

An Overview of Missouri's Property Tax

The Importance of the Property Tax

The property tax is one of the oldest forms of taxation in history that has been used extensively by all three levels of government during various parts of American history. Today, sales and income taxes are the major revenue sources for states while the property tax remains almost exclusively a local tax. Although property taxes are not a significant source of state revenue for most states, the property tax remains important to state officials and policymakers. Almost all aspects of property tax policy are determined at the state level, and as a result, local governments are required to comply with state requirements. These statutory provisions vary not only in how property value is determined, but also to the extent taxing authorities can levy property tax rates. Furthermore, state laws determine the extent, nature and jurisdictions of local governments, as well as their ability to raise revenues.

In turn, property tax revenues at the local level are used to help determine the level of state education aid in most states. State laws also usually control the kinds of property local governments can tax, how they must assess this property for taxation, and legal appeals procedures. State legislatures also determine the availability of alternative tax sources – such as local sales and income taxes - that are available to local governments. State legislators generally are knowledgeable about property tax matters and endeavor to respond to constituent concerns about them.

The property tax's role in financing public schools, intertwined with its local financing responsibilities (public safety, sanitation and streets), creates a complex pattern of revenues and service delivery. State actions designed to lessen property tax burdens - either by providing taxpayer relief or by taking on more local responsibilities - may have far-reaching effects that can be difficult to gauge in

A number of significant issues related to property taxes should be kept in mind:

- Local governments and school districts still depend more on property taxes than on any other revenue source.
- Displeasure with government and taxes often focuses on the property tax
- Property tax relief measures, particularly for the poor, the elderly and the farmers, have reduced many complaints and helped lessen anti-tax fervor.
- Caps and limitations approved by voters and adopted by legislatures have restricted tax burden growth in some states.
- In the past, assessment practices have received considerable criticism, but in recent years have greatly improved with technology, education, and other resources
- In the past twenty years, court decisions about school finance and the property tax have occupied legislatures in the majority of states as they attempt to ensure equitable and adequate education funding.

Why tax property?

The property tax, along with the income and sales tax, is one of the three major taxes in the American tax system. The property tax is a levy on the value of the land, any improvements on the land (buildings, etc.), and in some cases, personal property that resides on the land. Its revenues most often are used to fund schools and other local government services. The property tax is an important component of a tax system for a number of reasons:

- Property tax is the most stable and predictable major tax system, especially in periods of slow economic growth.
- The tax base relies upon assets which are difficult if not impossible to relocate, which helps with assessment and compliance.
- Since property taxes fund local services, the effects of the property tax are more visible. It makes the connection between tax and service—such as fire and police protection, schools and streets—more obvious than do other taxes.
- It demonstrates the benefit principle of taxation by financing services that provide benefits to property.

How does Missouri classify property and which are taxable?

The Missouri Constitution creates three classifications of property for property tax purposes, real property, tangible personal property, and intangible personal property.

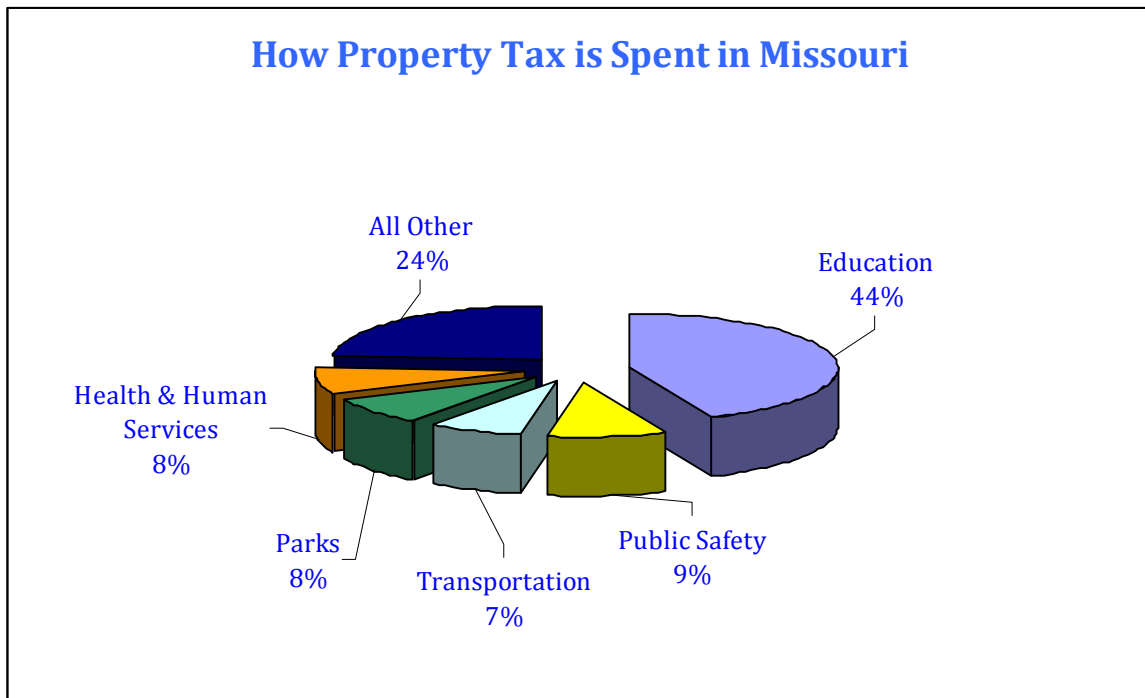
- **Real Property** – Real property includes the physical land, any buildings, structures, additions, or any other permanent improvements to the land. Furthermore, real property also includes any right or privilege that is associated with ownership of the land. Real property is divided three subclasses, as defined in the Missouri Revised Statutes:
 - **Subclass 1: Residential Property** – Residential property includes all real property that is used or intended to be used for residential living. Furthermore, certain types of properties, including apartments and other multiple family property, vacant land in connection with an airport, land used for golf courses, and manufactured home parks are all considered residential property. Residential property does not include property used for transient housing such as hotels.
 - **Subclass 2: Agricultural or Horticultural Property** – This subclass includes property which is actively used for agricultural or horticultural uses. The value of the land is established based on its productivity, based on soil productivity guidelines set by the State Tax Commission, not on market value. However, when the highest and best use of the land is considered to be agricultural and it is not actively being used for agricultural purposes, it is assessed according to market value, not productivity guidelines.
 - **Subclass 3: Utility, Industrial, and Railroad Property**- This subclass includes any other properties that do not fall under the other subclasses, which primarily includes, commercial, industrial, utility, railroads, mines, stores, factories, and non-profit corporate properties.

- **Personal Property** –Personal property is any tangible property that is not real property, and is not permanently affixed to or part of real estate. In Missouri, personal property includes cars, trucks, boats, aircraft, farm equipment and machinery and some commercial equipment.
- **Intangible Personal Property-** Intangibles include stocks, bonds, notes, and patents which are not taxable as the other types of property.

In Missouri, certain types of real property are excluded from taxation. Real property owned by governments, properties owned and used exclusively for religious worship, for schools and colleges, as well as property used for purely charitable purposes is exempt from taxation. Some types of personal property are also not taxed including household goods, inventories, clothing, and other personal items. Furthermore, some properties are exempt from taxation due to economic development zones established in order. Most of these properties and their improvements have their taxes abated for a set amount of years to encourage commercial growth.

What do property taxes fund in Missouri?

The property tax makes up almost 60% of local government revenues in Missouri. Local services provided through funding from the property tax including K-12 education, fire and police protection, parks maintenance and recreation services offerings, health and human services, building and safety code enforcement, and transportation services such as roads, bridges and airports maintenance. While each county spends their local revenues in many different ways and may have differing priorities, the following chart indicates what services property taxes fund statewide:



Source: Missouri Budget Project Analysis of US Census Bureau data.

K-12 education receives 44% of property taxes statewide, benefiting from the largest proportion of the property tax spending in Missouri.

How much do schools get from the property taxes?

Governments in Missouri collect estimated annual net revenue of roughly \$6 billion in property taxes. About \$4 billion of this goes to public schools, and property taxes make up over 40% of local school district operating revenues.

Historically, property tax revenues were the main source of school funding, but state funding has increased greatly in the last four decades. State funds provide about 40% of school revenues, while 10% comes from Proposition C sales taxes, and about 7% comes from federal sources.

Property is not uniformly distributed in every school district. Some rural districts have mainly low-valued agricultural property and low-valued residential property, while some suburban districts have high-valued residential and high-valued commercial property. On a per pupil basis, Missouri districts differ by a factor of about 20-to-1 from the highest to lowest assessed value. This unequal distribution represents the fundamental challenge in school finance equity: how to use limited state funds to best advantage to compensate for wide variances in local wealth, and thus local school revenues.

References:

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See also:

Frequently Asked Questions about the Appeals Process

Frequently Asked Questions about the Property Tax