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TESTIMONY

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SENATE BILL 3 AND PROPERTY TAX ADJUSTMENTS

By David Stokes

Testimony Before the Missouri House of Representatives Economic Development Committee

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.

Senate Bill (SB) 3, as passed by the Missouri Senate, allows changes to the property tax assessment and taxation rules governing most Missouri counties. These changes would limit the potential increase in property taxes by granting a tax credit to homeowners within counties whose voters approve these changes. SB 3 establishes three types of counties:

1) Five percent counties: These counties are made up primarily of Missouri's smaller, rural counties. In these counties, upon local voter approval, a homeowner's property tax liability can go up by no more than the lower of 5 percent or the national inflation rate during reassessment, unless voters approve tax rate increases or the homeowner improves their property. There are 75 different listings for counties in this category in SB 3, but some listings may cover multiple counties.

2) Zero percent counties: These counties are made up primarily of mid-sized and suburban Missouri counties. In these counties, upon local voter approval, a homeowner's property tax liability cannot increase at all during reassessment unless voters approve tax rate increases or the homeowner improves their property. There are 22 different listings for counties in this category in SB 3, but some listings may cover multiple counties.

3) "Unaffected" counties (my term, not the bill's): These counties are

primarily Missouri's large urban counties, and they are not included in this legislation. In these counties, the tax and reassessment system will continue unchanged. Because they are not listed and because I believe certain listings in the two above categories contain multiple counties, I am not sure how many counties are in the unaffected category, but it likely includes a small number of large counties and the City of St. Louis. It is worth noting that Jackson County, which had had by far the worst administration of assessment and tax collection in recent years of any Missouri county, is in the unaffected category. This bill does nothing to address the continuing problems in Jackson County.

I understand that many people dislike property taxes. I am also sympathetic to the idea of helping those who pay property taxes, but there are several major problems with this proposal and others like it. First, this proposal is harmful simply because it reduces the property tax base. Unless local governments cut services in response to the enactment of this plan with its stringent cap on property tax increases for most homeowners, it will almost certainly lead to higher taxes on items not covered by this bill. For example, this bill would increase pressure to:

1) Raise taxes or assessments on multi-family apartment buildings that would not be subject to the tax limitations in this proposal. I don't understand why we would want to increase taxes (paid via rent) on renters to subsidize homeowners.

2) Raise existing sales taxes, institute new special sales tax districts, or expand sales tax authority to taxing districts that currently rely entirely on property taxes in order to fund local services.

3) Make it more difficult to lower the state income tax, as school districts in Missouri would become more dependent on state aid from the foundation formula because of the decrease in their ability to raise money from local property taxes.

This bill is every bit as much of a tax increase on many Missourians as it would be a tax-protection for some homeowners.

Numerous other harmful effects would come from diluting the market forces (in the form of assessments based on market values) that form the basis of property taxation. California provides us with an example of the harms of these types of property tax caps with the famous Proposition 13, passed in 1978, which dramatically 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,[1] dramatically increased alternative taxes,[2] limited homeownership opportunities,[3] and caused substantial tax disparities[4] for similar properties receiving similar services. This is not what we need for Missouri. The above negative consequences are exactly what we will experience in the zero-percent increase counties, and will experience to a slightly lesser extent in the five percent counties.

I am not a constitutional lawyer, or even a lawyer at all. But the Missouri Constitution clearly states (emphasis added):

> X Section 3. Limitation of taxation to public purposes—uniformity—general laws—time for payment of taxes—valuation.—Taxes may be levied and collected for public purposes only, **and shall be uniform upon the same class or subclass of subjects within the territorial limits of the authority levying the tax.** All taxes shall be levied and collected by general laws and shall be payable during the fiscal or calendar year in which the property is assessed. Except as otherwise provided in this constitution, the methods of determining the value of property for taxation shall be fixed by law.

In regard to the state constitution, chapter ten, section 3, please consider the issue of the Meramec Valley R-III school district. This school district serves families in three counties. Under this legislation (should it become law), one of those three counties would be unaffected by this legislation (St. Louis), and two would be zero percent counties (Jefferson and Franklin). (I have done my best to translate the county descriptions in the bill to actual counties. I apologize if I have made an error.) It would certainly seem unconstitutional for property owners within the same taxing district who own the same type of property (single-family homes) to face different tax and assessment systems for the same services.

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. Because the new homeowner will have their property tax level established at the purchase price of the house, their property taxes will be much higher than for the family next door who has lived in the home for many years. Even though the homes would have the same market value and receive the same government services, their tax burdens would be dramatically different. That is fundamentally unfair and leads to all of the problems we have seen in California, including adverse incentives for property owners and much higher alternative taxes.

Which Taxes Damage Growth the Most?

Study	Johansson et al. (2008)	Arnold et al. (2011)	Acosta-Ormacechea, Sola, & Yoo (2019)	Şen & Kaya (2023)
Worst	Corporate income tax	Corporate income tax	Personal income tax	Corporate income tax
2nd Worst	Personal income tax	Personal income tax	Corporate income tax	Personal income tax
3rd Worst	Consumption tax	Consumption tax	Consumption tax	Consumption tax
Least Bad	Property tax	Property tax	Property tax	Property tax

Source: https://x.com/cremieuxrecueil.

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, commuters, and others. This proposal simply puts the burden of property taxes on new homeowners to benefit long-term homeowners, while at the same time increasing pressure to raise alternative, more-economically harmful taxes.

If we want to create a tax system that enhances economic growth for all Missourians, property tax limits are the least of our worries in Missouri.

Working with the state and local government 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 the goal of helping people who need help with their property tax liability.

Our property tax system works best when the assessments are accurate, the base is wide, and the rates are low. SB 3 does not move us in that direction.

APPENDIX

According to Missouri law, residential property is one of three subclasses of real property and is defined as follows[5]:

> "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 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.

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 × 0.19 (19%) = $19,000

2. 19,000 / 100 × 8.00 = $1,520 owed in taxes

NOTES

1. 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.

2. Friedersdorf, Conor. "After 40 years, Proposition 13's failures are evident," Los Angeles Times, June 4, 2018.

3. "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.

4. 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.

5. RSMO 137.016(1).

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P.O. Box 16024 · Saint Louis, MO 63105 · 314-454-0647

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