fund the existing property tax “circuit breaker” program to help low-income seniors stay in their homes through targeted tax refunds is a better way to achieve this goal.

Our property tax system works best when the assessments are accurate, the base is wide, and the rates are low. SB 756, this session, and SB 190, last session, do 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>.
7. Landis, Kelsey, “Council to consider cash for senior property tax freeze in St. Louis County,” *St. Louis Post-Dispatch*, March 5, 2024.



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